

Solvency and Financial Condition Report 2019

If P&C Insurance Ltd (publ)



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Business and Performance

If P&C Insurance Ltd (publ) (If) conducts property and casualty insurance operations in Sweden and in Denmark, Finland and Norway via branches. In addition, If has branch offices in France, Germany, the Netherlands and the United Kingdom for industrial customers that conduct global operations. If is part of the Sampo Group with Sampo plc (Sampo) as the ultimate parent.

If is the largest property and casualty (P&C) insurer in the Nordics with market shares in Sweden, Norway and Finland of approximately 18%, 21% and 22%¹ respectively. In Denmark, where the market is less consolidated, If's share is approximately 6%².

The insurance business within If is organisationally divided by customer segments into the cross-Nordic business areas Private, Commercial (small and medium sized companies) and Industrial (large corporates). Private accounts for more than half of the total premium volume.

The technical result for 2019 amounted to 6,775 MSEK (6,115 MSEK)³, corresponding to a combined ratio of 84.9% (85.7%). Gross premiums earned increased considerably during the year, mainly within the business areas Private and Industrial.

At full market value, profit from asset management increased to 5,632 MSEK (-823 MSEK), corresponding to a total return of 5.3% (-0.8%).

System of Governance

To ensure proper capital and risk management If has established a system of governance framework consisting of several layers. The organisational set-up, including the legal and operational structures, forms the outermost layer within which the business is run. The Board of Directors and the CEO have decided on a framework of steering documents and other internal rules and procedures, which must be followed by the employees to which they apply.

Within this framework, processes and controls are implemented to ensure that the strategic and business objectives are met, that financial and non-financial information is reliable, and that If complies with applicable internal and external rules. The System of Governance also includes the strategy process, the financial planning and monitoring processes, and the Internal Control System, including the Risk Management System.

If applies the three lines of defence model to ensure efficient risk management and internal control as well as a clear division of roles and responsibilities within the organisation.

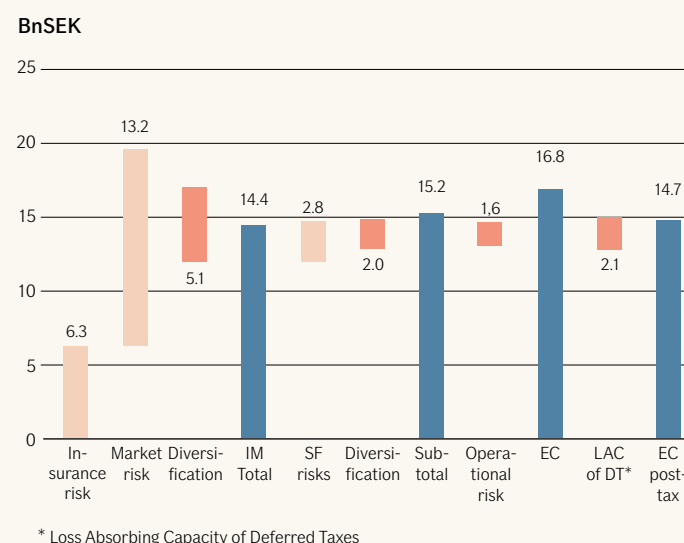
Risk Profile

For internal quantitative risk measurement and reporting, as well as for management decisions the measure economic capital (EC) is used. The economic capital is based on If's internal model (IM) for underwriting risk and market risk including their diversified aggregation. Operational risk and less material risks are quantified using the standard formula (SF).

In addition to the quantitative measures, qualitative assessments are conducted for all risks including those risks that are not possible to quantify such as liquidity risk, legal risk, strategic risk, compliance risk, reputational risk, emerging risk and concentration risk.

The main risk categories for If, measured as contribution to economic capital pre-tax, are underwriting risk and market risk as shown in Figure 1.

Figure 1 – Overview of If's economic capital, 31 December 2019



Valuation for Solvency Purposes

The valuation of assets and liabilities in the Solvency II balance sheet is based on fair-value-principles. The Solvency II balance sheet is derived from If's statutory accounts, prepared according to Swedish GAAP, and adjusted in accordance with rules in Solvency II.

The accounting standards under Swedish GAAP have not been subject to any significant amendments in 2019. One new divergence occurs between Solvency II and Swedish GAAP due to implementation of the new IFRS standard for leasing (IFRS 16) in Solvency II. No other new material divergences have occurred between Solvency II and Swedish GAAP. Overall, as an effect of the Solvency II adjustments at 31 December 2019, the excess of assets over liabilities is 1,862 MSEK (3,282 MSEK) higher in the Solvency II balance sheet compared to the statutory accounts. Solvency II adjustments are mostly related to technical provisions.

¹ SE: Insurance Sweden (Q3 2019), NO: Finance Norway (Q3 2019) and FI: Finance Finland (Q4 2018)

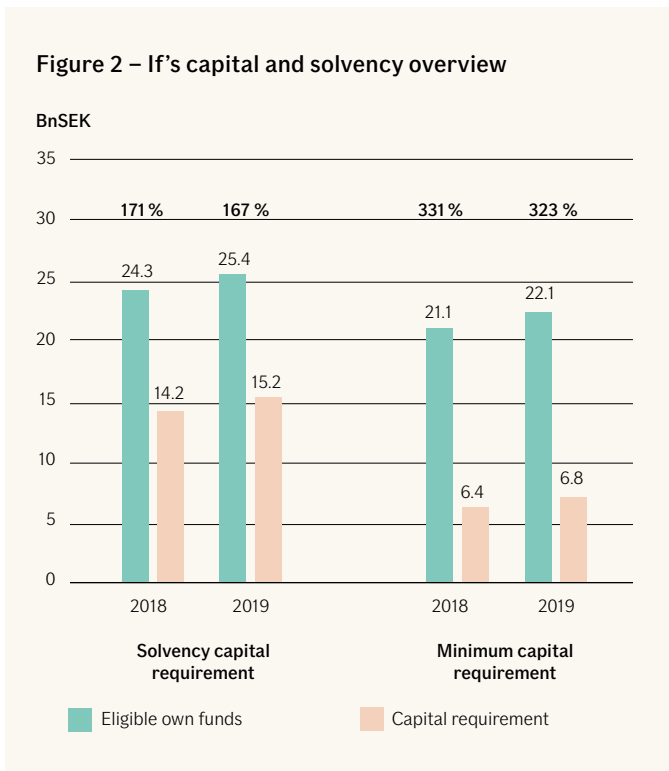
² DK: Insurance & Pension Denmark (Q4 2018)

³ Figures in brackets throughout the report refer to figures from previous corresponding period.

Capital Management

If's strategy focuses on capital efficiency and sound risk management by keeping its capital resources at an appropriate level in relation to the risks taken over the planning period. The regulatory solvency capital requirement sets the level of capital at which If is able to conduct its business without regulatory intervention and is the starting point when the needed level of capital is considered. In addition, other internal and external capital measures are applied. Available capital is referred to as eligible own funds. A sufficient capital buffer is further required in order to be solvent at all times.

At 31 December 2019, If had a solvency ratio to meet the solvency capital requirement of 167% (171%) and a solvency ratio to meet the minimum capital requirement of 323% (331%).



As shown above the solvency capital requirement has increased relatively more than own funds which explains the declined solvency ratio. The capital requirement has increased as a result of higher market risk which is mainly due to increased exposure.

Based on the financial plan⁴ the capital structure and the solvency position of If are considered to be strong, the level of profitability is good, and profits are stable. If is considered to be in a good position to generate capital and to maintain a capital level needed to support its risks and business objectives going forward.

⁴ Decided by the Board of Directors in December 2019.

Business and Performance

1 Business and Performance

1.1 Business

1.1.1 Legal structure and the group

If P&C Insurance Ltd (publ) (If) is a wholly owned subsidiary to If P&C Insurance Holding Ltd (publ) (If Holding), whose headquarter is in Solna, Sweden. If Holding in turn is a wholly owned subsidiary of Sampo plc (Sampo), a Finnish listed company, whose registered office is in Helsinki.

The number of employees amounted to 6,263 at year-end. The average number of employees in 2019 was 6,198.

1.1.2 If's financial supervisory authority contact information

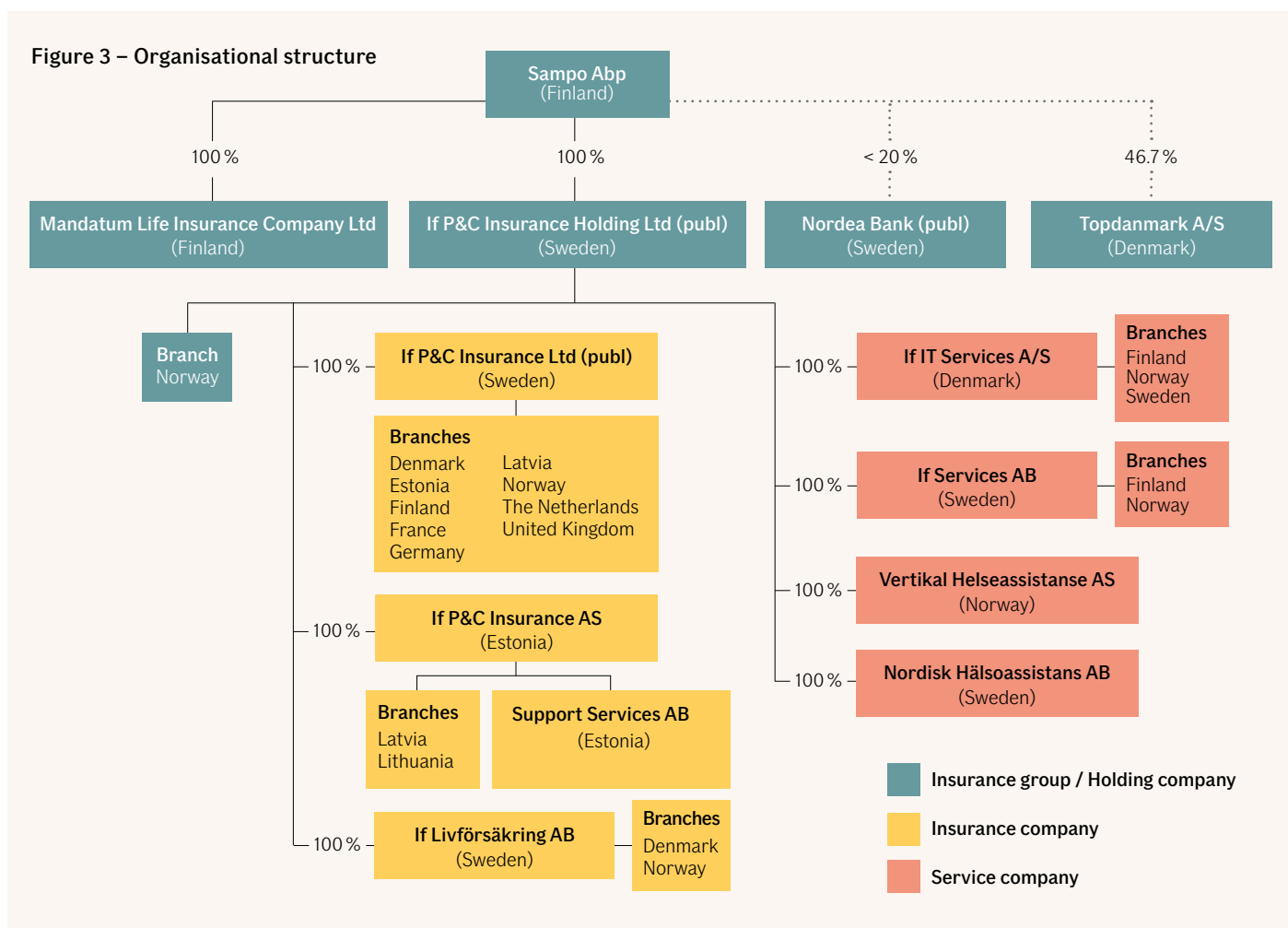
Finansinspektionen
Box 7821
103 97 Stockholm, Sweden

1.1.3 Sampo's financial supervisory authority contact information

The Finnish Financial Supervisory Authority
P.O Box 103
00101 Helsinki, Finland

1.1.4 External auditor's contact information

KPMG AB
Box 382
101 27 Stockholm, Sweden



1.1.5 Branches and geographical areas

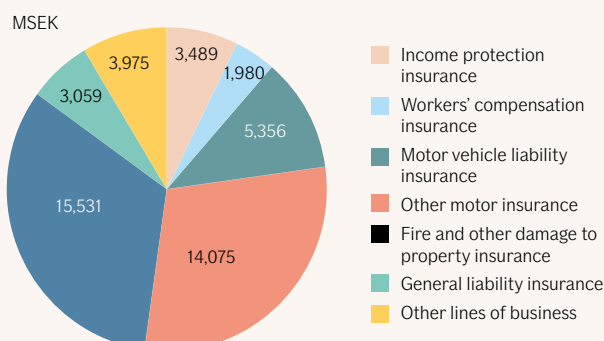
If is the largest property and casualty (P&C) insurer in the Nordics with market shares in Sweden, Norway and Finland of approximately 18%, 21% and 22%⁵ respectively. In Denmark, where the market is less consolidated, If's share is approximately 6%⁶. If's Industrial customers with global operations are also served by branches in France, Germany, the Netherlands and the United Kingdom, as well as via an international partner network.

The insurance business within If is organisationally divided by

customer segments into the cross-Nordic business areas Private, Commercial (small and medium sized companies) and Industrial (large corporates). Private accounts for more than half of the total premium income, where motor, property and personal insurances constitute the largest lines of business. If's insurances are offered through the own brand, other brands, co-branding and in partnerships, enabling If to provide customers with a full range of competitive insurance solutions.

⁵ SE: Insurance Sweden (Q3 2019), NO: Finance Norway (Q3 2019) and FI: Finance Finland (Q4 2018)

⁶ DK: Insurance & Pension Denmark (Q4 2018)

Figure 4 – Premiums written (gross) by Solvency II lines of business**1.1.6 Significant events over the reporting period**

No significant events have occurred during the reporting period.

1.2 Underwriting Performance⁷

The technical result for 2019 amounted to 6,775 MSEK (6,115 MSEK)⁸, corresponding to a combined ratio of 84.9% (85.7%).

Gross premiums earned increased considerably during the year, mainly within the business areas Private and Industrial.

Claims statistics show that none of the year's major weather events impacted the earnings significantly. The risk ratio was also favored by this development and thereby improved 0.6 percentage points to 63.2% (63.8%).

Due to continued efforts to streamline processes and work procedures, the cost ratio improved to 21.8% (21.9%).

In the tables below, If's gross premiums earned and underwriting performance by line of business and country are presented.

Table 1 – Gross premiums earned and underwriting performance by lines of business

MSEK Line of Business	Premiums earned (gross)		Underwriting performance (net)	
	2019	2018	2019	2018
Income protection insurance	3,377	4,200	429	675
Workers' compensation insurance	2,019	1,947	1,009	956
Motor vehicle liability insurance	5,394	5,379	2,798	1,539
Other motor insurance	13,759	13,034	1,092	1,451
Fire and other damage to property insurance	15,107	14,187	1,911	1,338
General liability insurance	2,938	2,650	610	765
Other lines of business	3,916	2,558	-1,143	-696
Sum	46,510	43,955	6,705	6,029
Allocated investment return as part of the technical account			165	128
Other technical income and expenses			-96	-42
Technical result from property and casualty insurance, GAAP			6,775	6,115

Table 2 – Gross premiums earned and underwriting performance by geographical area

MSEK Country	Premiums earned (gross)		Underwriting performance (net)	
	2019	2018	2019	2018
Denmark	4,522	4,274	228	43
Finland	10,140	9,687	1,243	1,081
Norway	14,903	13,843	1,571	1,844
Sweden	16,528	15,750	3,611	3,203
Other	417	401	53	-143
Sum	46,510	43,955	6,705	6,029

Gross premiums earned were higher in all business lines compared to the preceding year except in Income protection insurance. However, preceding year's growth in Income protection insurance was favoured by a new partner agreement within health insurance and is thereby not fully comparable with the outcome of last year.

Revenues per geographical area presented in the table above are distributed among the countries in which If has branches, corresponding largely with the customers' geographic domicile.

2019 was another good year for If with a high premium growth and strong financial performance supported by a positive investment return. During the year, If continued to focus on being the "undifficult" insurance company, which in addition to being "best in risk" and "best in customer service" also means being able to offer customer-oriented products and services through leading digital solutions. As a result of this effort, all major key customer metrics e.g. customer satisfaction, customer retention and number of customers have increased.

⁷ The figures in the underwriting performance section are in accordance with the Financial Statement and the lines of business are in accordance with Solvency II.

⁸ Figures in brackets throughout the report refer to figures from previous corresponding period.

1.3 Investment Performance

The risk willingness returned to the financial markets during 2019 and almost all asset classes where If had holdings showed positive results. At full market value, profit from asset management increased to 5,632 MSEK (-823 MSEK), corresponding to a total return of 5.3% (-0.8%). Net investment return amounted to 2,696 MSEK (2,590 MSEK) in the income statement and 2,936 MSEK (-3,413 MSEK) in other comprehensive income.

The return on the interest-bearing securities was weaker than the benchmark indices, mainly attributable to rising yields in the last quarter of 2019. Equities however, were almost in line with their benchmark.

Interest-bearing securities returned 2.3% (1.1%). The increase in return is mainly attributable to lower credit spreads and a good year in general for corporate bonds. The duration for the interest-bearing securities at 1.3 (1.4) was slightly lower than previous year.

All stock-markets where If has investments showed a positive return for the year. The strongest contributors to the positive return were the Swedish and North American stock markets.

Alternative investments constitute a very small part of total investment assets but showed a positive return for the year.

If has no investments in securitisations. Costs for hedging investment assets and other administrative costs are reported under Other in the tables below.

Table 3 – Investment performance, 31 December 2019

Return on investment assets	Fair value		Fair value		Return 2019				
	31 Dec 2019		31 Dec 2018		Interest, dividends etc.	Changes in value, Income statement	Total, Income statement	Changes in equity	Total return
	MSEK	%	MSEK	%					
Interest-bearing securities	94,024	87	93,043	89	1,675	127	1,802	447	2,249
Equities	13,572	13	11,616	11	426	766	1,193	2,489	3,681
Currency (active positions)	16	0	-4	0	-	24	24	-	24
Currency (other)	-132	0	71	0	-	55	55	-	55
Properties	35	0	44	0	-2	77	75	-	75
Other	-	-	-	-	-491	39	-453	-	-453
Total investment assets	107,515	100	104,770	100	1,609	1,088	2,696	2,936	5,632

Table 4 – Investment performance, 31 December 2018

Return on investment assets	Fair value		Fair value		Return 2018				
	31 Dec 2018		31 Dec 2017		Interest, dividends etc.	Changes in value, Income statement	Total, Income statement	Changes in equity	Total return
	MSEK	%	MSEK	%					
Interest-bearing securities	93,043	89	92,675	86	1,610	341	1,950	-886	1,065
Equities	11,616	11	14,450	13	483	742	1,225	-2,527	-1,302
Currency (active positions)	-4	0	6	0	-	91	91	-	91
Currency (other)	71	0	150	0	-	-28	-28	-	-28
Properties	44	0	122	0	1	12	13	-	13
Other	-	-	-	-	-647	-14	-661	-	-661
Total investment assets	104,770	100	107,401	100	1,447	1,143	2,590	-3,413	-823

1.4 Performance of other activities

Costs not included in the underwriting performance or in the investment performance relate mainly to amortisation of goodwill. Amortisation amounted to 48 MSEK (288 MSEK).

For lease agreements, see section 4.5.1 Lease arrangements.

1.5 Any other information

In February 2019 changes were made to both management and the Board of Directors. Måns Edsman was appointed as the new CEO and Morten Thorsrud was elected as the new Chairman of the Board.

If's Board of Directors decided in March 2020 to propose a dividend payment of 6,900 MSEK to If Holding. The proposed dividend was deducted from eligible own funds as per 31 December 2019.

The outlook of the global economy is difficult to predict. On 11 March 2020 WHO declared the COVID-19 situation as a pandemic. The outbreak is expected to lead to significant impact on the global economy. If is closely monitoring the development and the effects on its business.

System of Governance

2 System of Governance

2.1 General information on System of Governance

If's System of Governance consists of several layers. The organisational set-up, including the legal and operational structures, forms the outermost layer in which the business is run. The Board of Directors and the CEO have decided on a framework of steering documents and other internal rules and procedures, which must be followed by the employees to which they apply. Within this framework, processes and controls are implemented to ensure that the strategic and business objectives are met, that financial and non-financial information is reliable, and that If complies with applicable internal and external rules. The System of Governance also includes the strategy process, the financial planning and monitoring processes, and the internal Control System, including the Risk Management System.

If applies the three lines of defence model to ensure efficient risk management and internal control, as well as a clear division of roles and responsibilities within the organisation.

Efficient communication and reporting structures shall ensure that decisions made by the Board of Directors and the CEO are based on the best possible information available, and that the business is followed up in an appropriate manner.

2.1.1 Legal and operational structure

The overall principles and division of responsibilities are defined on Sampo Group level. If organises its operations in accordance with these principles while taking into account the specific characteristics of the respective countries and business areas.

The insurance operation is organised in accordance with customer segments into the business areas Private, Commercial and Industrial. The operational structure spans across several of If's entities. Corporate functions such as Finance, Legal, Human Resources, Communication and IT are set up to support the business areas.

For a more detailed structure chart over If's organisation see section 1.1.1 Legal structure and the group.

2.1.2 Decision-making bodies

2.1.2.1 General Meeting

The General Meeting is the highest decision-making body in If, where the shareholder exercises its right to participate in company decisions. The General Meeting decides, inter alia, on the Articles of Association and appoints members to the Board of Directors.

2.1.2.2 Board of Directors

The Board of Directors is responsible for ensuring that the business is organised in an appropriate manner. The Board of Directors is also the corporate body with overall responsibility for internal control, risk control and that the company has appropriate risk management systems and processes. Further, the Board of Directors decides on If's policy framework and approves material and strategic decisions. The steering documents is revised annually.

The Board of Directors reviews and decides annually the Rules of Procedure for its work. Furthermore, the Board of Directors has adopted an instruction for the CEO specifying the CEO's responsibilities. The Board of Directors in If has not appointed any formal committees within the Board's responsibilities.

2.1.2.3 CEO

The CEO holds the overall responsibility for the daily business activities of If, including aligning strategy, processes and reporting in order to reach If's goals. The CEO has the possibility to delegate the

decision authority concerning the daily business activities to other persons within If but retains the ultimate responsibility for such decisions.

The CEO is the deciding body for a number of instructions within If's policy framework.

The CEO monitors that the internal control within the organisation is effective and efficient.

2.1.3 Key functions

2.1.3.1 Risk Management function

The Risk Management function is headed by the Chief Risk Officer (CRO). The function consists of the Risk Control unit and the Capital Management unit. The function facilitates the implementation and development of the Risk Management System in If. The Risk Management function reports to the Board of Directors and to the CEO.

2.1.3.2 Compliance function

The Compliance function is headed by the Chief Compliance Officer (CCO) and is responsible for reporting to the Board of Directors and the CEO on compliance with the rules relevant for If's licence to conduct insurance business.

2.1.3.3 Internal Audit function

The Internal Audit function is headed by the Group Chief Audit Executive (CAE). The Internal Audit function evaluates the effectiveness of the Internal Control System and reports to the Board of Directors.

2.1.3.4 Actuarial function

The Actuarial function is headed by the Chief Actuary who advises on actuarial matters and fulfils tasks according to the instruction of the Actuarial function. The Actuarial function reports to the Board of Directors and to the CEO.

2.1.4 The remuneration system in If

If's Remuneration policy, together with the Sampo Group Remuneration Principles, sets the principles for the remuneration systems in If. The Remuneration policy is part of If's Risk Management System.

The Remuneration policy is based, inter alia, on the principles that the remuneration structure should not encourage excessive risk taking and that the remuneration of individual employees should not be in conflict with If's long-term interests. Furthermore, and in accordance with the Insurance Distribution Directive (IDD), individual employees shall not be remunerated, and their performance shall not be assessed, in a way that conflicts with the duty to act in the best interests of the customers. The long-term financial stability and value creation of Sampo Group guide the remuneration design.

2.1.4.1 Principles for the remuneration

The forms of remuneration in If are fixed compensation, pension, other benefits and variable compensation.

Fixed salaries shall be fair and competitive but not leading in the market. Variable compensation programs shall always include triggers and caps on the payment and the total variable compensation may not be of a size that it threatens If's ability to maintain an adequate capital base.

If an employee's remuneration includes a variable component, there shall be an appropriate balance between the fixed and variable components so that the fixed compensation represents a sufficiently

high proportion. Employees in key functions are not entitled to variable compensation.

Both measurable quantitative as well as qualitative criteria shall be used for assessing individual performance. Specific rules and guidelines apply when setting individual goals and assessing individual performance for employees who are subject to IDD.

The Remuneration policy contains specific arrangements applicable to identified staff. Based on the Remuneration policy, part of the payment of the variable compensation to identified staff⁹ shall be deferred for a defined period of time. After the deferral period, a retrospective risk adjustment review shall be carried out and the Board of Directors decides whether the deferred variable compensation shall be paid/released in full, partly or cancelled in whole.

2.1.4.2 Individual and collective performance criteria related to variable compensation

As a rule, variable compensation increases in relation to increased responsibility and is based on a combination of individual performance, business area and/or business unit results and the overall result of the If Group.

The purpose of the variable compensation programs is to support the fulfilment of If's overall goals; hence, the majority of employees participate in some form of variable compensation program. If offers annual short-term incentive programs, sales incentives, discretionary rewards and long-term incentive schemes. The outcome of the long-term incentive schemes is based on the development of Sampo's share price, on the insurance margin of the If Group and on the Sampo Group's return on capital at risk.

2.1.4.3 Supplementary pension or early retirement schemes for members of the Board, CEO or key function holders¹⁰

Members of the Board, CEO or key function holders employed in Sweden are entitled to pension according to FTP17¹¹ or individually agreed defined contribution pension. Of these, employees in Norway are covered by a defined contribution or a defined benefit pension depending on the year of birth. Employees in Finland are not covered by any supplementary pension or early retirement schemes¹².

2.1.5 Material transactions with shareholders, with persons who exercise a significant influence on the undertaking and with members of the Board

The following material transactions have taken place during the reporting period:

- If Holding is the primary account holder in a Group account structure that covers all transaction accounts in If's insurance operations. In such a structure, material transactions have, on a regular basis, taken place during the year;
- If and Sampo have an asset management agreement according to which all investment decisions, within the framework of the Investment policy, have been outsourced to Sampo. Compensation for these services is based on a fixed commission calculated in accordance with market value of the managed investment asset; and
- If has paid a dividend of 6.2 BnSEK to If Holding.

2.1.6 Material changes in the System of Governance during the reporting period

In February 2019 changes were made to both management and the Board of Directors. Måns Edsman was appointed as the new CEO and Morten Thorsrud was elected as the new Chairman of the Board. No other material changes in the System of governance have taken place during the reporting period.

2.2 Fit and Proper assessments

2.2.1 If's Fit and Proper policy

If has adopted the Sampo Group Guidelines for Selecting and Assessing Company Management and Other Key Personnel. The purpose of the guidelines is to ensure that the companies in the Sampo Group are managed with professional competence and integrity. If has issued a Fit and Proper policy to supplement the Sampo Group Guidelines. The policy describes the fit and proper process and defines the positions that are subject to the fit and proper assessments.

2.2.2 Fit and Proper requirements

2.2.2.1 Fitness requirements

The assessment of whether a person who is subject to a fit and proper assessment is fit, includes an assessment of the person's professional and formal qualifications, knowledge and relevant experience within the insurance sector, other financial sectors or other business and takes into account the respective duties allocated to that person.

In order to ensure that the company is managed and overseen in a professional manner, the fitness assessment in relation to the members of the Board of Directors takes into account the respective duties to ensure appropriate diversity of qualifications, knowledge and relevant experience, individually and collectively.

2.2.2.2 Propriety requirements

Assessed persons shall be of good repute and integrity. The assessment shall include an assessment of the person's honesty and financial soundness based on relevant evidence regarding their character, personal behaviour and business conduct, including criminal, financial and supervisory aspects relevant to the assessment.

2.2.3 Description of the Fit and Proper process

The assessment is primarily conducted prior to the appointment of a person to a position that is subject to the fit and proper assessment. The persons shall further be assessed on a regular basis to ensure that the persons meet the fit and proper criteria on an on-going basis. Furthermore, a reassessment shall also be conducted if an event occurs that may cast doubt on the fitness or propriety of an assessed person.

The fit and proper assessment is presented to the function or leader responsible for the appointment, who decides whether the assessed person shall be considered fit and proper for the position or not. The decision regarding potential board members is to be taken by the Board of Directors. Required notifications are made to the Swedish Financial Supervisory Authority (Swedish FSA).

⁹ Identified staff comprises persons who effectively run the company (members of the Board, CEO and staff with management roles which are essential to the operations of If) and risk takers (employee whose professional activities may have a material impact on the company's risk profile).

¹⁰ The information in this section relates only to persons employed in the company.

¹¹ Insurance industry's occupational pension plan.

¹² For more information about pensions, see the Annual Report - Note 12 "Salaries and other remuneration for senior executives and other employees", and the Swedish publication Redogörelse för ersättningar inom If Skadeförsäkring AB for the year 2019.

2.3 Risk Management System including own risk and solvency assessment

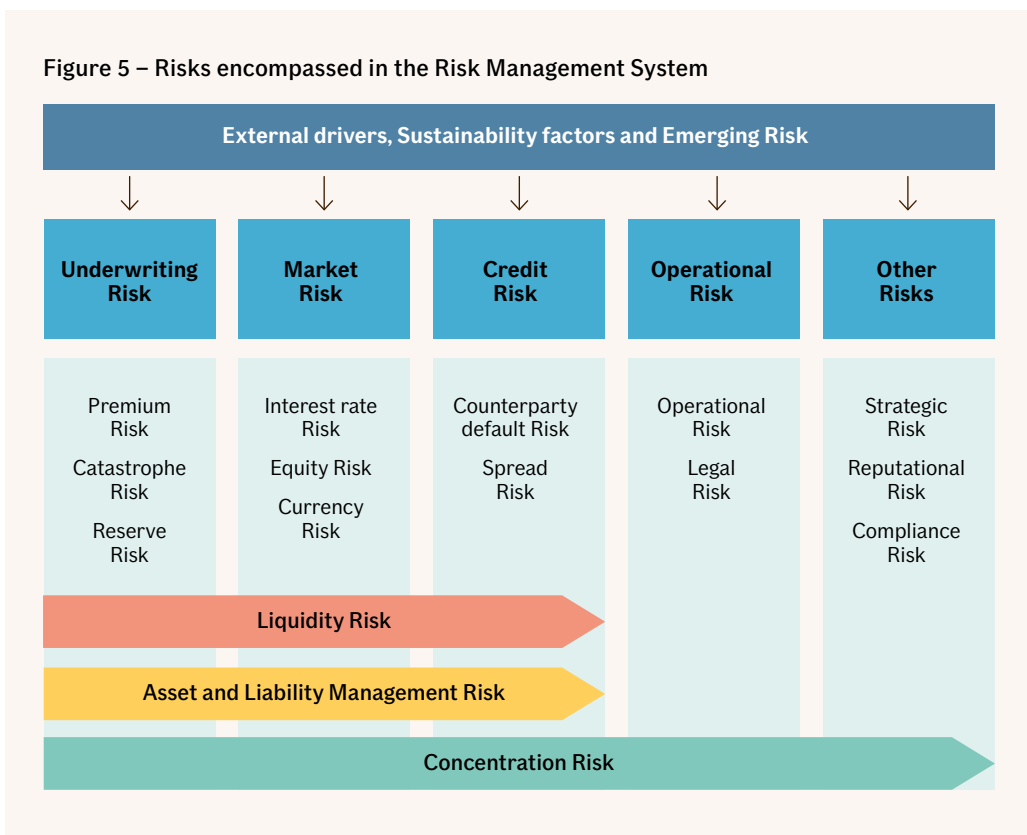
2.3.1 Description of If's Risk Management System

If has an effective Risk Management System comprising strategies, processes and reporting procedures necessary to, on a continuous basis, identify, measure/assess, manage, monitor and report the risks at an individual and at an aggregated level and their interdependencies, to which they are or could be exposed. The Risk Management function facilitates the implementation and development of the Risk Management System in If.

The Risk Management System is part of the Internal Control System. The Risk Management System is linked with the If Group Risk Management System and ensures that all risks are managed from a legal entity perspective and from a group-wide perspective.

If's risks are divided into the following categories: underwriting risk, market risk, credit risk, operational risks and other risks.

Figure 5 – Risks encompassed in the Risk Management System



2.3.2 Objective of the Risk Management System

The objective of the Risk Management System is to create value for If's stakeholders. This is achieved by securing long-term solvency, minimising the risk of unexpected financial loss and giving input to business decisions by considering the effect on If's risk and capital. A high-quality risk management process is a prerequisite for running the business and for assuring a stable result and the delivery of the long-term return.

2.3.3 If's Risk Management Strategy

If's risk management strategy is part of the governing principles for the operations of If. The Risk Management policy defines the overall risk strategy and the risk appetite for main risks. The risk management strategies comprise:

- Ensure strong governance structure to optimise development and maintenance;

- Ensure a sound and well-established internal control and risk culture in If;
- Ensure adequacy of capital in relation to risks and risk appetite;
- Limit fluctuations in the economic values of group companies;
- Ensure strong financial data management;
- Ensure that risks affecting the profit and loss account and the balance sheet are identified, assessed, managed, monitored and reported;
- Ensure that the riskiness of the insurance business is reflected in the pricing;
- Ensure adequate long-term investment returns within set risk levels;
- Ensure well working and efficient reporting processes compliant with external and internal requirements; and
- Safeguard If's reputation and ensure that customers and other stakeholders have confidence in If.

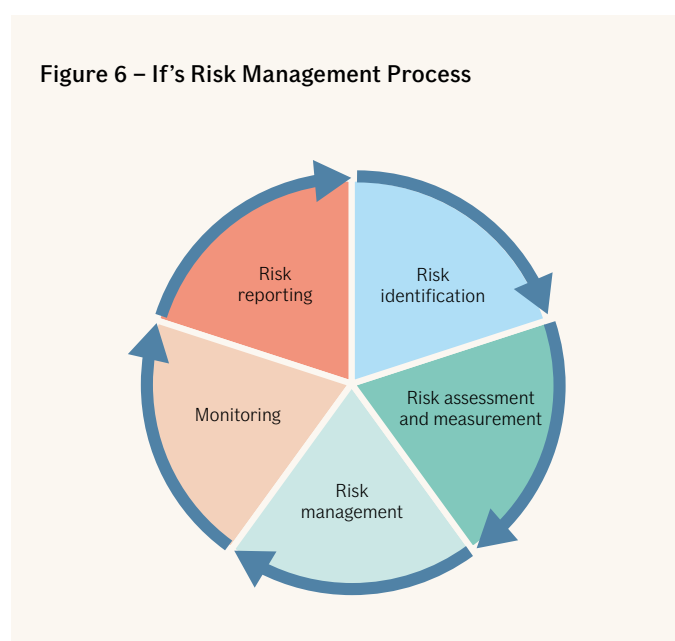
2.3.4 Risk Appetite Framework

If's risk appetite framework defines the boundaries for what risk the company is willing to accept in the pursuit of its objectives. The framework includes the risk appetite statement, risk preferences, risk tolerances, capital adequacy, steering documents, processes, controls, and systems through which the risk appetite is established, communicated and monitored.

The risk appetite framework, the risk profile and the capital situation is analysed and reported in the quarterly risk and solvency assessment process including analyses of the capital adequacy and regulatory capital requirements under various risk scenarios. Consequently, the process influences If's capital management and business planning, including product development and design.

2.3.5 If's Risk Management Process

The overall risk management process in If includes five main steps:



Risk identification. Risks are identified by the line organisation, the first line of defence. This is performed through a variety of activities that include workshops within the respective business area or function and analysis of incidents occurring.

Risk assessment and measurement. There are two main methods, quantitative and qualitative, to measure risks in If for internal risk measurement and risk reporting. Underwriting risk and market risk are quantitatively measured through If's internal model. In addition, a qualitative assessment of all risks, including the risks that are difficult to quantify, is performed. The qualitative method includes an assessment regarding impact on the financial plan as well as the likelihood that the risk will materialise. Furthermore, the risk measurement includes stress tests and scenario analyses to assess the risk sensitivity. The line organisation is responsible for assessing and measuring identified risks. The Risk Management function within the second line of defence supports the organisation with framework and tools to get a uniform risk measurement in If.

Risk management. The first line of defence is responsible for assessing their risks and for deciding how the risks should be managed. Where applicable, effective control activities shall be implemented to mitigate the risks.

Monitoring. The first line of defence is responsible for monitoring that all risks are identified, assessed, managed and reported. The

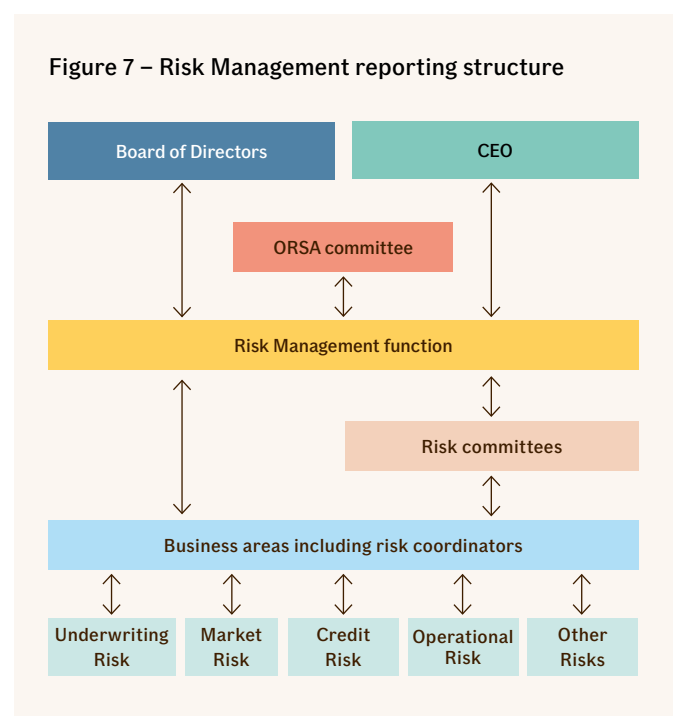
second line of defence monitors both the risk management processes within the first line of defence as well as the overall aggregated risk profile for If.

Risk reporting. First line of defence reports to the second line of defence as well as to applicable risk committees on monthly, quarterly, bi-annually or annually basis. The second line of defence coordinates the risk reporting to the Board of Directors and CEO. The reporting includes the following reports:

- The compilation of the annual Own Risk and Solvency Assessment (ORSA);
- The quarterly ORSA Committee report; and
- The annual report on risk management activities performed and risk management plan for the following year.

2.3.6 Reporting structure in the Risk Management System

The figure below illustrates the risk management related information reporting structure in the Risk Management System. The system includes processes and activities performed by persons or groups including committees, experts and the line organisation.



2.3.7 Responsibilities within the Risk Management System

2.3.7.1 Responsibilities within the Risk Management System

The overall principles and responsibilities of risk management are defined on the Sampo Group level. If organises its operations according to these principles.

2.3.7.2 The Board of Directors

The Board of Directors is the corporate body with an overall responsibility for risk control, internal control and that If has appropriate risk management systems and processes. The Board of Directors decides on the Risk Management policy and other risk management documents, is the receiver of risk reporting from the second line of defence as well as from the CEO and has an active role in the forward looking ORSA process.

2.3.7.3 CEO

The CEO is responsible for organising and overseeing the daily business activities in accordance with instructions and guidelines from the Board of Directors. The CEO has the ultimate responsibility for the effective implementation of the Risk Management System by ensuring appropriate risk management set-up and promoting a sound risk culture within If.

2.3.7.4 Risk committees

Own Risk and Solvency Assessment Committee (ORSA Committee)

The ORSA Committee assists the CEO in fulfilling the responsibility of overseeing If’s risks and Risk Management System. The ORSA Committee reviews the effectiveness of If’s Internal Control System and gives input to and follows up on coordination of efforts and actions relating to these areas. The committee is the recipient of analyses and reporting of risks in If on a holistic level. In addition, the ORSA Committee supervises If’s solvency position, monitors that both the short-term and long-term aggregated risk profile is in line with If’s risk strategy and capital requirements.

Other committees in the Risk Management System

There are separate committees in place for main risk categories. These committees have the responsibility to assist in that risks are managed and controlled in accordance with steering documents. The chairmen of the committees are responsible for the reporting intended for the ORSA Committee. None of If’s committees have any decision-making mandate.

2.3.7.5 Risk Management function

The Risk Management function is responsible for coordinating the risk management activities. The main responsibilities of the Risk Management function are to:

- Assist the Board of Directors and CEO in the implementation and operation of the Risk Management System by setting requirements on data and processes and coordinating reporting from the line organisation;
- Monitor and support the business areas and corporate functions in their work to manage all risks;

- Secure a holistic and aggregated reporting of If’s risk exposure, risk position and risk profile;
- Regularly assess If’s own funds position in accordance with both internal and external measurements;
- Manage and develop If’s internal model, including validation of the model;
- Forecasting risk and capital under normal and stressed circumstances;
- Give advice to Management on risk management matters in strategic decisions, including the possible effect of such decisions on risk and capital; and
- Coordinate and perform the estimation of the loss-absorbing capacity of deferred taxes in the Solvency Capital Requirement.

The Risk Management function is headed by the CRO. The Risk Management function is included in the second line of defence and is operationally independent in relation to the business. This means that the function is not part of the governance of, or the decision-making processes in, the operations of If’s licensed activities.

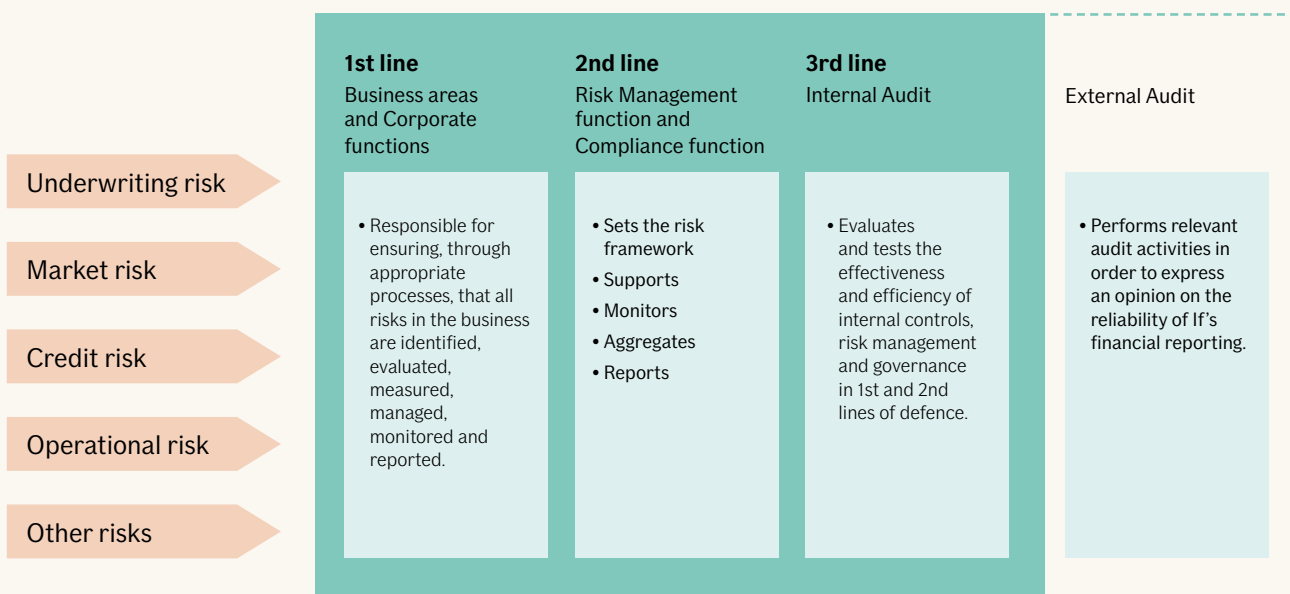
2.3.7.6 Line organisation

The leaders within the line organisation have the day-to-day responsibility to manage risks within the mandates and restrictions set in relevant steering documents and shall ensure that sufficient resources and tools for this purpose are in place. On behalf of the Heads of the business areas/corporate functions, a risk coordinator structure is established within the line organisation regarding the main risk areas. Head of Risk Control and Reporting, which is part of the Risk Management function, and the CCO issue instructions for the coordinators in which the coordinators’ responsibilities are stated. The line organisation has an obligation to inform the Risk Management function of material risks relevant for the performance of their duties.

2.3.7.7 Implementation of the Risk Management System

The three lines of defence model ensures that the responsibility and the different roles of the Risk Management System are clearly established and defined; the responsibilities for each line are described in Figure 8.

Figure 8 – Three lines of defence



The risk committee structure and the coordinator network structure ensure that there are efficient processes and routines in place with clear ownership to identify, assess/measure, manage, monitor and report all material risks and that they are reported to the second line and relevant risk committees.

The result of identifying and measuring the risks in the Risk Management System, especially through the internal model, is used in significant business decisions for, e.g. investments, reinsurance programs and in the insurance business.

2.3.8 If's own risk and solvency assessment process

If's risks are measured, aggregated, analysed and reported regularly with the purpose of performing an overall assessment of risk and capital. Market risks are followed up and reported monthly while other risks are followed up and reported quarterly or bi-annually. The outcome and the follow-up of these procedures are documented as part of the quarterly own risk and solvency assessment process. A report is prepared for If's ORSA Committee, of which a summary is sent to If's Board of Directors.

The ORSA consists of a quantitative and qualitative assessment of If's material risks resulting in an assessment on If's overall solvency position. If's comprehensive ORSA is normally performed at least annually in order to ensure that If's own funds are and will remain sufficient to cover the risks resulting from the proposed business plan. The annual ORSA process is performed based on data as per 30 September as it is carried out in parallel with, and supports, the business plan approved by If's Board of Directors.

The solvency position is assessed partly in relation to If's own view of risk, quantified by If's internal model, and partly in relation to the regulatory capital requirement. If's capital planning model is a tool used in the ORSA process, which forecasts the own funds and capital requirements over a three-year planning period. The assessment also includes a number of scenario analyses, stress tests, sensitivity analyses and reverse stress tests. The stress tests cover the main risks and simultaneous adverse effects from different risks. The scenarios are developed in cooperation with If's risk owners, Management and Board of Directors.

In addition to a quantification of If's main risk categories, a qualitative assessment of If's key risks over the planning period is conducted. The risks are assessed on an impact and likelihood basis, that is, what impact a materialised risk would have on If's strategic and financial plan and the likelihood that the risk will occur. The assessment is conducted according to a common grading scale. The concluding assessment is performed by the Risk Management function, based on the risk owners'¹³ view.

The outcome of the annual risk and solvency assessment is documented in the ORSA report. The report for 2020-2022 was approved by the Board of Directors in December 2019. By approving the report, the Board accepted it as the basis for deciding on the financial plan. Following the approval, the report was submitted to the Swedish FSA.

2.3.9 Governance of If's internal model

If applies an internal model for various risks and capital related purposes. This section covers the governance of If's internal model for underwriting risks. The main uses of the underwriting risk model are:

- Calculation of economic capital;
- Capital allocation to lines of business and calculation of risk-based combined ratio targets;
- Calculation of the underwriting risk in the solvency capital requirement;
- Evaluation of reinsurance program structures; and
- Risk and solvency assessment over the planning period (ORSA).

In November 2016 If received an approval from the Swedish FSA to use the internal model for calculation of the main underwriting risks, while other risks are calculated according to the Solvency II standard formula with the transitional equity measure. In December 2018, an application was submitted to the Swedish FSA to change the model used for modelling of inflation risk. The application was approved in May 2019.

The internal control and governance around the internal model are considered to be adequate, taking into account the structure and coverage of the model, as it enforces clear decision processes around all parts of the internal model.

The validation of the model is conducted by personnel independent of the modelling team. The objective of the internal model validation is to give assurance to the CRO and the Board of Directors that the internal model is fit for its purpose, appropriately reflects If's risk profile and that the regulatory requirements of internal model validation are being met.

There have been no significant changes to the internal model governance during the reporting period.

2.3.9.1 Roles, responsibilities and committees

Below follows a description of the governance of the internal model, including roles and responsibilities.

Board of Directors

The Board of Directors of If has the ultimate responsibility for the internal model including compliance with the Solvency II requirements and that there is an effective System of Governance in place for the internal model. The Board of Directors makes the material decisions around the internal model.

CRO

In the Risk Management policy, it is stated that two of the main responsibilities for the CRO concerning the internal model are to:

- Design and develop the internal model and provide feedback on the suitability of the model; and
- Organise an independent validation of the internal model.

As Head of the Risk Management function the CRO has the responsibility to enforce these policy statements. The responsibility to design and develop the internal model has been delegated to the Capital Management unit and the responsibility to organise an independent validation of the internal model has been delegated to the Risk Control unit.

As chairman of the Internal Model Committee, the CRO decides on minor changes according to the Internal Model Change policy. An absolute limit to this delegation is when a combination of minor changes can be considered a major change, in which case a decision by the Board of Directors and prior approval by the Swedish FSA is required.

¹³ The business areas and the corporate functions, i.e. the first line of defence, are responsible for assessing, monitoring and mitigating risks.

Capital Management

The Capital Management unit is responsible for:

- The design and development of the internal model, and that output for model use including reporting to committees, is appropriately documented and presented;
- That documentation for the internal model is kept up to date;
- Maintaining and updating quantitative validation tools and to contribute to any qualitative and quantitative analysis as specified in the yearly validation plan; and
- Defining data requirements and quality features for the internal model as outlined in the Accounting and Risk Data instruction, to assess appropriateness of the data and, if needed, take appropriate action regarding data quality.

The Head of Capital Management is given the mandate to decide upon updates as outlined in the Internal Model Change policy. This requires that the documentation for the internal model is updated along with documentation on changes to the model. These updates are to be reported at the subsequent meeting of the Internal Model Committee. The Head of Capital Management shall assure that the internal model is updated at least quarterly and that these updates are quality assured.

Risk Control

The Risk Control unit is responsible for the internal model validation, including compilation of the validation plan and the validation report, and for reporting of the performed validation and its findings to the CRO, CEO and to the Board of Directors.

Internal Audit

The Internal Audit function shall also receive the validation report. The Internal Audit function performs audits of various aspects of the internal model, such as controls of data quality, governance and control structures.

Internal Model Committee

The Internal Model Committee is the advisory and preparatory body to the Board of Directors and the CEO, according to set instructions. The Internal Model Committee has not a collective decision mandate.

The Committee is chaired by the CRO. Other permanent members are the CFO, the Head of Capital Management and at least one business area.

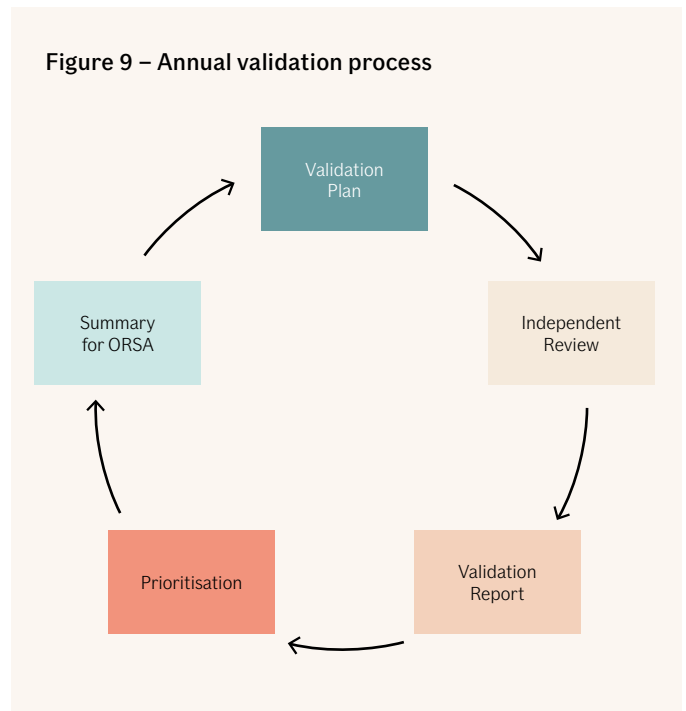
Other functions relating to the internal model

Responsibility for data related to the internal model is regulated in a specific instruction. This instruction states the responsibilities of the Chief Actuary to define data requirements and quality features for technical provisions and to assess the quality of the data and if needed take appropriate action. Furthermore, a separate function is responsible for periodically assessing the completeness and accuracy of data and maintaining a comprehensive list of any data deficiencies as well as providing an action plan for improving the data quality over time.

The internal model and its outputs are also discussed in the ORSA Committee, Actuarial Committee, Reinsurance Committee and Underwriting Committee.

2.3.9.2 Description of the validation process

The Internal Model Validation is an annual process, see Figure 9, that is carried out in accordance with a validation plan. Validation is also initiated by a major change in the internal model. A major change to the internal model may be required if If's risk profile changes due to internal or external events.



In the process, risks related to the internal model, the methods for aggregating risks and the methods for integrating the internal model with the standard formula are validated.

The validation also covers the data quality and the governance of the internal model. Validation is performed independently from the model maintenance and development.

Severe findings in connection with the validation are escalated in order to ensure that the users of the model's output receive information of issues that can make the model less reliable. Escalation of findings may take place at any point during the validation process.

After the validation results are reported, validation recommendations are prioritised by the CRO. Previous findings are considered when setting the yearly plan.

2.4 Internal control

2.4.1 If's Internal Control System

The Internal Control System is common for the entire If Group and is an integrated part of the company's organisational structure and decision-making processes. The Internal Control System aims to ensure an effective and efficient operation, reliable financial and non-financial reporting as well as compliance with applicable laws and regulations. Internal control related to financial reporting ensures that the Board of Directors and Management have available, relevant and reliable financial information supporting their decision-making, and that external stakeholders can rely on If's financial information. Furthermore, If's Internal Control System aims to ensure the effectiveness and efficiency of the daily operations by taking If's strategic objectives into account. An effective internal control system provides the Board of Directors and CEO with reasonable assurance that the company's objectives are achieved.

The Internal Control System is based on the three lines of defence model which clarifies who is responsible for what with regards to risk management and internal control. Reporting lines have been established within the three lines of defence to ensure that the Board of Directors and the CEO are able to fulfill their responsibility in monitoring the effectiveness of the Internal Control System.

If's Internal Control policy sets the framework for an effective Internal Control System within If. The purpose of the policy is to describe how internal control activities are carried out appropriately with regards to nature, size and complexity of the business. The internal control framework in If is based on the COSO¹⁴ framework. The framework provides for three objectives related to operations, reporting, and compliance with laws and regulations. Furthermore, the framework consists of five components, all of which need to be in place and function as intended; control environment, risk assessment, control activities, information and communication, as well as monitoring.

The control environment includes aspects such as the organisational structure, roles and responsibilities, integrity, steering documents, ethical values and the competence of If's employees.

The risk assessment includes the identification and measurement of significant risks.

Control activities consist of steering documents, approval procedures, routine descriptions and controls to manage the identified risks. The controls implemented include activities such as authorisation rules and referrals according to appropriate roles, for instance the four-eyes principle and the so-called grandparent principle.

Clear information and communication support the other components by conveying responsibilities and authorities to personnel as well as through providing information in an effective and efficient way.

The monitoring includes the oversight of internal controls by each of the three lines of defence. This is accomplished through ongoing monitoring activities and separate quality assurance reviews. Independent monitoring activities are performed by the second and third lines of defence.

2.4.2 Compliance function

2.4.2.1 Responsibilities

The Compliance function is responsible for advising the Board of Directors and the CEO on compliance with the rules that follows from If's licence to conduct insurance business. The Compliance function also assesses the adequacy of the measures adopted by If to prevent non-compliance. It further assesses the possible impact of any changes in the legal environment on If's operations as well as identifies and assesses risks for non-compliance. The Compliance function shall primarily address the rules that follow from If's licence to conduct insurance business. However, advice and support are also provided in other legal areas at the request of the Board of Directors or the CEO.

The Compliance function's tasks have been divided into six categories, see Figure 10. A risk-based Compliance plan is annually established and approved by the Board of Directors.

2.4.2.2 Organisation

The Compliance function is separated from the business organisation, operationally independent and part of the second line of defence in the Internal Control System. The CCO is the Head of the Compliance function and is appointed by the CEO. The Board of Directors has issued an instruction for the CCO, describing the responsibilities more in detail. The CCO appoints Compliance Officers to perform compliance activities.

2.5 Internal Audit function

2.5.1 Internal Audit

The Internal Audit is a function, independent of business operations, which evaluates the efficiency and effectiveness of the Internal

Figure 10 – Recurring activities within the Compliance function



Control System, and the quality with which the tasks are performed. The function helps the organisation to accomplish its objectives by a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The function is established by the Board of Directors and managed by the Group CAE, appointed by the Board of Directors.

2.5.1.1 Internal Audit policy

The Internal Audit policy has been approved by the Board of Directors. It describes the principles and responsibilities of the Internal Audit function. According to the policy, the Internal Audit function is obliged to comply with the International Professional Practices Framework set by the Institute of Internal Auditors.

The policy is reviewed annually. During the reporting period, there were no significant changes to the policy.

2.5.1.2 Internal Audit Activity Plan

The Internal Audit function annually establishes a three-year activity plan, which is approved by the Board of Directors. The Internal Audit function applies a risk-based approach and the activities cover all main areas of the operations and the System of Governance. The external auditors are informed of the Internal Audit function's activity plan.

2.5.1.3 Reporting

The Internal Audit function reports on the audits performed to the Board of Directors and the CEO. Severe internal control deficiencies are reported without any delay to the Board of Directors and the CEO.

Before an audit report is finalised, a draft report is sent to the key stakeholder of the audited area, who returns with agreed action plans on the identified findings. The final audit reports are approved by the Group CAE before final distribution.

The Internal Audit function performs ongoing follow-up activities to ensure that appropriate corrective actions have been taken on identified deficiencies.

The Group CAE submits status reports at least twice a year to the Board of Directors. The status reports include the identified severe

¹⁴ The Committee of Sponsoring Organizations of the Treadway Commission.

internal control deficiencies and potential follow-up issues, which have not been mitigated or remediated according to the agreed actions.

2.5.1.4 Internal Auditor Independence

The Internal Audit function is independent and does not carry out any operational tasks in relation to the areas to be audited. Internal auditors are refrained from assessing the operations that they have been responsible for the last 12 months.

Prior to an audit, the objectivity of the internal auditor is assessed. Internal auditors are chosen based on their knowledge, skills and integrity essential to internal auditing.

2.6 Actuarial function

2.6.1 The implementation of the Actuarial function

The Chief Actuary is responsible for the Actuarial function within If and reports to the Board of Directors and the CEO and is an advisor on actuarial matters. The Chief Actuary is the Chairman of the Actuarial Committee, a coordination forum for the Actuarial function as well as a preparatory and advisory body for the Chief Actuary. The Chief Actuary is a member of the Underwriting and the Reinsurance Committees, the latter focusing on renewal of reinsurance protection.

2.6.1.1 Responsibilities and tasks

The Actuarial function is part of the System of Governance and the Risk Management System.

The tasks of the Actuarial function are described in the instruction for the Actuarial function. The main tasks of the function can be divided into the following areas:

- Coordinating the calculation of technical provisions including their reliability and adequacy;
- Presenting an opinion on the Underwriting policy of the company;
- Presenting an opinion on the adequacy of the reinsurance arrangements;
- Presenting an opinion on the solvency position of the company; and
- Contributing to the Risk Management System, for example to the ORSA reporting.

The coordination of the calculation of technical provisions is a central part of the work for the Actuarial function. Calculation of technical provisions according to IFRS is carried out by actuaries within each business area. The premium and claims provisions according to the Solvency II regulations are based on parameters from actuaries from each business area and the Actuarial function. The Actuarial function performs the validation of the technical provisions. The data quality is regularly assessed by reconciling information in the accounts with information in the actuarial systems. The reconciling procedure is performed monthly and is a formal procedure. If's external auditors receive detailed reconciliation sheets with all accounted differences.

Steering documents within If govern the calculation of technical provisions. The Actuarial function is responsible for ensuring compliance with these steering documents and ensures that local rules and regulations are reflected in guidelines and working routines.

2.6.1.2 Reporting

The Actuarial function reports at least annually to the Board of Directors and to the CEO information regarding material tasks that have been undertaken as well as the results. Further, does the function advice on how to remedy any deficiencies. The report includes methods used, calculation, reliability and adequacy of technical provisions as well as expressing an opinion on the Underwriting policy and the adequacy of reinsurance arrangements.

The Actuarial function shall ensure, after each quarterly book closing, that a report is submitted to the Board of Directors and to the CEO giving an opinion on the adequacy and appropriateness of the technical provisions.

The Actuarial function is responsible for coordinating quarterly reporting of reserve and premium risk to the ORSA Committee.

2.7 Outsourcing

2.7.1 If's Outsourcing Policy

If's Outsourcing policy describes what should be deemed as outsourcing and sets out the criteria for determining whether a function or activity should be considered as critical or important for If.

The outsourcing process shall ensure an effective control of the outsourcing of critical or important functions or activities and manage risks associated with such outsourcing. The outsourcing process consists, inter alia, of risk analysis, counterparty evaluation, agreement drafting, decision-making, follow-up, reporting and information.

The Board of Directors has established an Outsourcing Committee that is responsible for monitoring that If's outsourcing is conducted in accordance with the Outsourcing policy. Any new or materially amended outsourcing agreements regarding critical or important functions or activities shall be reported to, and assessed by, the Outsourcing Committee as well as approved by the Board of Directors prior to the agreements being notified to the Swedish FSA.

2.7.2 Outsourcing of critical or important operational functions or activities

In order to make If's insurance business more efficient, If outsources critical or important operational activities to internal and external service providers as described below.

Investment and asset management are partially outsourced to Sampo. Because of If's operational structure with business areas Private, Commercial and Industrial operating through different legal entities and branch offices, a number of additional intra-group outsourcing arrangements have been set-up. For example, the procurement of IT services has been outsourced to sister company If IT Services A/S in Denmark, which in turn has entered into agreements with IT providers.

Several claims handling arrangements with service providers have also been agreed. These contracts are inter alia entered in order to provide claims handling services in areas where If has no physical presence. There are also certain claims handling arrangements which have been concluded as part of larger partner co-operations. These also include sales and franchising arrangements and the partners are located mainly in the Nordic countries.

2.8 Any other information

2.8.1 Adequacy of System of Governance

If's System of Governance is assessed as adequate to the nature, scale and complexity of the risks inherent in If's business.

2.8.2 Any other material information

There is no other material information regarding the System of Governance.



Risk profile

3 Risk Profile

If's overall risk strategy is to focus on both capital efficiency and a sound risk management. Available capital shall exceed both the economic capital and the solvency capital requirement. In addition, If strives to maintain an A rating by both Standard & Poor's and Moody's. This means that the risk exposure for If is quantified using different measures¹⁵ for different purposes.

In this chapter, If's risk profile is described as well as If's measurement of risks. The risk profile on an overall level is presented, followed by a more detailed description and analysis of each major component within each risk category. The main risk categories described in this section are underwriting risk, market risk, credit risk, liquidity risk, operational risk and other risks. Stress tests performed indicate the effect on own funds, economic capital and on the solvency capital requirement.

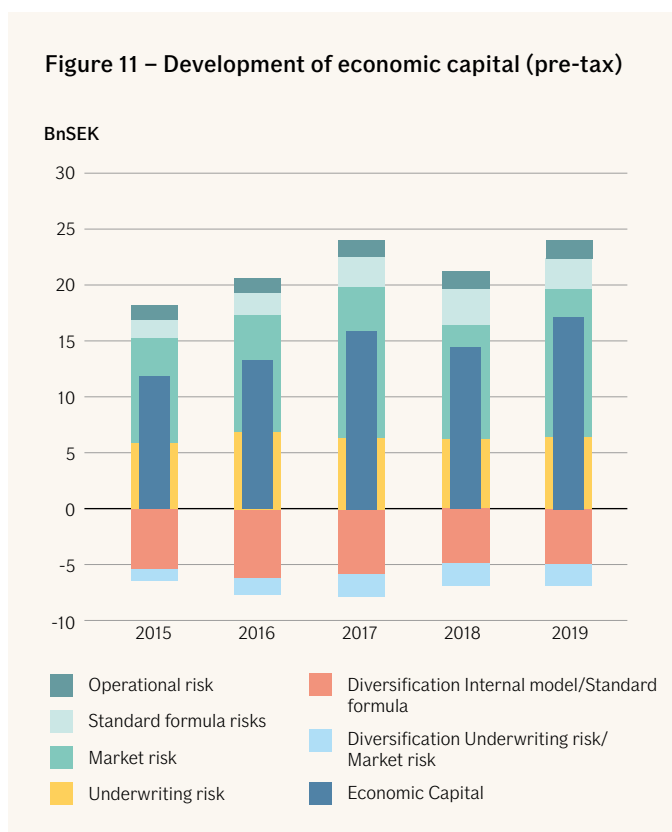
If's measurement of risk

For internal quantitative risk measurement and reporting, as well as for management decisions, the measure economic capital is used. The economic capital is based on If's internal model for underwriting risk and market risk including their diversified aggregation. Operational risk and less material risks are quantified using the standard formula.

In addition to the quantitative measures, qualitative assessments are conducted for all risks. Risks that are not possible to quantify are only qualitatively assessed. These risks are liquidity risk, legal risk, strategic risk, compliance risk, reputational risk, emerging risk and concentration risk.

If's risk profile

The figure below shows economic capital as per 31 December 2015 to 31 December 2019.



The two main risk categories for If are underwriting and market risk. The allocation of economic capital to different risk categories has been relatively stable over the past five years, with the exception of the effects of the merger of If P&C Insurance Company Ltd (Finland) during 2017, that increased the exposure from that year. The merger increased economic capital and the proportion of market risk in comparison to underwriting risk. The increase of 2.5 BnSEK in economic capital pre-tax during 2019 is mainly driven by increased equity risk, spread risk and a major model change within market risk.

3.1 Underwriting risk

Underwriting risk is the risk of loss, or of adverse change, in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions. Premium risk, catastrophe risk, reserve risk and inflation risk are included in the underwriting risk.

3.1.1 Risk exposure

For quantification of underwriting risk in the internal model, actuarial and statistical methods are used to reflect the characteristics of the insurance operations, complemented by external modelling for natural catastrophe risk and inflation risk. Lapse risk and revision risk are calculated in accordance with the standard formula.

If's economic capital for underwriting risk reflects the exposure to underwriting risk over a one-year horizon and has remained stable at 6.3 BnSEK during 2019. Inflation risk and reserve risk have the largest effects on economic capital. Within underwriting risk, inflation risk has decreased, while premium risk has increased.

3.1.1.1 Premium risk and catastrophe risk

Premium risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events that have not occurred at the balance date. Catastrophe risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events.

The main factors affecting premium risk are claims inflation, attritional claims volatility and risk assessment in pricing. During 2019, premium risk has increased due to portfolio growth.

3.1.1.2 Reserve risk and inflation risk

Reserve risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing and amount of claim settlements for events that have occurred at, or prior to, the balance date. Reserve risk includes revision risk, which is defined as the risk of loss, or of adverse change in the value of insurance and reinsurance liabilities, resulting from fluctuations in the level, trend, or volatility of revision rates applied to annuities, due to changes in the legal environment or in the state of health of the persons insured.

Risk factors underlying reserve risk are assessed and reported twice a year by the Chief Actuary on an impact and likelihood basis. The main risk factors affecting reserve risk are claims inflation, change in indexing of Swedish Motor Third Party Liabilities (MTPL) annuities and increased retirement age. During 2019, reserve risk remained stable.

The reserves in If are dominated by long tailed business which amplifies If's significant exposure to inflation. Future claims inflation is quantified separately for premium and reserve risk. The assessment of long-term inflation expectations is stable. A major

¹⁵ Internal economic measures (EC), regulatory measures (SCR PIM) and rating agency measures. Rating agency measures are not specifically handled in the report.

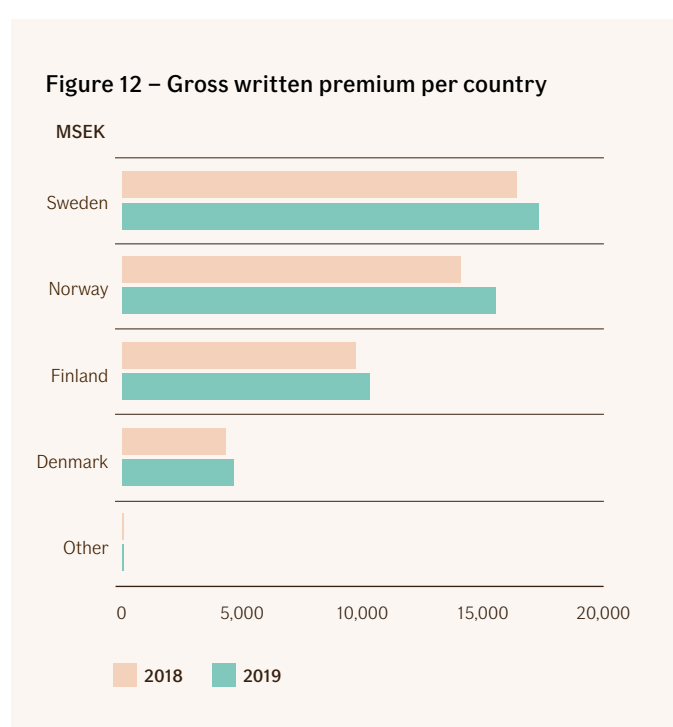
model change regarding inflation risk in If's internal model has been implemented during 2019, resulting in a more accurate reflection of the risk.

The provisions for the Swedish MTPL and Workers compensation include annuities that are sensitive to changes in retirement age, mortality assumptions, inflation and discount rate. The main risk within reserve risk is the MTPL portfolio, which represents 21% of the Solvency II claims reserve as well as approximately 6% of the undiversified economic capital for reserve risk. The inflation risk is limited in Finland, as index increments for annuities are handled through a national pay-as-you-go system, where the yearly increases are included in the insurance premium. The effect on provisions from a decrease in discount rates is damped for provisions with long duration due to convergence towards the ultimate forward rate. Reserve risk includes revision risk resulting from fluctuations in the level, trend, or volatility of revision rates applied to annuities, due to changes in the legal environment or in the state of health of the persons insured.

For further information on Solvency II technical provisions, refer to Solvency II quantitative reporting templates (QRT) S.12.01.02, S.17.01.02 and S.19.01.21.

3.1.2 Risk concentration

The insurance portfolio is well diversified due to the fact that If has a large customer base and the business is underwritten in different geographical areas and across several lines of business. The geographical distribution of gross written premium for 2019 is shown in the figure below.



Despite the diversified portfolio, risk concentrations and consequently severe claims may arise through for example, exposures to natural catastrophes such as storms and floods. Accumulation of risks within the business area Industrial is monitored by detailed latitude/longitude data registration. For further data on If's premium distribution across lines of business, please refer to QRT S.05.01.02.

3.1.3 Risk mitigation

The principal methods for mitigating premium risks are by reinsurance, diversification, prudent underwriting and follow-ups on regular basis linked to the strategy and financial planning process. The Underwriting policy sets general principles, restrictions as well as roles and responsibilities for the underwriting process. The policy is supplemented with guidelines outlining in greater detail how to conduct underwriting within each business area.

Reserve risk is managed through actuarial estimates based on historical claims and exposures that are available at the closing date. Factors that are considered include, for example loss development trends, the level of unpaid claims, changes in legislation, case law and economic conditions. When setting provisions, established actuarial methods are used, combined with projections of the number of claims and average claims costs.

The provisions for annuities are calculated as discounted values based on the amounts and payment periodicity in each individual case, considering the expected investment income, expenses, indexation, mortality and other possible adjustments into account.

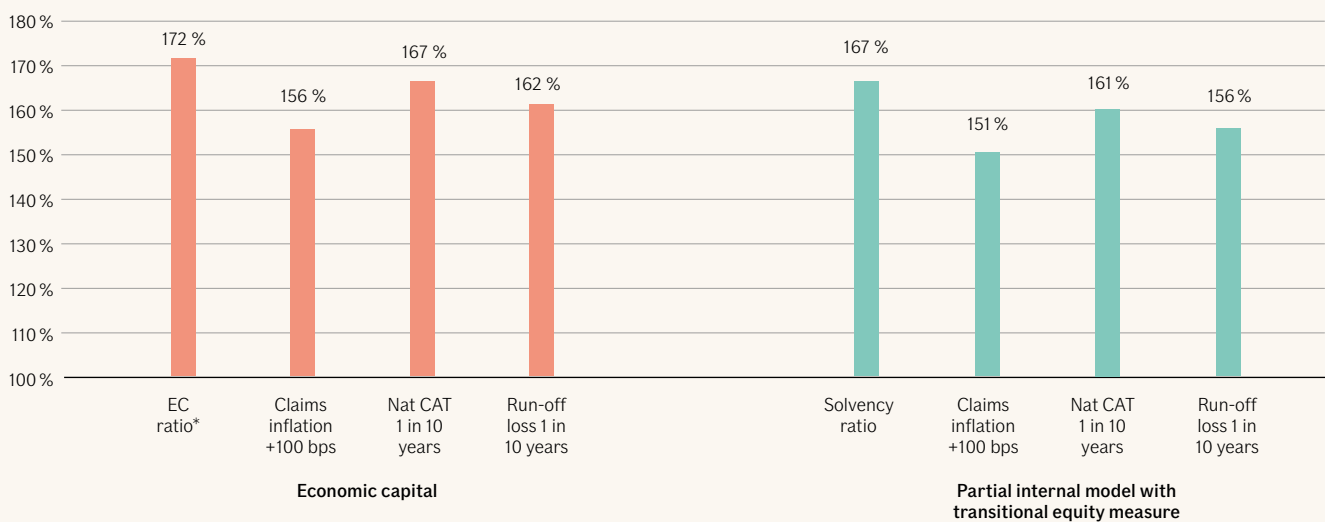
The economic impact of natural disasters and single large claims is managed through a combination of reinsurance and diversification. The need and optimal choice of reinsurance is evaluated by comparing the expected cost versus the benefit of the reinsurance, the impact on result volatility and capital requirements. The main tool for this evaluation is If's internal model.

3.1.4 Risk sensitivity

Stress tests have been performed to assess If's sensitivity to major risk factors. The sensitivity is expressed as the effect on If's capital position, both on internal economic capital and on the regulatory solvency capital requirement, at 31 December 2019. The solvency ratio for economic capital is based on If's internal model for both underwriting risk and market risk. The solvency ratio for the regulatory solvency capital requirement is calculated according to the partial internal model, where underwriting risk is based on If's internal model. Risks not covered by the internal model are calculated using the standard formula.

The purpose of the stress tests is to estimate the impact on the capital position of a higher claims inflation than expected, a one in ten-year natural catastrophe or a one in ten-year run-off loss. In each of the three sensitivity tests, If has a solvency ratio above 100%.

Figure 13 – Solvency II Sensitivity underwriting risk



In the inflation stress an increase corresponding to 100 basis points to inflation is assumed. The increase of claims inflation is assumed to increase the technical provisions. In the natural catastrophe stress (Nat CAT), it is assumed that claims payments are immediate and hence this would not affect the technical provisions, leaving underwriting and market risk unaffected but the eligible own funds reduced. In the run-off stress, it is assumed that technical provisions will increase and lead to an increase in reserve risk and inflation risk.

3.2 Market Risk

Market risk is the risk of loss, or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level or in the volatility of market prices of assets, liabilities and financial instruments.

If's market risk, in accordance with the calculation of economic capital, consists of currency, equity, interest rate and spread risk. Even though spread risk is included when calculating economic capital for market risk, If considers spread risk as a part of credit risk. The exposure, concentration, mitigation and sensitivity of spread risk are described in section 3.3 Credit risk. Asset and liability management (ALM) risk is not calculated separately but is included in the calculation of interest rate and currency risk. The main risk components within market risk are equity risk and spread risk.

3.2.1 Risk exposure

The economic capital for market risk increased by 2.6 BnSEK to 13.2 BnSEK during 2019. The increase is mainly due to higher equity exposure and increased exposure to spread risk. If has a well-diversified investment portfolio, which has positive diversification effects when calculating the economic capital.

If's investments are concentrated to Nordic securities and when investing in non-Nordic securities, funds or other assets, third party managed investments are mainly used. The use of derivatives is limited.

The calculation of market risk related to investments are typically non-complicated since If applies mark-to-market procedures to most of its investments. There are only a limited number of instruments that require mark-to-model procedures. If pledges collateral for letters of credit (in the insurance operations) and for cleared derivatives.

The main factors that could affect market risk are the geopolitical uncertainty, the development of property prices in Sweden and Norway, the equity market movements and the concentration towards financial institutions. Low interest rates for a long time may also have some impact on the market risk, as this affects the investment return.

3.2.1.1 Currency risk

Currency risk refers to the sensitivity of the value of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates.

If is exposed to currency risk due to operations in foreign branches. In addition, If's investment decisions create currency exposure. Compared to 31 December 2018, the currency risk has decreased slightly due to a decreased exposure.

3.2.1.2 Equity risk

Equity risk refers to the sensitivity of the value of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of equities.

The equity portfolio consists of Nordic shares and a diversified global funds portfolio, at year-end 2019, If's exposure amounted to 13.3 BnSEK. Compared to 31 December 2018, the equity risk has increased mainly due to higher equity exposure as a result of increased market values.

3.2.1.3 Interest rate risk

Interest rate risk refers to the sensitivity of the value of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates.

The duration of fixed income investments was 1.3 years at year-end 2019. Compared to 31 December 2018, the interest rate risk has increased mainly due to higher interest rate volatilities.

3.2.1.4 Spread risk

Spread risk refers to the sensitivity of the value of assets, liabilities and financial interest rate instruments to changes in the level or in the volatility of the credit spread over the risk-free interest rate term structure.

The spread risk in If has increased mainly due to higher spread volatilities. For information on spread risk exposure, concentration, mitigation and sensitivity, see section 3.3 Credit risk.

3.2.1.5 Asset and Liability Management risk

ALM risk means the risk of loss, or of adverse change in the financial situation, resulting from a mismatch between the assets' and the liabilities' sensitivity to fluctuations in the level or in the volatility of market rates.

ALM risk consists of interest rate risk and currency risk. In the accounts, most of the technical provisions are nominal, while the annuity and annuity IBNR¹⁶ reserves, are discounted using interest rates in accordance with the regulatory rules. Accordingly, from an accounting perspective, If is mainly exposed to changes in inflation and regulatory discount rates. From an economic perspective, whereby the technical provisions are discounted using prevailing interest rates, If is exposed to changes in both inflation and nominal interest rates.

3.2.2 Risk concentration

The figures below present the market risk concentration of the investment portfolio in If as per 31 December 2019. Figure 14 shows the market values per type of asset and Figure 15 shows economic capital for market risk per type of asset (pre diversification effects).

Figure 14 – Market values per type of asset

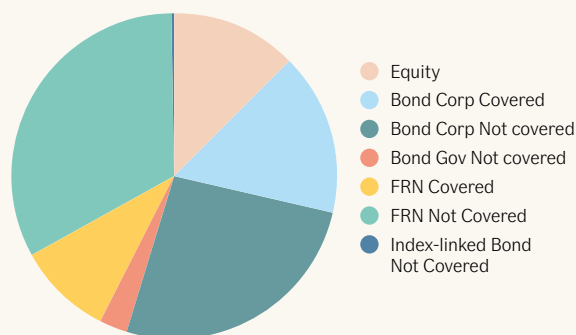
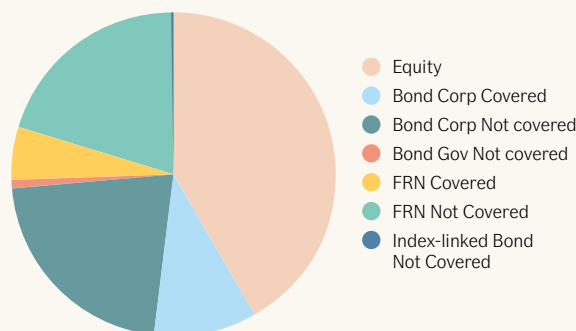


Figure 15 – Economic capital per type of asset



¹⁶ Incurred But Not Reported

Risk profile

If's currency positions against SEK are shown in the table below. The figures are according to IFRS and give a fair picture of currency risk concentrations excluding translation risk. Translation risk exposure arises when consolidating the financial statements of branches that have a different base currency than the parent company.

Table 5 – Currency risk

MSEK Currency	EUR	NOK	DKK	GBP	USD	JPY	OTHER
Open position (SEK), 2019	-269	149	132	-11	-364	-5	-82
Open position (SEK), 2018	-1,153	924	154	-15	-43	-3	-15

The investment portfolio consists mainly of fixed income (88.0%) and equities (11.8%).

Table 6 – Breakdown of equity investments by industry sectors

MSEK Industry sector ¹⁾	2019		2018	
	Carrying amount	%	Carrying amount	%
Industrials	4,464	48.9	3,704	46.9
Consumer Discretionary	2,198	24.1	1,960	24.8
Health Care	857	9.4	598	7.6
Materials	754	8.3	609	7.7
Telecommunication Services	624	6.8	651	8.2
Energy	174	1.9	260	3.3
Consumer Staples	59	0.6	113	1.4
Financials	4	0.0	4	0.0
Total	9,134	100	7,899	100

¹⁾ The sector allocation of equity excludes investments made through ETF's, mutual and private equity funds of 4,438 MSEK (3,717 MSEK).

Table 7 - Breakdown of equity investments by geographical regions

MSEK Geographical area ¹⁾	2019		2018	
	Carrying amount	%	Carrying amount	%
Scandinavia	9,041	67.5	7,899	69.2
Western Europe	1,527	11.4	1,235	10.8
Far East	1,455	10.9	1,149	10.1
North America	872	6.5	877	7.7
Latin America	499	3.7	262	2.3
Total	13,394	100	11,422	100

¹⁾ The geographical allocation of equity excludes investments made through private equity funds of 178 MSEK (194 MSEK).

The IFRS values in Table 6 and 7 give a reasonable picture of risk concentrations and do not materially differ from Solvency II values.

There have been no significant changes of the risk concentrations for market risk over the reporting period, however the main part of the investments in USD have been divested during the period and

only the high yield bonds in USD remain in the portfolio. The average duration of fixed income investments was 1.3 years at year-end 2019. The duration of the fixed income investments is shown in Table 8.

Table 8 – Duration and breakdown of fixed income investments per instrument type

MSEK Instrument type ¹	2019			2018		
	Carrying amount	%	Duration	Carrying amount	%	Duration
Short-term fixed income	2,596	2.8	0.1	2,177	2.3	0.1
Scandinavia, long-term government and corporate securities	71,213	75.7	1.1	66,046	71.0	1.3
Scandinavia, index-linked bonds	190	0.2	0.9	655	0.7	1.9
Europe, long-term government and corporate securities	15,727	16.7	1.9	15,851	17.0	1.8
USA, long-term government and corporate securities	2,840	3.0	2.3	6,190	6.7	2.0
Global, long-term government and corporate securities	1,458	1.6	3.5	2,124	2.3	2.3
Total	94,024	100	1.3	93,043	100	1.4

¹ IR Derivatives are included in the table.

For information on spread risk exposure, concentration, mitigation and sensitivity, see section 3.3 Credit risk.

3.2.3 Risk mitigation

The Investment policy is the principal document for managing If's market risks. It sets guiding principles, for instance the prudent person principle, specific risk restrictions and decision-making structure for the investment activities.

The structure of If's technical provisions, the overall risk appetite, risk tolerance, regulatory requirements, rating targets and the nature of the technical provisions are taken into account when deciding limits and setting return and liquidity targets. The Board of Directors decides on the Investment policy at least once a year. The Investment policy is supplemented with guidelines defining mandates, authorisations and guidelines on the use of derivatives.

The currency risk is reduced by matching technical provisions with investment assets in the corresponding currencies or by using currency derivatives. The currency exposure in the insurance operations is hedged to the base currency on a regular basis. The currency exposure in investment assets is controlled weekly and is hedged when the exposure reaches a specified level, which is set with respect to cost efficiency and minimum transaction size. If is also exposed to translation risk, which is not hedged since those investments are regarded as being of a long-term nature and the currency effects related to them will not affect the results.

If's equity portfolio is actively managed with a long-term investment horizon. The equity risk is reduced by diversifying the investments across industry sectors and geographical regions. According to If's Investment policy, equity investments in relation to the total investment portfolio and the exposure towards an individual issuer are to be limited. The interest rate risk is managed by sensitivity limits. The ALM risk in If is managed in accordance with Sampo's Group-wide principles. ALM is taken into account through the risk appetite framework and is governed by If's Investment policy. To maintain the ALM risk within the overall risk appetite, the cash flows of insurance liabilities may be matched by investing in fixed income instruments and by using currency derivatives.

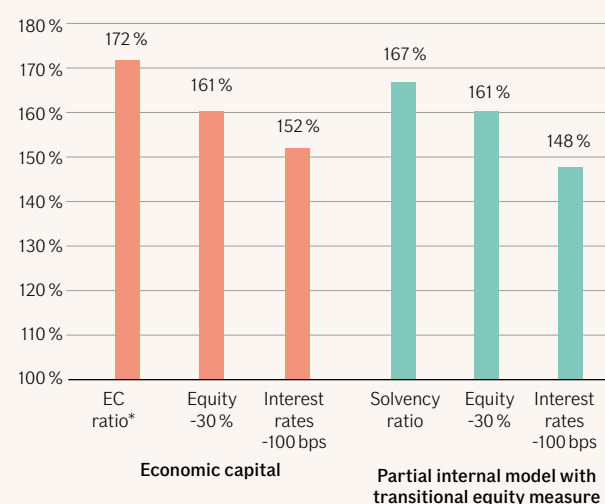
The market risk is actively monitored and controlled by the Investment Control Committee and reported to the ORSA Committee quarterly.

3.2.4 Risk sensitivity

To test the sensitivity to important risk factors, equity and interest rate stresses have been performed. The sensitivity is expressed as the effect on If's capital position, both in terms of internal economic capital and in terms of the solvency capital requirement as per 31 December 2019.

The purpose of the stress tests is to estimate how If's capital position is affected by a 30% decrease in the market values for equities and by a 100-basis points decrease in interest rates. In both stresses, If maintains a solvency ratio above 100%.

Figure 16 – Market risk sensitivity



*Eligible own funds in proportion to economic capital.

The key assumption in the equity stress is that the equity risk decreases with the same proportion as the market value, but with change in symmetric adjustment explicitly taken into consideration. In the interest rate stress, the decreased interest rates increase the investment assets as well as technical provisions. The increase of technical provision is larger than the increase of investment assets due to the longer duration of technical provisions.

The interest rate stress is based on a parallel shift of the market rates used as input to the calculation of the Solvency II yield curves.

The effect is dampened for the highest maturities due to convergence to the unstressed forward rate used in the long end.

3.3 Credit risk

Credit risk is the risk of loss, or of adverse change, in the financial situation resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which If is exposed in the form of counterparty default risk, spread risk or market risk concentrations.

3.3.1 Risk exposure

Counterparty default risk is the risk of loss due to unexpected default, or deterioration in the credit standing, of counterparties and debtors. The standard formula is used for the calculation of counterparty default risk.

Spread risk refers to the sensitivity of the value of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure. Spread risk is measured by If's internal model as described in section 3.2 Market risk.

Credit risk exposure towards policyholders is very limited, since non-payment of premiums generally results in the cancellation of insurance policies.

3.3.1.1 Credit risk in Investment Operations

In capital management, credit risk is in most cases reflected through the credit spread. Investment assets usually have a lower market value at a higher credit spread, even in cases of no default. Consequently, the spread is the market price of the credit risk and can be affected partly by the market's risk assessment of an individual issuer and partly by the general appetite for credit risk in the financial markets. As increased spread levels usually adversely affect the market price of investment asset, materializing of the risk typically leads to a negative impact on own funds. Likewise, default payments can adversely affect own funds.

The additional risk, stemming either from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers not captured by the spread risk or counterparty default risk, is measured as concentration risk.

3.3.1.2 Credit risk in Reinsurance Operations

In addition to the credit risk associated with investment assets, credit risk arises from insurance operations, most importantly through ceded reinsurance. Credit risk related to reinsurers arises through reinsurance receivables and through the reinsurers' portion of claims outstanding.

3.3.2 Risk concentration

3.3.2.1 Concentration in Reinsurance Operations

The distribution of reinsurance receivables and recoverables excluding expected loss is presented in Table 9. In the table, 1,214 MSEK (1,251 MSEK) is excluded, which mainly relates to captives and statutory pool solutions.

Table 9 – Reinsurance recoverables

MSEK Rating (S&P)	2019	%	2018	%
AAA	-	-	-	-
AA	541	65.6	462	65.1
A	277	33.6	241	34.0
BBB	4	0.5	6	0.8
BB – CCC	-	-	-	-
Not rated	2	0.3	1	0.1
Total	825	100	709	100

The distribution of ceded treaty and facultative premiums per rating category is presented in Table 10.

Table 10 – Ceded treaty and facultative premiums per rating category

MSEK Rating (S&P)	2019	%	2018	%
AAA	-	-	-	-
AA	344	59.2	325	61.4
A	237	40.8	204	38.6
BBB	-	-	-	-
BB – CCC	-	-	-	-
Not rated	-	-	-	-
Total	581	100	529	100

3.3.2.2 Concentration in Investment Operations

A large part of If's fixed income investments is concentrated to financial institutions, whereof the main part of the investments is in the Nordic market. If's most significant credit risk exposures arise from fixed income investments. The exposures are shown by sector, asset class and rating category in the table below.

Table 11 – Fixed income exposure by sector, assets and rating 2019

MSEK Sector	AAA	AA+ -AA-	A+ - A-	BBB+ -BBB-	BB+ - C	D	Not rated	Total ¹⁾	Equities	Propert- ies	Derivatives (Counter- party Risk)	Total ²⁾	Change compared to Dec 31, 2018
Basic Industry	-	-	157	783	214	-	38	1,192	408	-	-	1,600	226
Capital Goods	-	-	585	320	103	-	1,023	2,031	4,745	-	-	6,776	1,563
Consumer Products	-	-	1,628	2,456	160	-	732	4,976	2,313	-	-	7,288	-655
Energy	-	-	-	-	359	-	1,246	1,605	82	-	-	1,687	-1,431
Financial Institutions	385	8,277	10,174	7,104	877	-	343	27,160	-	-	34	27,195	1,608
Governments	95	-	-	-	-	-	-	95	-	-	-	95	-1,271
Government Guar- anteed	95	256	-	-	-	-	-	350	-	-	-	350	8
Health Care	74	-	106	230	-	-	369	779	852	-	-	1,631	63
Insurance	-	-	398	805	167	-	438	1,808	-	-	-	1,808	194
Media	-	-	-	-	-	-	162	162	-	-	-	162	-55
Packaging	-	-	-	-	-	-	128	128	-	-	-	128	75
Public Sector, Other	4,940	483	-	-	-	-	-	5,422	-	-	-	5,422	-1,272
Real Estate	-	56	788	2,484	573	-	5,675	9,575	-	35	-	9,610	2,125
Services	-	-	-	418	713	-	306	1,437	-	-	-	1,437	-251
Technology and Electronics	-	-	191	77	92	-	1,095	1,455	-	-	-	1,455	449
Telecommunications	-	-	202	1,272	500	-	-	1,974	624	-	-	2,598	-172
Transportation	-	569	252	301	-	-	2,410	3,533	10	-	-	3,543	877
Utilities	-	-	620	987	1,203	-	298	3,108	-	-	-	3,108	-387
Covered Bonds	25,737	723	119	-	-	-	-	26,579	-	-	-	26,579	26,194
Funds	-	-	-	-	-	-	-	-	4,437	-	-	4,437	-22,068
Others	-	252	-	-	-	-	259	511	100	-	-	611	-3,106
Total	31,325	10,616	15,220	17,237	4,961	-	14,521	93,880	13,572	35	34	107,521	2,715
Change compared with Dec 31, 2018	-2,092	-576	-1,094	1,285	1,144	-	2,080	748	1,956	-9	20	2,715	-

¹⁾ Total fixed income exposure differs by -144 MSEK from the corresponding financial assets and liabilities in Table 3 because other derivatives and collaterals are excluded.

²⁾ Total exposure excluding derivatives, except for OTC derivatives where only counterparty risk is taken into account.

3.3.3 Risk mitigation

Credit risk in the investment operations is managed by specific limits stipulated in If's Investment policy. In the policy, limits are set for maximum exposures towards single issuers, type of debt category and per rating class. The spread risk is further limited by sensitivity restrictions for instruments sensitive to spread changes. When investment decisions are taken, the prudent person principle is considered in accordance with If's Investment policy. The default risk of derivative counterparties is mitigated by diversification, a careful selection of counterparties and clearing houses as well as by using collateral techniques. Credit exposures are reported by ratings, instruments and industry sectors.

To limit and control credit risk associated with ceded reinsurance, If has a Reinsurance security policy that sets requirements for the reinsurers' minimum credit ratings and the maximum exposure to individual reinsurers. Credit ratings from rating agencies are used to determine the creditworthiness of reinsurance companies.

The Reinsurance Security Committee shall give input and suggestions to decisions in respect of various issues regarding reinsurance default risk and risk exposure, as well as proposed deviations from the Reinsurance Security policy. The Chairman is responsible for the reporting of policy deviations and other issues dealt with by the committee to the ORSA Committee.

The development of the portfolio with respect to credit risk is monitored and reported to the Investment Control Committee and the Reinsurance Security Committee on a regular basis and on quarterly basis to the ORSA Committee.

3.3.4 Risk sensitivity

3.3.4.1 Risk sensitivity in Investment Operations

To test the sensitivity for major risk factors, a credit spread stress has been performed showing the effect on the Solvency II ratios as per 31 December 2019. If maintains a solvency ratio above 100% after the stress, as per 31 December 2019. The spread stress estimates an impact on the solvency ratio for a 100 basis points increase in the spreads. The key assumption for the spread stress is that the stress does not have an impact on technical provisions.

3.3.4.2 Risk sensitivity in Reinsurance Operations

To quantify the exposure to credit losses due to reinsurance counterparty default, a credit simulation within the reinsurance operations is performed. In the simulation a counterparty default rate of 50% on average is assumed and future credit losses are estimated for 50,000 outcomes with a one-year horizon. Non-rated captives and pools are treated as BBB rated. The exposure is based on discounted values in line with Solvency II as per 31 December 2019. The results, as shown in Figure 18 and Table 12, indicate limited exposure to credit risk towards reinsurance counterparties.

Figure 18 – Risk sensitivity

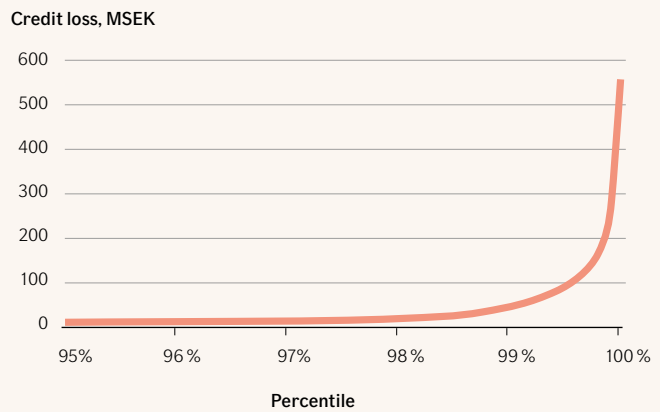


Table 12 – Risk sensitivity

Probability	MSEK Q4 2019
5.0 %	1
2.5 %	9
1.0 %	47
0.5 %	91
0.03 %	360

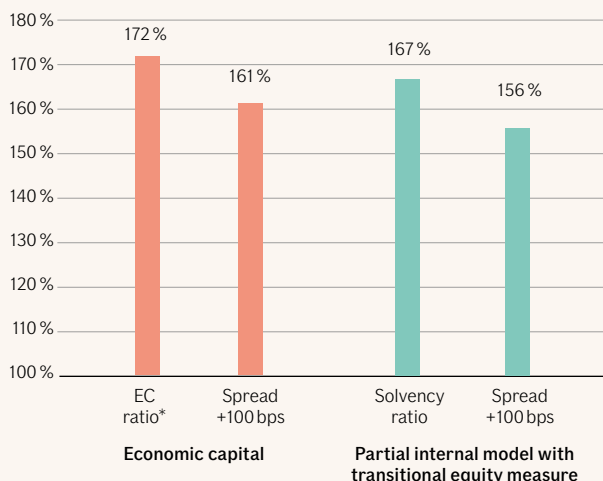
3.4 Liquidity Risk

Liquidity risk is the risk that insurance undertakings are unable to realise investments and other assets in order to settle their financial obligations when they fall due.

3.4.1 Risk exposure

The liquidity risk is deemed not to be material, since premiums are collected in advance and large claims payments are usually known well in advance before they fall due. Liquidity risk is identified and managed, but solvency needs are not quantified.

Figure 17 – Solvency II Sensitivity: Credit Risk in Investment Operations, 31 December 2019



*Eligible own funds in proportion to economic capital.

3.4.2 Risk concentration

The maturities of cash flows for technical provisions, financial assets and liabilities are presented in Table 13. In the table, financial assets and liabilities are divided into contracts with a contractual maturity profile and those without contractual maturity. Only the carrying amount is shown for the other contracts. The table also shows expected cash flows for net technical provisions, which are inherently associated with a degree of uncertainty.

Table 13 – Maturities of IFRS cash flows for financial assets, financial liabilities and net technical provisions, 31 December 2019

MSEK	Carrying amount			Cash flows						
	Carrying amount	Of which without maturity	Of which with contractual maturity	2020	2021	2022	2023	2024	2025-2034	2035-
Financial assets	125,263	15,011	110,252	32,026	22,094	19,603	14,690	18,385	8,687	-
Financial liabilities	-8,544	-24	-8,519	-342	-1,230	-	-	-	-	-
Net technical provisions	-87,385	-87,385	-	-30,903	-10,099	-5,979	-4,238	-3,404	-19,231	-17,585

3.4.3 Risk mitigation

The Investment policy and guidelines, for example the prudent person principle, and the instruction for the Investment Control Committee establish strategies, objectives, processes and reporting procedures for the liquidity risks. The Cash Management function manages the liquidity risk on a day-to-day basis. The risk is monitored by the Investment department and reported to the ORSA Committee.

3.4.4 Risk sensitivity

To identify the liquidity risk exposure, expected cash flows from investment assets and technical provisions are analysed regularly. Cash flows from investment assets are measured both from availability and maturity point of view. When measuring availability, normal market conditions as well as stressed and extreme conditions are taken into consideration. When deemed necessary, the analysis covers identification and costs of alternative financing tools and consideration of the effect on the liquidity situation of expected new business. The expected cash flows from investment assets and technical provisions are also compared to measure the level of mismatch.

3.4.5 Expected profit included in future premiums

The total expected profit included in future premiums (EPIFP) amounted to 1,918 MSEK at 31 December 2019.

3.5 Operational risk including legal risk

Operational risk is the risk of loss arising from inadequate or failed processes or systems, from personnel or from external events (expected or unexpected). The definition includes legal risk which is described as the risk of loss due to (i) disputes not related to insurance claims, (ii) breach of contract or entry into illegal contracts as well as (iii) breach of intellectual property rights.

Operational risks occur in all parts of the organisation and are a natural part of the business. It is not cost-effective to eliminate all operational risks, therefore the level of risk mitigation needs to be balanced. Each department manager is the risk owner and is responsible for continuously managing significant risks within their operations to an acceptable level.

3.5.1 Risk exposure

Assessment of operational risk is performed through the qualitative Operational and Compliance Risk Assessment (OCRA) process. In this process, operational risk is identified, assessed, managed, monitored and reported regularly through self-assessments. An operational risk coordinator network supports the risk owners in the OCRA process.

Identified risks are assessed from a likelihood and impact perspective and evaluated using a traffic light system. In addition, the risks are classified into five different categories: process execution failure; business disruption and system failures; customers, products and business practices; employment practices as well as internal and external fraud. Key risk indicators are used to identify and follow the development of various risks, where incident reporting and quality assurance reviews are two important indicators. The most significant risks are reported to the Operational Risk Committee.

External factors that may affect operational risk are identified through the processes for strategic risk and emerging risk. See section 3.6.1 Strategic risk and section 3.6.4 Emerging risk. A special process exists to identify and report any external and internal fraud.

The main operational risks for If are related to IT-applications and information security. There have been no material changes in the risk exposure during the reporting period.

3.5.2 Risk concentration

No significant risk concentrations have been identified for operational risk.

3.5.3 Risk mitigation

Examples of key risk mitigating techniques used to manage operational risk are clear and implemented steering documents, set mandates, four-eyes and grandparent principles, clear roles and division of responsibilities, employee training as well as automated and manual controls in key business processes. To further strengthen If's key processes and increase efficiency in the long-term, new IT systems are currently being developed, including automation of certain controls.

Guidelines relevant for operational risk include guidelines for management of internal and external fraud, business continuity planning and information security. Analyses of fraud trends are performed continuously, and control activities are carried out to mitigate the risk. In addition, internal training on ethical rules and guidelines are provided to employees on a regular basis.

If's processes for Business Continuity Planning include preparation of risk-based business continuity plans, set up of crisis management teams and regular crisis management exercises. The purpose of this work is to protect the company's assets and ensure that the organization is able to deliver even when something unpredictable happens.

Steering documents regulate the work on information security, such as data classification and routines for authorization management. Vulnerabilities are continuously monitored and addressed to improve IT security.

Within the line organisation there are functions that are responsible for monitoring and developing the risk and quality work within the business. In connection with this work, among other things, quality assurance reviews and controls are carried out within key processes. In the OCRA process, risk reducing activities are defined for significant risks which are followed up on a regular basis.

3.5.4 Risk sensitivity

Operational risk is included through an explicit charge in the quantitative risk measures and is calculated according to the standard formula, based on factors applied to premium and reserve volumes. Significant realised operational risks do not affect the quantitative risk measures but affect the own funds to the extent they affect If's financial result.

3.6 Other material risks

3.6.1 Strategic risk

Strategic risk is the risk of loss due to changes in the competitive environment, changes in the overall economic climate, technology development or internal inflexibility.

3.6.1.1 Risk exposure

Strategic risk is identified by the business in the yearly financial planning process and is reported to the Corporate Control and Strategy unit. The risks are aggregated and assessed based on likelihood and impact. In the assessment, external changes that could have an impact on If are also taken into consideration.

Strategic risk relates to changes in the operational environment and the capability to proactively adjust to the changes. Strategic risk for If is related to competitors' behaviours, mainly changes in market shares through price reductions or increased distribution capacity. Furthermore, recessions and instability in the financial markets can have a negative effect. If's operations are also affected by changes in relevant legislation and case law. During the reported period, there have been no significant changes in the risk exposure for strategic risk.

3.6.1.2 Risk concentration

No significant risk concentrations for strategic risk have been identified.

3.6.1.3 Risk mitigation

The development of the identified material strategic risks is continuously monitored by both the line organisation and the Corporate Control and Strategy unit. The risks are evaluated at least annually in the yearly financial planning process where activities to manage significant risks and adjustments to changes in the market and economic climate, are considered.

3.6.2 Compliance risks

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or loss to reputation as a result of not complying with applicable rules.

3.6.2.1 Risk exposure

Compliance risk is assessed in the OCRA process, see section 3.5.1 Risk Exposure. The compliance risks are measured by assessing the impact and likelihood of breaching applicable rules. The main compliance risk identified is the risk of breaching the General Data Protection Regulation (GDPR).

3.6.2.2 Risk concentration

No significant risk concentrations for compliance risks have been identified.

3.6.2.3 Risk mitigation

The Internal Control System encompasses a range of both proactive and reactive mitigating techniques to mitigate the compliance risks, e.g. clear and implemented steering documents and instructions, employee training, segregation of duties, access rights and four-eyes principle. The processes for monitoring the continued effectiveness of these risk mitigation techniques covers various kinds of quality follow-ups.

3.6.3 Reputational risk

Reputational risk is the risk of damage to an insurance company through deterioration of the reputation among customers and other stakeholders.

3.6.3.1 Risk exposure

Reputational risk is often a consequence of a realised operational risk or a compliance risk. When operational risks and compliance risks are assessed by the line organisation, the reputational risk as a consequence of a materialised risk is also evaluated. The risks are assessed based on likelihood and impact. Certain processes are especially sensitive to reputational risk such as the claims process. Identified reputational risks are managed by the business and, when applicable, also by the Communication department. Twice a year material risks are reported to the Operational Risk Committee by the Head of Communication.

To maintain a good reputation, two important focus areas for If are clear insurance conditions as well as transparent and fair claims handling. Customers are informed about how to proceed if they want to file a complaint and how to get in contact with If's Kundombudsman. During the reporting period, there have been no significant changes to the risk exposure for reputational risk.

3.6.3.2 Risk concentration

No significant risk concentrations for reputational risk have been identified.

3.6.3.3 Risk mitigation

Some areas are especially sensitive to reputational risk, such as marketing and claims handling, as individual incidents can receive high media attention. Professional handling and communication are key to mitigating these risks. Additional mitigating techniques are for example; clear and implemented steering documents, e.g. Ethics policy and Social media instructions, as well as incident handling procedures and the internal whistleblowing process. Close monitoring of all types of media is performed continuously to identify potential negative publicity at an early stage.

3.6.4 Emerging risks

Emerging risks are newly developing or changing risks that are difficult to quantify and which may have a major impact on the undertaking.

3.6.4.1 Risk exposure

When developing risks materialise, or identified risks change, this is primarily identified, assessed and managed by the underwriting and claims teams in the different business areas as part of the regular risk assessment processes. However, in order to capture cross business area risks and in order to proactively identify emerging risks, If has established an Emerging Risk Core Team with expert members from all business areas. The team meets on a regular basis and discusses emerging risks. The purpose of the team is to facilitate work in If's underwriting units to identify risks, collect and share information about the risks in order to evaluate the severity of the risks, as well as to arrange further studies or workshops and to suggest actions if necessary. The risks are assessed by impact and likelihood. The actions needed to control the exposures and accumulations are carried out in the underwriting units. Some of the key risks that have been under observation during 2019 are the lack of climate change adaptation, cyber risks, nanotechnology and terrorism. There have not been any material changes regarding emerging risks during the reporting period.

3.6.4.2 Risk concentration

Cyber insurance is inherently exposed to risk concentration. Cyber threats are continuously developing, which may lead to changes in the risk concentration. Climate change can also lead to changes in If's risk concentration, for example through increased frequency of flooding or forest fires.

3.6.4.3 Risk mitigation

The main principle is that each business area is responsible for managing and taking action with regard to potential emerging risk exposures in its portfolios. The awareness of new risks from internal and external sources in combination with constant review of insurance contracts terms are necessary means of managing and mitigating new risks. Identified emerging risks can be excluded from future insurance policies or an appropriate premium element can be added to the policies for such insurable risks. Reinsurance is also used as a mitigating technique.

3.6.5 Risk sensitivity other material risks

Strategic, compliance, reputational, emerging risk and risk concentrations are not included in the quantitative risk measures. If a severe risk event occurs as a result of any of these risks, it may have an effect on own funds but not any direct impact on the economic capital or the solvency capital requirement. A material strategic risk event might have a negative effect on the ability to compete, with decreased premium volumes and profitability as a consequence. A significant compliance risk that materialises can result in e.g.

sanctions or interventions from the Swedish FSA. A significant materialised reputational risk event may lead to a combination of decreased premium volumes due to customers leaving If and a one-time cost effect on own funds to manage the risk. Emerging risks can affect all the other existing risk categories. The sensitivity and concentration of these qualitative risks are, due to their nature, very difficult to quantify.

3.7 Other Information

There is no other material information regarding the risk profile for If.

Valuation for Solvency Purposes

4 Valuation for Solvency Purposes

The valuation of assets and liabilities in the Solvency II balance sheet is based on fair-value-principles. The Solvency II balance sheet is derived from If's statutory accounts, prepared according to Swedish GAAP, and adjusted in accordance with rules in Solvency II.

The accounting standards under Swedish GAAP used for If's statutory accounts have not been subject to any significant amendments in 2019. One new divergence occurs between Solvency II and Swedish GAAP due to implementation of the new IFRS standard for leasing (IFRS 16) in Solvency II. Disclosures on leasing are included in section 4.5.1 Lease arrangements. No other new material divergences have occurred between Solvency II and Swedish GAAP. Balance sheet

items in foreign currency are translated to SEK using the closing date exchange rate, both in the statutory accounts and in the Solvency II balance sheet.

Overall, as an effect of the Solvency II adjustments at year-end, the excess of assets over liabilities is 1,862 MSEK higher in the Solvency II balance sheet compared to the statutory accounts. Solvency II adjustments are mostly related to technical provisions.

Table 14 below provides an overview of adjustments made between the balance sheet in the statutory accounts and the Solvency II balance sheet.

Table 14 – Balance sheet adjustment for Solvency II purpose

MSEK Classification	Statutory accounts value	Solvency II adjustments	Solvency II value	
Assets				
Goodwill	5	-5	-	A
Deferred acquisition costs	1,257	-1,257	-	B
Intangible assets	312	-312	-	A
Property, plant & equipment held for own use	189	1,295	1,484	C
Investments (other than assets held for index-linked and unit-linked contracts)	104,370	-	104,370	
<i>Property (other than for own use)</i>	35	-	35	
<i>Equities</i>	9,083	-	9,083	
<i>Bonds</i>	90,678	-	90,678	
<i>Collective Investments Undertakings</i>	4,432	-	4,432	
<i>Derivatives</i>	140	-	140	
Loans and mortgages	1,879	-	1,879	
Reinsurance recoverables from:	2,168	-351	1,817	B
<i>Non-life and health similar to non-life</i>	2,168	-351	1,817	
Insurance and intermediaries receivables	14,583	-10,270	4,313	B
Reinsurance receivables	212	-	212	
Receivables (trade, not insurance)	2,685	-722	1,963	D
Cash and cash equivalents	1,323	-	1,323	
Any other assets, not elsewhere shown	527	-148	379	C,E
Total assets	129,511	-11,771	117,740	
Liabilities				
Total Technical provisions	89,553	-15,447	74,106	B
Technical provisions – non-life (excluding health)	50,217	-13,201	37,016	
<i>Technical provisions - health (similar to non-life)</i>	15,940	-2,267	13,673	
<i>Technical provisions - life (excluding index-linked and unit-linked)</i>	23,397	20	23,417	
<i>Provisions other than technical provisions</i>	196	-	196	
Pension benefit obligations	255	782	1,037	E
Deferred tax liabilities	912	541	1,453	G
Derivatives	260	-	260	
Financial liabilities other than debts owed to credit institutions	0	1,256	1,256	C
Insurance & intermediaries payables	1,745	-	1,745	
Reinsurance payables	252	-55	196	B
Payables (trade, not insurance)	4,237	-722	3,515	D
Subordinated liabilities	1,151	54	1,205	F
<i>Subordinated liabilities in Basic Own Funds</i>	1,151	54	1,205	
Any other liabilities, not elsewhere shown	1,759	-42	1,718	B
Total liabilities	100,320	-13,633	86,687	
Excess of assets over liabilities	29,191	1,862	31,053	

The adjustments in the table can be divided into seven categories:

- A. Assets which have no carrying amount recognised in Solvency II, e.g. goodwill and intangibles;
- B. Technical provisions and items related to these which are affected as a result of Solvency II valuation, i.e. technical provisions, deferred acquisition costs, premium receivables and equivalent items related to ceded reinsurance;
- C. Leasing is valued according to IFRS 16 in Solvency II;
- D. The Finnish Medical Malpractice Pool public sector contracts, which are not insurance contracts under IFRS 4, are reclassified from trade payables to technical provisions and netted against receivables related to the pool;
- E. If's pensions benefit obligation valued according to IAS 19 which involves some reclassifications and nettings but above all an increased valuation of the liability;
- F. Subordinated liabilities are revalued from being measured at amortised cost in the statutory accounts to being measured using a method allowing for changes in market interest rates; and
- G. The effect of Solvency II adjustments on the carrying amount of deferred tax assets and liabilities.

The methods used for the valuation of assets and liabilities are disclosed in below sections separately for each material category of asset or liability. This includes the basis, methods and main assumptions used for valuation for solvency purposes as well as a quantitative and qualitative explanation of any material differences between the valuation in the Solvency II balance sheet and the balance sheet in the statutory accounts. The level at which assets and liabilities are aggregated into "material classes" is based on the nature and function of the assets and other liabilities with consideration to their materiality for solvency purposes.

4.1 Assets

4.1.1 Goodwill

In If's statutory accounts, goodwill is recognised pertaining to acquisition of companies and portfolios. The total carrying value at year-end 2019 was 5 MSEK. Goodwill is valued at zero value for Solvency II purposes since it is not possible to derive the fair value.

4.1.2 Intangible assets

In If's statutory accounts, other intangible assets of 312 MSEK are reported, mainly relating to capitalised costs for the development of various insurance systems (including patents, licenses and other contractual rights in relation to computer software).

As the intangible assets in the statutory accounts do not have a listed market value, they do not fulfil the requirements for recognition in the Solvency II balance sheet.

4.1.3 Property, plant and equipment held for own use

Property, plant and equipment held for own use consist of machinery and equipment and are valued at acquisition value. Acquisition value includes not only the purchase price but also expenses directly attributable to the acquisition. Machinery and equipment are in the statutory accounts reported at historical acquisition value, less depreciation. These deductions are based on the historical acquisition value and the estimated economic useful life. The current treatment in the statutory accounts is applicable also for solvency valuation purposes as the acquisition value is considered a reasonable approximation of the fair value.

In the Solvency II balance sheet right of use assets related to rented real estate are reported as property, plant and equipment held

for own use. Disclosure in relation to If's leased assets and leasing liabilities is included in section 4.5.1 Lease arrangements.

4.1.4 Investments

4.1.4.1 Property (other than for own use)

All properties are recognised as investment assets. In the Solvency II balance sheet these are reported as property (other than for own use) and in the statutory accounts as investment properties. In the statutory accounts properties are fair valued pursuant to IAS 40, and also in the Solvency II balance sheet all properties are valued at fair value. The classification as investment properties complies with the company's basic approach to these assets.

The fair value consists of the net realisable value and is set annually by external surveyors using acknowledged and accepted valuation methods. Accepted methods consist of the local sales-price method (current prices paid for comparable properties in the same location/area) or cash flow models applying current market interest rates for the calculation of the present value of the property.

4.1.4.2 Equities

Equities (shares) are fair valued in the statutory accounts and according to Solvency II. For shares listed on an authorised stock exchange or marketplace, the sales value normally refers to the latest trade price on the closing date. Unlisted securities included in private equity investments are valued using established valuation models.

In the Solvency II balance sheet investment funds are reported separately as collective investment undertakings. In the statutory accounts investment funds, which mainly invest in equity instruments, are reported as shares and participations.

4.1.4.3 Bonds

Interest-bearing securities with short and long maturity are reported as bonds. This balance mainly consists of corporate and government bonds. Bonds are fair valued in the statutory accounts and in Solvency II. When valuing at fair value, listed bid price or yield-curve models, based on listed bid prices, are used.

Investment funds which mainly invest in interest-bearing securities are in the Solvency II balance sheet reported as collective investment undertakings, whereas they are reported as bonds and other interest-bearing securities in the statutory accounts.

4.1.4.4 Collective investment undertakings

Collective investment undertakings in the Solvency II balance sheet relate to investments in funds and alternative investment funds. In the statutory accounts investment funds are either reported as shares and participations or as bonds and other interest-bearing securities, depending on the investment strategy of the fund. Investment funds are valued at fair value in the statutory accounts and in the Solvency II balance sheet.

4.1.4.5 Derivatives (assets and liabilities)

Derivates are financial instruments which have values based on the expected future price movements of the underlying assets to which they are linked. All derivative instruments are fair valued both in the statutory accounts and in Solvency II. Derivatives are valued individually.

4.1.5 Loans and mortgages

In the statutory accounts, loans are initially recognised at acquisition value pursuant to If's application of IAS 39. The treatment in the statutory accounts is applicable also for Solvency II valuation, as the acquisition value is considered a reasonable approximation of the fair value.

4.1.6 Reinsurance receivables and receivables (trade, not insurance)

Receivables included in reinsurance receivables and receivables (trade, not insurance) are in the statutory accounts and in Solvency II reported in the amounts expected to be received, which is considered a reasonable approximation of the fair value. Provisions for doubtful receivables are normally posted on the basis of individual valuation of the receivables. In the Solvency II balance sheet receivables (trade, not insurance) mainly consist of inter-company receivables.

The Solvency II adjustment of 722 MSEK relates to the Finnish Medical Malpractice Pool public sector, which is treated as part of the Solvency II best estimate technical provisions.

4.1.7 Cash and cash equivalents

In the statutory accounts and in the Solvency II balance sheet, cash balances are valued at nominal value. In addition to small petty cash amounts, cash and cash equivalents consist of bank balances in insurance operations and funds transferred to asset management that have not been invested in investment assets.

4.1.8 Any other assets not elsewhere shown

Any other assets not elsewhere shown includes balances that are not shown in any other Solvency II balance sheet item, mainly accrued income and prepaid expenses not directly related to insurance operations, pension assets and an item regarding leasing. Except for the treatment of pension assets, which are described in section 4.3.2 Pension benefit obligation, and prepaid expenses related to leasing agreements, these balances are treated consistently in the statutory accounts and in the Solvency II balance sheet, as the carrying amount is considered a reasonable approximation of the fair value.

4.1.9 Assets in the statutory accounts balance sheet linked to the calculation of If's Solvency II technical provisions

4.1.9.1 Deferred acquisition costs

Deferred acquisition costs in If's statutory accounts relate to selling costs that have a clear connection with the writing of insurance contracts. Selling costs include operating expenses such as commission, marketing costs, salaries and overheads for sales personnel, which are directly or indirectly related to, the acquisition or renewal of insurance contracts. These costs are reported as an asset in the statutory accounts. The selling cost is deferred in a manner that corresponds to the amortisation of unearned premiums. The amortisation period normally does not exceed 12 months.

Deferred acquisition costs in assets and liabilities in the statutory accounts are de-recognised from the Solvency II balance sheet. Deferred acquisition costs arise from accrual accounting in the statutory accounts. These items are unrelated to the timing of the acquisition cost cash flows which is the criteria under which Solvency II technical provisions would be recognised. Future acquisition cost cash flows (i.e. those cash flows expected but not yet incurred in relation to policies in force) are instead considered through the Solvency II calculation of the best estimate technical provisions.

4.1.9.2 Reinsurance recoverables

Reinsurance recoverables refer to reinsurers' share of the Solvency II technical provisions. Technical provisions are covered in more detail in section 4.2 Technical provisions.

4.1.9.3 Insurance and intermediaries receivables

In line with Solvency II classification, insurance and intermediaries receivables relate to receivables amounts due by policyholders, other insurers, and receivables linked to insurance business. Under Solvency II classification, the technical provisions should fully take account of all cash inflows and outflows. Rather than recognizing a receivable amount in relation to future premiums expected on policies in force but not yet due, as is done in the statutory accounts treatment of premium receivables, the future premiums are instead fully considered within the best estimate premium provision in the Solvency II balance sheet.

The remaining balance in Solvency II relates only to the amounts due for payment by policyholders and insurers as well as other receivables linked to If's insurance business. These are reported in the amounts expected to be received, both in the statutory accounts and in Solvency II.

4.2 Technical Provisions

4.2.1 Valuation used for solvency purposes compared to valuation in the statutory accounts

Differences in valuation of technical provisions in Solvency II and in the statutory accounts mainly refer to:

- Recognition of the premium provisions in Solvency II compared with the unearned premium reserve of the statutory accounts;
- Application of discounting; and
- Recognition of an explicit risk margin in Solvency II.

Some minor valuation differences also arise due to the counterparty default calculation in relation to reinsurer's share of technical provisions. The total effect of revaluation of net technical provisions for Solvency II purposes add up to a reduced liability of 3,666 MSEK. This includes Solvency II adjustments related to premium receivable described in section 4.1 Assets, as well as removal of deferred acquisition costs. The adjustments of technical provisions are explained in Table 15.

No material changes in the level of technical provisions have occurred since the last reporting period.

Table 15 – Revaluation of technical provisions for Solvency II purposes

MSEK	2019	2018
Solvency II adjustments of technical provisions		
Gross deferred acquisition costs	-1,257	-1,156
Ceded technical provisions	-351	-324
Premium receivable asset	-10,270	-9,653
Total adjustment of assets	-11,878	-11,133
Technical provisions gross (excl. risk margin)	-17,875	-18,261
Reinsurance payable liability	-55	-45
Ceded deferred acquisition costs	-42	-32
Introduction of risk margin	2,428	2,333
Total adjustment of liabilities	-15,544	-16,004
Total adjustment of technical provisions according to Solvency II	-3,666	-4,871

4.2.1.1 Main quantitative differences explained

Table 16 displays differences in valuation of technical provisions between Solvency II and the statutory accounts.

Table 16 – Split of technical provisions by Solvency II lines of business

MSEK Type of technical provisions	Reinsurance share of best estimates			Technical provisions, gross				
	Annual statement	Solvency II adjustment	Solvency II value	Annual statement	Solvency II adjustment	Solvency II value	Best estimate	Risk margin
Total	2,168	-351	1,817	89,553	-15,447	74,106	71,679	2,428
Health similar to life	-	-	-	11,854	331	12,185	11,892	293
Income protection insurance (annuities)	-	-	-	304	-4	300	290	10
Medical expense insurance (annuities)	-	-	-	28	2	29	29	0
Workers' compensation insurance (annuities)	-	-	-	11,522	333	11,856	11,574	282
Health similar to non-life	329	-17	312	15,940	-2,267	13,673	13,028	644
Income protection insurance	5	-1	4	7,770	-1,706	6,065	5,801	264
Medical expense insurance	10	-3	7	2,526	-511	2,015	1,938	76
Workers' compensation insurance	314	-13	301	5,643	-50	5,593	5,289	304
Life excluding health	-	-	-	11,543	-311	11,232	11,022	210
Fire and other damage to property insurance (annuities)	-	-	-	52	-3	49	48	1
Motor vehicle liability insurance (annuities)	-	-	-	11,296	-495	10,801	10,793	7
General liability insurance (annuities)	-	-	-	195	187	382	180	202
Non-life excluding health	1,839	-334	1,505	50,217	-13,201	37,016	35,736	1,280
Fire and other damage to property insurance	553	-172	381	13,396	-4,133	9,263	8,905	358
Marine, aviation and transport insurance	116	-24	92	1,021	-101	921	850	70
Other motor insurance	27	-5	22	10,007	-5,664	4,343	4,240	103
Motor vehicle liability insurance	8	-2	7	18,786	-2,819	15,967	15,512	456
General liability insurance	1,135	-131	1,004	7,007	-484	6,522	6,229	294

The largest revaluation effect is due to the inclusion of future cash inflows for payments not yet due by policyholders that are instead part of premium receivables in the statutory accounts. Discounting also has an effect on the size of technical provisions. The majority of technical provisions (with the exception of vested annuities in the claims provision reserves) are undiscounted in the statutory accounts whereas in Solvency II all reserves are subject to discounting. As a result of discounting, ceded provisions and gross provisions decrease.

Offsetting the positive difference above is the introduction of a risk margin.

In the statutory accounts, recognition of a liability as an insurance contract would according to IFRS 4 be dependent on the existence of significant underwriting risk. Based on If's assessment that there is no material degree of underwriting risk prevalent, the Medical Malpractice Pool public sector in Finland is not recognised as an insurance contract in the statutory accounts but is treated as a service contract with its components recognised in other assets and other liabilities. Accordingly, a difference occurs with the Solvency II treatment where the liability should be recognised within the insurance obligations. Therefore, under Solvency II treatment, all receivables and liabilities related to the Medical Malpractice Pool public sector are reclassified as forming a part of the Solvency II best estimate technical provisions. Under this treatment the receivables balances are netted against the liabilities in the technical provisions, as they are premium cash inflows and thus included in the best estimate.

4.2.2 Assumptions underlying the calculation of If's technical provisions

4.2.2.1 Adherence with solvency requirements

The value of technical provisions is equal to the sum of a best estimate and a risk margin, which corresponds to the current amount the undertaking would have to pay if it immediately transferred its (re)insurance obligations to another undertaking.

4.2.2.2 General Provisions

If's technical provisions are calculated within clearly defined homogeneous risk groups and lines of business. All material assumptions are reviewed quarterly, and material changes are reviewed in the actuarial opinion of each business area actuary. Assumptions are recorded and reviewed on the basis of adequate data. The methodology is documented in "Guiding Technical Principles Policy" and "General Reserving Policy".

The best estimate is calculated gross, without deduction of the amounts recoverable from reinsurance contracts (refer to a separate disclosure in relation to reinsurance recoverables in section 4.2.2.14 Recoverables from reinsurance contracts and special purpose vehicles). The calculation of the technical provisions takes into account the time value of money by using the relevant risk-free interest rate term structure.

The risk margin is calculated by determining the cost of providing an amount of eligible own funds equal to the solvency capital requirement necessary to support the insurance and reinsurance obligations over the lifetime thereof. The rate used in the determination of the cost of providing that amount of eligible own funds is called Cost-of-Capital rate. The solvency capital requirement used in the risk margin calculation is based on the partial internal model.

4.2.2.3 Data quality

Directories of all the data used in the calculation of the technical provisions exist separately for Denmark, Finland, Norway and Sweden.

The data used in the calculation of technical provisions is primarily If's own historical claims data. This includes for instance payments, reserves and number of claims. Since the products and risks are similar from year to year within the defined homogenous risk group, the data is consistent with the purpose for which it is used (i.e. estimating future claims development based on experience) and reflects the risks to which If is exposed.

4.2.2.4 Risk-free interest rate term structure

The risk-free interest rate term structure used to calculate the best estimate with respect to insurance or reinsurance obligations are calculated separately for each material currency, based on information and data relevant for that currency. The risk-free interest rate term structures are determined in a transparent, prudent, reliable and objective manner. Volatility adjustment or matching adjustment is not applied.

4.2.2.5 Basic risk-free interest rate term structure

The basic risk-free rates are derived for the following currencies: DKK, EUR, GBP, NOK, SEK and USD and these currencies cover more than 99% of the technical provisions. For technical provisions in other currencies than these, either EUR or USD risk-free interest rate term structure is used. For each material currency, the basic risk-free interest rates are derived on the basis of swap rates of the relevant currency, adjusted for credit risk and currency risk where applicable.

4.2.2.6 Segmentation and setting up of homogenous risk group

If segments its insurance obligations and reinsurance obligations into homogeneous risk groups, and as a minimum by line of business, when calculating technical provisions. This segmentation operates on a more granular basis than the Solvency II line of business level. Where required and whenever practicable, unbundling of package products is done.

Lines of business as defined by Solvency II differ from EU classes of insurance which is mainly used for the presentation statutory accounts data.

4.2.2.7 Methods and assumptions

Actuarial and statistical methods used to calculate If's technical provisions are proportionate to the nature, scale and complexity of the risks supported by If. Actuarial and statistical methods used for calculating best estimates of technical provisions are based on recognised actuarial and statistical techniques. The information on which the calculation of technical provisions is based is largely If's own historical claims data. External data used, such as Consumer Price Index, various branch indices, are based on official sources, which are considered reliable and transparent as well as publicly available.

4.2.2.8 Assumptions on future management actions

If makes the assumption that future reinsurance will be purchased to cover its run-off of written business. This assumption is only relevant for the evaluation of the premium provision since the horizon of the premium provision is beyond the expiry date of present reinsurance contracts in force. Therefore, in calculating the net best estimate, the costs of future reinsurance are included.

4.2.2.9 Assumptions on policyholder behavior

The calculation of Solvency II technical provisions takes into account the likelihood that policyholders may exercise the option to cancel their contracts.

If takes into account future policyholder behaviour through a policy lapse assumption, which is based on an analysis of past policyholder behaviour for the relevant lines of business and business areas and is therefore based on credible and relevant experience of cancellations.

4.2.2.10 On proportionality and the use of simplifications

If employs standard actuarial methods that are considered to be proportionate to the nature, scale and complexity of the insurance obligations. The deviation between estimates of the outstanding liabilities at different points in time is continually monitored. The

source of material deviations between projected and actual outcome is investigated in order to assess whether the assumptions underlying the relevant method needs to be adjusted.

If does not apply the simplified calculation of recoverables from reinsurance contracts, instead the recoverables are calculated directly from gross. If does apply simplified methods for calculation of the risk margin, calculation of the premium provision of the best estimate for insurance obligations and the calculation for expected loss due to counterparty default.

4.2.2.11 Boundary of contract

With regards to the boundary of insurance contract used for solvency purposes, a proportionate approach is adopted, whereby the following policy is applied: "An insurance contract is recognised when the premiums become due, but at the latest when the insurance cover begins, unless this interpretation has a material impact on the solvency assessment".

In certain cases, an insurance contract cannot be cancelled even though the risk coverage period has not yet incepted, and thereby the above interpretation might not lead to the exact same definition of the boundaries of contract as Solvency II definition. Currently contracts falling into the beforementioned class are not accounted for in the valuation of technical provisions, leading into negligible overestimation of technical provisions. All insurance contracts are subsequently derecognised at expiry date after which it is the insurance company's right to adjust the premium for a new period to fully reflect the risk.

The policy is not expected to give rise to material differences in the valuation of technical provisions.

4.2.2.12 Cash-flow projections for the calculation of the best estimate

Cash-flow projections used in the calculation of the best estimate include all claims payments that will be paid to policyholders and beneficiaries (including third parties for Liability and Motor Liability insurance), as well as payments to builders, repair shops etc. for services rendered and expected recoveries from reinsurance contracts. Recoveries and payments for salvage and subrogation are taken into account. In line with previous discussion regarding contract boundaries, cash flows for premium provisions will include future premium payments on existing contracts where this has a material effect on the result.

The best estimate corresponds to the probability-weighted average of future cash flows, taking into account the time value of money using the risk-free interest rate term structure. The best estimate is calculated gross, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles. The best estimate of future cash flows implicitly takes into account relevant uncertainties and dependencies.

Expenses in claims provisions are taken into account implicitly since they are part of the historical claims data (and allocated to each claim). Claims handling expenses for incurred claims are taken into account when estimating the Claims Adjustment Reserve, while expenses for non-incurred claims are taken into account when estimating the premium provision. The allocation of claims handling expenses to homogeneous risk groups is done using keys maintained by the controller departments and are regarded as being realistic and consistent over time.

The calculation of the best estimate is done separately for each material currency.

Reserves are calculated in a transparent manner and would be possible to review by a qualified expert.

4.2.2.13 Derivation of the risk margin

The risk margin is based on the solvency capital requirement according to the partial internal model.

The risk margin is intended to represent a technical provision corresponding to the cost of capital for holding the insurance liabilities to full run-off, in an empty reference undertaking that is assumed to take over the liabilities.

When calculating the risk margin, it is assumed that the assets are selected in such a way that the solvency capital requirement for market risk to which the reference undertaking is exposed to is zero, i.e. there is no residual market risk. To calculate the risk margin, cash flows are recalculated to best estimates, which in turn are used to calculate a basic solvency capital requirement. The basic solvency capital requirement for the relevant risks together with operational risk are discounted and a Cost-of-Capital is introduced to arrive at the final risk margin. The risk margin is then distributed over its corresponding lines of business, reflecting their contribution to the solvency capital requirement, to arrive at the line of business allocated risk margin.

4.2.2.14 Recoverables from reinsurance contracts and special purpose vehicles

The amounts recoverable from reinsurance contracts for non-life insurance obligations are calculated separately for premium provisions and provisions for claims. The adjustment relating to expected losses due to counterparty default is calculated as the expected present value of the change in cash flows underlying the amounts recoverable from that counterparty, resulting from a possible default of the counterparty, including insolvency or dispute. The calculation takes into account the probability of defaults over the lifetime of the reinsurance obligations. It is carried out separately per counterparty and per reserve type. In cases where a deposit has been made for the cash flows, the amounts recoverable are adjusted accordingly to avoid a double counting of the assets and liabilities relating to the deposit.

If has no special purpose vehicles.

4.2.2.15 Uncertainties connected to the calculations

The nature of technical provisions means that there is always inherent uncertainty associated with the calculations, since it inevitably involves assumptions about future events. If's main risk factors affecting reserve risk are described further in section 3.1 Underwriting risk.

4.3 Liabilities (other than technical provisions)

4.3.1 Provisions other than technical provisions

According to the classification in Solvency II balance sheet, provisions other than technical provisions relates to liabilities of uncertain timing or amount. The item mainly pertains to restructuring reserves for approved organizational changes and to provisions for other commitments and uncertain obligations.

This item is recognised consistently in the Solvency II balance sheet with treatment in the statutory accounts.

4.3.2 Pension benefit obligation

If's pension benefit obligations comprise pension plans in several national systems that are regulated through local and collective bargaining agreements and national insurance laws. The obligations consist of both defined contribution and defined benefit plans. For defined contribution plans, the pension cost comprises the premiums paid for securing the pension obligations in life insurance companies.

Regarding defined benefit plans, the reporting of pension costs and obligations in the statutory accounts is not fully aligned with IFRS framework. However full IFRS alignment is ensured in the Solvency II accounts in accordance with IAS 19 Employee benefits.

According to this standard the present value of future pension obligations, valued according to the Projected Unit Credit method, less the market value of the plan assets covered by the plan is to be recognised as a pension liability in the balance sheet. Moving from legal entity to IAS 19 recognition of pension obligations results in two main effects when comparing between Solvency II and statutory information in the balance sheet:

- An undertaking's pension benefit obligations are presented net. As a result, prepaid expenses of 99 MSEK (assets) are netted with pension obligations in the accounts of 255 MSEK, leading to net position of 157 MSEK; and
- As a result of revaluation of pension obligations using IAS 19 the net liability increased by 881 MSEK when compared with the statutory accounts, leading to a revalued net position of 1,037 MSEK.

Further information in relation to pension liabilities is found in section 4.5 Any other information.

4.3.3 Deferred tax liabilities

Deferred tax attributable to temporary differences between the amounts reported under Solvency II and the equivalent actual taxation, is reported in the Solvency II balance sheet.

Deferred tax assets and tax liabilities are reported net in those cases where they pertain to the same tax authority and can be offset against each other. The tax effects of tax loss carry-forwards are reported as deferred tax assets if it is considered likely that they can be used to off-set taxable profits in the future.

Deferred tax assets and tax liabilities are not discounted and are measured at the tax rates expected to apply when the asset is realised, or the liability is settled. Table 17 presents the tax rates used when calculating deferred tax assets and liabilities at 31 December 2019.

Table 17 – Tax rates

Country	Tax rate	
	2019	2018
Sweden	21.4%	21.4%
Norway	25.0%	25.0%
Denmark	22.0%	22.0%
Finland	21.4%	20.0%
UK	21.4%	22.0%
Germany	27.9%	28.0%
France	28.9%	35.0%
Netherlands	21.4%	0.0%

For the year-end 2019, If recognised a net deferred tax liability position of 912 MSEK in its statutory accounts. As an effect of Solvency II valuation adjustments, the deferred tax liability amount was increased by 541 MSEK to a net deferred tax liability position of 1,453 MSEK.

Table 18 – Reconciliation of net deferred tax position in Solvency II balance sheet

MSEK	Statutory accounts value	SII adjustments	Solvency II value
Reconciliation of net deferred tax position			
1. Provisions, including pension obligations, reported in line with IAS 19 in Solvency II	82	193	275
2. Goodwill eliminated in Solvency II accounts	-	1	1
3. Under-depreciation	1	-	1
4. Investment assets at fair value	-984	-	-984
5. Deferred tax relating to untaxed reserves	-99	-	-99
6. Technical provisions recalculated according to Solvency II	-	-819	-819
7. Other intangible assets eliminated in the Solvency II reporting	-	70	70
8. Subordinated liabilities	-	12	12
9. Leasing according to IFRS 16	-	2	2
10. Other temporary differences	89	-	89
Deferred tax liabilities, net	-912	-541	-1,453

The main drivers for this change are technical provisions (including re-insurance recoverables), the impact of IAS 19 recognition of pension obligations as well as the differing treatment of intangible assets.

Deferred taxes related to untaxed reserves (refers to the Swedish Security Reserve or "säkerhetsreserv") are not recognised for solvency purposes. As a result, untaxed reserves have the same value in Solvency II and in the statutory accounts.

4.3.4 Derivatives

The treatment of derivatives as discussed in section 4.1 Assets, above covers both assets and liabilities.

4.3.5 Financial liabilities other than debts owed to credit institutions

Financial liabilities other than debts owed to credit institutions include leasing liabilities in accordance with IFRS 16 that are recognised in Solvency II. The treatment of the item is presented more closely in section 4.5.1 Lease arrangements.

4.3.6 Insurance and intermediaries payables

In line with Solvency II classification, insurance and intermediaries payables include amounts due to policyholders, other insurers as well as business linked to the insurance business, but which are not recognised as a part of the technical provisions. These balances are recognised at accrued acquisition value in the statutory accounts and in the Solvency II balance sheet, as the carrying amount is considered a reasonable approximation of the fair value.

4.3.7 Reinsurance payables

In line with Solvency II classification, reinsurance payables include amounts due to reinsurers and business linked to reinsurance.

Under Solvency II classification, the technical provisions should fully take account of all cash in- and outflows. Rather than recognising a payables amount in relation to future ceded premiums expected on policies in force but not yet due, the future premiums are instead fully considered within the ceded part of the Solvency II best estimate premium provisions (in the reinsurance recoverables) in the Solvency II balance sheet. Payables of 55 MSEK are reclassified from reinsurance payables to the ceded part of the insurance

obligation. The remaining balance reinsurance payables consists of amounts payable to reinsurers. The treatment of these balances in the statutory accounts is applicable also for Solvency purposes.

4.3.8 Payables (trade not insurance)

Payables (trade not insurance), mainly consisting of tax liabilities and premium tax, are recognised at accrued acquisition value in the statutory accounts and in the Solvency II balance sheet, as the carrying value is considered a reasonable approximation of the fair value.

4.3.9 Subordinated liabilities

In the statutory accounts, subordinated liabilities are recognised at accrued acquisition value (in their original currency). The acquisition value includes surplus/deficit prices arising on the issue date and other external expenses attributable to borrowing. During the term of the loan, the subordinated loans are reported using the accrued acquisition value, whereby surplus/deficit prices and capitalised borrowing expenses are distributed over the term of the loan.

The subordinated liability meets the requirements in Solvency II regulation for inclusion in basic own funds, and therefore, the whole balance is recognised under the caption Subordinated liabilities in basic own funds.

For Solvency II valuation purposes, subordinated liabilities are initially measured at fair value less issue costs. At subsequent valuations, the discounted value is recalculated using the current government yield and the spread observable at inception.

By year-end, the valuation difference between Solvency II and the statutory accounts gives rise to an increase in If's subordinated liability of 54 MSEK.

4.3.10 Any other liabilities not elsewhere shown

In line with Solvency II classification, any other liabilities not elsewhere shown includes mainly accrued expenses related to salaries and social insurance.

With the exception of the elimination of reinsurers' share of ceded deferred acquisition costs amounting to 42 MSEK in the statutory accounts, no differences arise in the treatment of these balances between the statutory accounts and for solvency purposes. This is due to the carrying amount being considered a reasonable approximation of the fair value.

4.4 Alternative Methods for Valuation

The default valuation method for solvency purposes is to value assets and liabilities using quoted market prices in active markets (QMP). An active market is typically characterised by quoted prices that are easily and regularly available and that represent actual and regularly occurring transactions at arm's length distance. If quoted market prices in active markets for these assets or liabilities are not available companies should, alternatively, use quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences (QMPS). When that option is also not available companies should apply alternative methods for valuation (AVM). This section describes If's use of AVMs.

No Solvency II adjustments to the statutory accounts are necessary for investment assets, properties or liabilities, with the exception of subordinated liabilities. As the Solvency II framework bears many affinities and similarities to the IFRS framework when it comes to identification, measurement and classification of financial assets and liabilities, If has chosen to base its classification for Solvency II purposes on the foundation already in place for disclosure on financial instruments in the statutory accounts. The fair value hierarchy within the IFRS framework consists of:

- Level 1: Quoted prices, in active markets;
- Level 2: Level 1 quoted prices are not available but fair value is based on observable market data; and
- Level 3: Inputs that are not based on observable market data.

Table 19 provides information on how the assets are split between categories QMP/QMPS and AVM for the purposes of the Solvency II valuation. Technical provisions and those classes of assets and liabilities where the carrying value is considered a reasonable approximation for the fair value are not included in the table. If assesses the level of uncertainty as immaterial since only a minor part of the investment asset is classified as AVM.

Table 19 – Solvency II assets split between QMP and AVM

MSEK Type of assets	AVM	QMP/QMPS	Total
Government bonds	-	6,253	6,253
Corporate bonds	0	84,426	84,426
Derivatives	-	140	140
Equities	100	8,983	9,083
Investment funds	86	4,347	4,432
Property	35	-	35
Total	221	104,148	104,370

If's AVM per type of asset is described below:

Equities. Regarding some of If's unlisted shares external evaluations are obtained, which are used for If's valuation. The external valuations are based on models that contain non-observable assumptions.

Investment funds. If has investments in private equity funds. The fair values are based on prices and share-values obtained from the funds administrators. These quotations are based on the value in the underlying assets in accordance with market practice.

Property. The value of If's property corresponds to the net realisable value and is set annually by external surveyors using the local sales-price method or cash flow models. Please also refer to section 4.1.4.1 Property (other than for own use).

4.5 Any other information

4.5.1 Lease arrangements

In the statutory accounts If only has significant operating lease arrangements in the capacity of lessee. Lease arrangements pertain to leasing of premises and vehicles as described below. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Table 20 – Operating leases

MSEK Asset class	Total future minimum lease payments			Total	Total lease payments during the period
	<1 year	1-5 years	>5 years		
Property, plant & equipment	266	886	1,061	2,212	297

IFRS 16 Leases took effect on January 1, 2019, but in accordance with RFR 2 Accounting for legal entities, the standard is not applied to statutory accounts. In If's statutory accounts no right-of-use asset or liability is recognised in the balance sheet. Instead all lease payments are recognised as an expense in the income statement in accordance with IAS 17. In the Solvency II balance sheet, the right-of-use asset and liability are recognised in accordance with IFRS 16. The valuation according to IFRS 16 is considered consistent with Article 75 in the Solvency II Directive.

The right-of-use asset is initially recognised under Property, plant and equipment held for own use in the Solvency II balance sheet and corresponds to the present value of future lease payments and any expenses directly associated to the lease arrangement. The initial value of the lease liability is also the present value of future lease payments. The treatment of leases is considered a reasonable approximation of the fair value.

Right-of-use assets and lease liabilities are recognised in Solvency II but not in the statutory accounts. In Solvency II the lease arrangements attributable to IFRS 16 are only large office premises. Below table discloses the effect of IFRS 16 on the Solvency II balance sheet as of 31 December 2019.

Table 21 – Leasing arrangements according to Solvency II IFRS 16 Leasing

MSEK	Solvens II
Right-of-use assets and prepaid expenses relating to leasing agreements	1,245
Leasing liabilities	-1,256
Net effect on excess of assets over liabilities in Solvency II	-11

4.5.2 Defined pension benefit plans

This section includes a breakdown of If's employee benefits in terms of defined benefit plans, in accordance with the guidelines on reporting and public disclosure.

If has defined benefit plans in Sweden and Norway. For both countries, the pension benefits referred to are old-age pension and survivors' pension. A common feature of the defined-benefit plans is that the employees and survivors encompassed by the plans are entitled to a guaranteed pension that mainly depends on the employees' service period and pensionable salary at the time of retirement. The dominating benefit is the old-age pension, which refers in part to temporary pension before the anticipated retirement age and in part to a life-long pension after the anticipated retirement age.

Table 22 – Employee benefit obligations at 31 December 2019

MSEK	2019	2018
Present value of estimated pension obligation, including social costs	3,449	2,750
Fair value of plan assets	2,412	2,224
Net pension obligation recognised in the Solvency II balance sheet	1,037	526

The pensions obligations are primarily funded through insurance whereby the insurers establish the premiums and disburse the benefits (funded plans). In Norway, the funded pension obligations are insured with Storebrand. In Sweden, the pension obligations are mainly insured with Skandia, but a minor part is funded through the mutual pension association, FPK. If's obligation is primarily fulfilled through payment of premiums. In addition to funded pension plans, there are also unfunded pension benefits in Norway for which If is responsible for ongoing payment. To cover the funded pension benefits, the related capital is managed as part of the insurers' management portfolios. The insurers and If are jointly responsible for monitoring the pension plans, including investment decisions and contributions. The pension plans are essentially exposed to similar material risks regarding the final amount of the benefits, longevity, the investment risk associated with the plan assets and the fact that the choice of discount interest rate affects their valuation in the financial statements.

In accordance with IAS 19, the pension obligations and the pension costs attributable to the fiscal period are calculated using the Projected Unit Credit method. The calculation of the defined benefit obligation is based on future anticipated pension payments and includes yearly updated assumptions regarding salary growth, inflation, mortality and employee turnover. The expected pension payments are then discounted to a present value using a discount rate set with reference to AAA and AA corporate bonds, including mortgage-backed bonds, issued in local currency. The discount rates chosen take into account the duration of the company's pension obligations in each respective country. After a deduction for the plan assets, a net asset or net liability is recognised in the balance sheet.

The following tables contain a number of material assumptions, specifications of pension costs, assets and liabilities and a sensitivity analysis showing the potential effect on the obligations of reasonable changes in those assumptions as at the end of the fiscal year. The carrying amounts have been stated including special payroll tax in Sweden (24.26%) and a corresponding fee in Norway (14.10%-19.10%).

TABLE 23 – Specification of employee benefit obligations by geographical area

MSEK	Sweden	Norway
Recognised in income statement and other comprehensive income		
Current service cost	-51	-17
Past service cost	-	-
Interest expense on net pension liability	-5	-7
Total in income statement	-56	-24
Remeasurement of the net pension liability	-571	-35
Total in comprehensive income statement	-628	-58
Recognised in balance sheet		
Present value of estimated pension liability, including social costs	2,870	580
Fair value of plan assets	2,115	297
Net liability recognised in balance sheet	755	283
Distribution by asset class		
Debt instruments, level 1	45%	49%
Debt instruments, level 2	0%	12%
Equity instruments, level 1	22%	13%
Equity instruments, level 3	10%	1%
Property, level 3	11%	14%
Other, level 1	1%	9%
Other, level 2	5%	2%
Other, level 3	6%	0%

Table 24 – Actuarial assumptions used for the calculation of defined benefit pension plans

2019	Sweden	Norway
Discount rate	1.50%	2.50%
Future salary increases	2.75%	3.00%
Price inflation	2.00%	2.00%
Mortality table	DUS14	K2013
Average duration of pension liabilities	22 years	12 years
Expected contributions to the defined benefit plans during 2020 and 2019	89 MSEK	17 MSEK

Table 25 – Sensitivity analysis of effect of reasonably possible changes

MSEK	2019			2018		
	Sweden	Norway	Total	Sweden	Norway	Total
Discount rate, +0.50%	-348	-35	-383	-260	-37	-297
Discount rate, -0.50%	403	38	441	300	41	341
Future salary increases, +0.25%	102	3	105	77	4	81
Future salary increases, -0.25%	-95	-3	-98	-70	-4	-74
Expected longevity, +1 year	138	15	152	92	14	106

Table 26 – Analysis of the employee benefit obligation

MSEK	2019			2018		
	Funded plans	Unfunded plans	Total	Funded plans	Unfunded plans	Total
Present value of estimated pension liability, including social costs	3,155	295	3,450	2,458	292	2,750
Fair value of plan assets	2,412	-	2,412	2,224	-	2,224

5 Capital Management

5.1 Own funds

5.1.1 Objectives, policies and procedures for managing own funds

5.1.1.1 Capital Management framework

If's strategy focuses on capital efficiency and sound risk management by keeping its capital resources at an appropriate level in relation to the risks taken over its planning period. Capital management should ensure financial strength over time and to allow for growth opportunities as well as meeting of other business objectives by maintaining a sound risk management. The Board of Directors has the overall responsibility for the risk and capital management strategy. The strategy is governed by If's Risk Management policy.

The regulatory solvency capital requirement sets the level of capital at which If is able to conduct its business without regulatory intervention and is the starting point when the needed level of capital is considered. In addition, other internal and external capital measures are applied. A sufficient capital buffer is further required in order to be solvent at all times. In order to maintain a sufficient level of capital, the following capital management procedures are conducted:

- Calculation of risk and capital position at least quarterly, using regulatory as well as internal solvency measurements;
- Estimation of buffers and capital needs;
- Projection of risks and capital according to the financial plan;
- Allocation of capital to business areas and lines of business, ensuring that a risk-based approach is used for target setting and profitability evaluation;
- Ensuring dividend capacity through the effective use of reinsurance, group synergies and diversification benefits; and
- Performance of stress and scenario tests to evaluate risk sensitivities and to evaluate the future capital situation.

The Risk Management function, through its ongoing monitoring, assesses If's own funds position in accordance with both external and internal measurements.

If's risks are measured, reported and aggregated in order to perform an overall assessment of risk and capital. The outcome of these procedures and the subsequent follow-ups are duly documented as part of the quarterly ORSA process. A quarterly report is prepared to the ORSA Committee, and a summary is sent to the Board of Directors. The solvency position is reported quarterly to the Swedish FSA.

The annual ORSA process, which is described in section 2.3.9 If's own risk and solvency assessment process, is a key tool in assessing whether own funds are sufficient at present as well as over a medium-term time horizon.

The ORSA process as well as the regular monitoring also provide input to If's medium-term capital management plan. The capital management plan covers three years and considers any planned capital issuances, redemptions or repayments of own funds items as well as outlines how the dividend forecast will affect own funds.

The combination of the above procedures enables If to effectively monitor and project its capital needs over its planning period, ensuring that the Board of Directors is provided with relevant input to their strategic management process and decision-making. The risk and solvency assessment takes into account both medium- and long-term risks through regular analysis of likely or foreseeable changes

in the risk profile and business strategy, that may affect previous analysis and/or sensitivity to assumptions made.

5.1.1.2 Capital adequacy measures

The solvency capital requirement is part of the risk-based Solvency II framework and intends to cover all potential quantifiable risks that If is exposed to. Available capital is referred to as eligible own funds. According to the regulation an insurance company must have enough own funds to cover a 99.5% confidence level (1 in 200 year's event) at any time. The solvency capital requirement reflects a level of own funds that enables an undertaking to absorb unforeseen losses and that gives reasonable assurance to policyholders and beneficiaries. A breach in the solvency capital requirement triggers a first intervention in the supervision of the entity's solvency. The minimum capital requirement (MCR) reflects a level of own funds where the company in 85% of all possible outcomes during a year can meet its commitments and is a solvency level below which policyholders and beneficiaries would be exposed to an unacceptable level of risk if the insurance undertaking is allowed to continue its operations.

Apart from the regulatory capital requirements, If applies other measures to describe its risk and capital position:

- Economic capital is an internal measure and is used for establishing internal risk limits as well as measuring and managing the aggregated risk exposure; and
- Measures from external rating agencies to maintain an A rating from Standard & Poor's and Moody's.

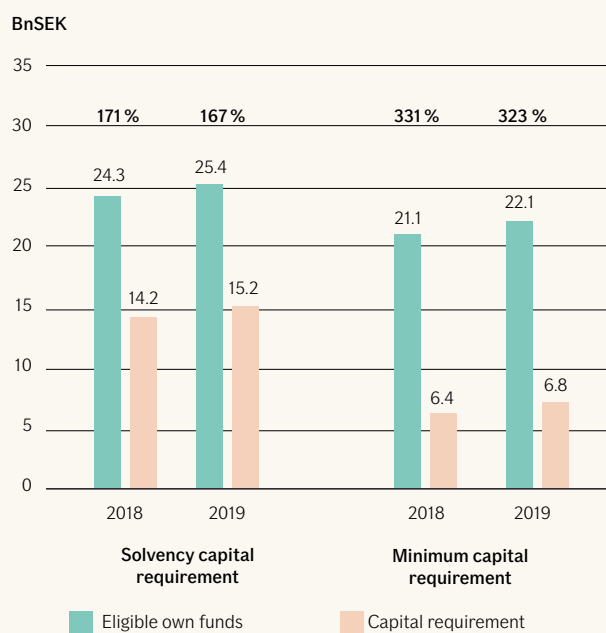
5.1.2 If's own funds and solvency position

At 31 December 2019, If had a solvency ratio to meet the solvency capital requirement of 167% (171%) and a solvency ratio to meet the minimum capital requirement of 323% (331%). Transitional equity measures are applied.

As shown in Figure 28 the solvency capital requirement has increased relatively more than own funds, which explains the declined solvency ratio. The capital requirement has increased as a result of higher market risk which is mainly due to increased exposure.

Based on the financial plan the capital structure and the solvency position of If are considered to be strong, the level of profitability is good, and profits are stable. If is considered to be in a good position to generate capital and to maintain a capital level needed to support its risks and business objectives going forward.

Figure 19 – If's capital and solvency overview



5.1.2.1 Change in own funds over the reporting period

Total eligible own funds for the solvency capital requirement coverage have increased by 1,089 MSEK over the reporting period. There have been no own funds items issued or redeemed over the reporting period.

Table 27 – Changes in own funds

MSEK	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Eligible own funds for solvency capital requirement coverage at 1 January 2019	24,269	19,850	-	4,419	-
Net result, statutory accounts	6,932	6,932	-	-	-
Other comprehensive income, statutory accounts	2,403	2,403	-	-	-
Change in own funds items not included in equity in the statutory accounts	97	2	-	94	-
Change in Solvency II valuation adjustments in excess of assets over liabilities	-1,420	-1,432	-	13	-
Add back of change in Solvency II valuation adjustment for subordinated liabilities	-22	-	-	-22	-
Transfer between tiers	0	-169	-	169	-
Proposed dividend	-6,900	-6,900	-	-	-
Eligible own funds for solvency capital requirement coverage at 31 December 2019	25,358	20,685	-	4,673	-

5.1.2.2 Composition of eligible own funds for the solvency capital requirement and the minimum capital requirement coverage

If's own funds comprise basic own funds consisting of the excess of assets over liabilities and subordinated liabilities in the Solvency II balance sheet which may be called up in order to absorb losses. If has no own funds items currently qualifying for ancillary own funds treatment.

If's available own funds are tiered based on their eligibility to cover the solvency capital requirement and the minimum capital requirement. The tiers reflect the degree of loss absorbency of an undertaking's own funds in the event of liquidation.

5.1.2.3 Tiering of basic own funds items

If's ordinary share capital of 104 MSEK (104 MSEK) meets the requirement for inclusion in Tier 1 unrestricted items.

The reconciliation reserve in If amounts to 20,581 MSEK (19,746 MSEK) at 31 December 2019. The reconciliation reserve consists of shareholders' equity and untaxed reserves (excluding ordinary share capital and Norwegian natural perils capital) according to the statutory accounts as well as Solvency II valuation adjustments. A proposed dividend of 6,900 MSEK (6,200 MSEK) has been deducted from the reconciliation reserve. The reconciliation reserve meets the requirements for treatment as Tier 1 unrestricted own funds.

Through its Norwegian branch, If provides property insurance that also provides protection against perils caused by natural events. As a consequence, the branch is a member of the Norwegian Natural Peril's Pool and is obliged to make equity provisions in the form of natural perils capital. If's Norwegian natural perils capital of 3,468 MSEK (3,214 MSEK) is included as Tier 2 own funds and presented as other items approved by the Swedish FSA. The item includes an untaxed part of 3,169 MSEK (3,084 MSEK) and a taxed part of 299 MSEK (129 MSEK).

Other items included as Tier 2 own funds consist of If's subordinated debt of 1,205 MSEK (1,205 MSEK), nominal amount 110 MEUR. Increase in statutory value is mainly due to exchange rate effect but it is offset by change in Solvency II valuation adjustment. The 110 MEUR debt is dated with a final maturity in 2041. The terms in the agreement include limited incentives to repay, with a first call option at 8 December 2021 (10 years from the date of issuance). The subordinated debt qualifies for Tier 2 own funds inclusion through the transitional arrangements. If may, subject to regulatory approval and a sufficient solvency situation, choose to redeem the debt on the first call option date or on any quarterly interest payment date falling after 8 December 2021.

Table 28 – The tiering of own funds

MSEK	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Ordinary share capital	104	104	-	-	-
Reconciliation reserve	20,581	20,581	-	-	-
Subordinated liabilities	1,205	-	-	1,205	-
Other own fund items approved by the Swedish FSA	3,468	-	-	3,468	-
Total eligible own funds, in QRT template S.23.01.01	25,358	20,685	-	4,673	-

5.1.2.4 Minimum duration requirements criteria for basic own funds items, in particular subordinated liabilities

All items included in Tier 1 own funds items are undated and thus fulfil the permanence requirements. The 110 MEUR (nominal amount) subordinated liability in Tier 2 own funds is not undated, but given its final maturity in 2041, it is considered to be of sufficiently long duration. This could be compared to the weighted average duration of If's technical provisions of 6.6 years (6.7 years).

5.1.2.5 General eligibility limit application

If has sufficient eligible own funds to meet both with the solvency capital requirement and the minimum capital requirement. There are no eligibility constraints on Tier 2 own funds for solvency capital requirement coverage, but an eligibility constraint does set in for the minimum capital requirement coverage, as Tier 2 own funds are limited to cover maximum 20% of the minimum capital requirement.

Table 29 – Assessment of eligible own funds (including tiering)

MSEK	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Total eligible own funds to meet the solvency capital requirement	25,358	20,685	-	4,673	-
Total eligible own funds to meet the minimum capital requirement	22,052	20,685	-	1,367	-
Solvency capital requirement	15,186				
Solvency capital requirement, ratio	167%				
Minimum capital requirement	6,834				
Minimum capital requirement, ratio	323%				

5.1.2.6 Reconciliation of shareholders' equity to Solvency II excess of assets over liabilities

The excess of assets over liabilities is derived from shareholders' equity when all assets and liabilities are revalued in accordance with the Solvency II regulations, as reported in QRT S.02.01.02 and S.23.01.01.

Subordinated liabilities that meet requirements for inclusion in own funds are subsequently recognised as part of the basic own funds. The subordinated liabilities are recognised in basic own funds using a Solvency II consistent method for valuation.

Table 30 – Shareholder's equity and untaxed reserves, excess of assets over liabilities and available basic own funds

MSEK	2019	2018
Ordinary share capital	104	104
Statutory reserve	388	388
Fund for costs of development	312	209
Fair value reserve	4,714	2,423
Retained earnings and net income for the year	16,555	15,815
Untaxed reserves	7,118	7,043
Total equity and untaxed reserves statutory accounts	29,191	25,983
Solvency II valuation adjustments		
Eliminations for goodwill and intangible assets	-317	-282
Changes in deferred taxes	-541	-910
Changes in net technical provisions	3,666	4,871
Changes in pension benefit obligations	-881	-371
Changes in valuation of leasing agreements	-11	-
Valuation of property at fair value	-	50
Changes in valuation of subordinated liabilities	-54	-76
Sum of all reconciling movements, due to differences in valuation	1,862	3,282
Excess of assets over liabilities, Solvency II balance sheet template	31,053	29,264
Subordinated liabilities in basic own funds	1,205	1,205
Proposed dividend	-6,900	-6,200
Total available basic own funds, reported in the own funds QRT	25,358	24,269

5.2 Solvency Capital Requirement and Minimum Capital Requirement

If applies the partial internal model for its regulatory solvency capital requirement calculation. The modelling of underwriting risk in the partial internal model is combined with the other risk modules calculated using the standard formula. The solvency capital requirement is a combination of the major underwriting risks calculated using the partial internal model and the other risks, including market risks, calculated using the standard formula with the transitional measure for equity risk. If does not apply any undertaking-specific parameters in the life, non-life and health underwriting risk modules based on the standard formula. Neither does If apply simplified calculations for any of the risk modules (or sub-modules) of the standard formula.

To arrive at If's solvency capital requirement a tax adjustment is subtracted from the pre-tax solvency capital requirement figure, representing the loss absorbing capacity of deferred taxes. As the untaxed reserves are fully included in the own funds, the solvency

capital requirement tax computation is adjusted to take account of these reserves absorbing losses primarily on a pre-tax basis. This affects the tax computation, since If's calculation of the loss absorbing capacity of deferred taxes only takes account of the solvency capital requirement pre-tax which exceeds the untaxed reserves.

The linear minimum capital requirement is calculated for each of If's individual lines of business by adding:

- A factor applied to technical provisions (not including the risk margin), net of reinsurance, subject to a minimum of zero; and
- A factor applied to written premiums over the last 12-month period, net of reinsurance, subject to a minimum of zero.

The intention is that the minimum capital requirement is calibrated to the Value-at-Risk of the basic own funds subject to a confidence level of approximately 85% over a one-year time horizon. As If has both non-life and life exposures, the linear minimum capital requirement is derived separately for life (this includes If's non-life and health annuities) and non-life exposures. The final minimum capital requirement computation then takes into account that the minimum capital requirement must be in range of:

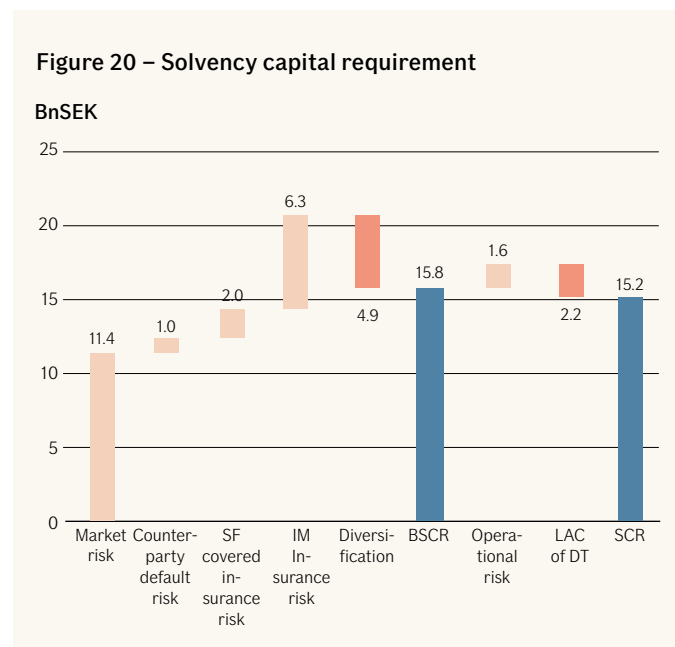
- Minimum 25% and maximum 45% of the solvency capital requirement; and
- 3.7 MEUR, which is the applicable absolute floor for If.

The minimum capital requirement at 31 December 2019 corresponds to the upper limit of the minimum capital requirement (6,834 MSEK, or 45% of the solvency capital requirement).

Further disclosure of If's solvency capital requirement and minimum capital requirement are included in QRT S.25.02.21 and S.28.01.01, respectively.

5.2.1 Overview of If's regulatory capital adequacy requirements

Figure 20 summarises If's solvency capital requirement (SCR) based on the partial internal model.



Aside from underwriting risk, market risk is predominant in If's calculation of the basic solvency capital requirement (BSCR). The largest components of the market risk relevant to If are spread risk, equity risk and currency risk. More detailed figures are shown in QRT S.25.02.21.

During the year the solvency capital requirement has increased from 14,205 MSEK to 15,186 MSEK, mainly driven by the increase in equity risk and spread risk, which has led to an overall increase in market risk. The minimum capital requirement has increased from 6,392 MSEK to 6,834 MSEK during the year, driven by the increased solvency capital requirement.

5.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The duration-based equity risk sub-module is not used by If.

5.4 Differences between the standard formula and the internal model

The main difference between the standard formula and the partial internal model is the modelling approach and the resulting capital requirements. The modelling of underwriting risk in the partial internal model is based on stochastic simulations for premium risk, reserve risk, natural catastrophe risk and inflation risk. Since the partial internal model accounts for geographical diversification and is parameterised based on internal data, it gives a more accurate view of the capital related to underwriting risk compared to the standard formula for If.

The main objective of the internal model for underwriting risk is to contribute to the risk management process. The main uses of the model are:

- Calculation of economic capital and solvency capital requirement;
- Capital allocation to lines of business and calculation of risk-based combined ratio targets;
- Evaluation of reinsurance program structures; and
- Risk and solvency assessment over the planning period (ORSA).

In the partial internal model, the insurance business is modelled by countries, business areas and insurance classes divided into homogeneous risk groups, called lines of business. Underwriting risk includes premium risk, reserve risk, catastrophe risk and inflation risk. The modelling of premium risk and reserve risk is based on established statistical methods for modelling of underwriting risk applied on If's historical data. Risks not covered by the internal model's regulatory scope are market risk, operational risk, counterparty default risk, lapse risks, and revision risk of annuities. These are instead calculated with the standard formula. The result from the standard formula and the internal model are aggregated to obtain the final solvency capital requirement.

Within underwriting risk correlation matrices are used to model dependencies, in combination with dependency assumptions within the external models used for inflation risk and catastrophe risk. The setting of correlations for underwriting risk is based on a process where quantitative analysis and qualitative reasoning from business experts are combined. Catastrophe risk is modelled using third party catastrophe models explicitly modelling events and their impact across the whole portfolio. The inflation scenarios as such are considered to be independent of the claims outcome, as the uninflated attritional claims, large claims, reserve risk or catastrophe claims, are not considered to be dependent on the development of inflation. Rather, by adding inflation to the uninflated claims outcome, the effect of inflation is captured as a risk driver throughout the modelling of underwriting risk, capturing dependencies both within countries and between countries from this driver.

On the basic solvency capital requirement level, capital requirements for risks covered by the standard formula are aggregated with the capital requirement from the internal model by using a specified correlation matrix based on the standard formula correlation parameters. Operational risk is added to the resulting capital requirement without assuming any diversification benefits.

The modelling horizon is one year, and the risk measure used for the solvency capital requirement is Value-at-Risk at the 99.5% percentile of the change in own funds. As the internal model is based on simulations it provides a full distribution of outcomes, and If is therefore not limited to a specific risk measure or confidence level. The main risk measures reported by the model are the solvency capital requirement and the economic capital.

The main driver of the differences between the results of the standard formula and the partial internal model is due to differences in

the measurement of diversification effects in relation to underwriting risk. It underwrites policies that cover risks of individuals and corporations on a geographically diverse area covering mainly Sweden, Norway, Finland and Denmark but it underwrites also policies for Nordic corporate clients' activities outside the Nordic countries. In addition to the geographical diversification, the business is well-diversified over lines of business. The standard formula does not recognise geographical diversification benefits between countries in the Nordic area that is a key driver for the business model.

The data needed for the different stages of the internal model is the responsibility of the Capital Management unit to specify. Risk data, including the data for the internal model, is collected and stored in a customised database. Different types of data are used in the internal model including data used for the risk parameterisation, exposure data such as reserves and financial plan data. All data specifications and quality requirements for the data are part of the database documentation and follow the Accounting and Risk Data instruction.

5.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

It has at no point in time during the year been non-compliant with the minimum capital requirement or the solvency capital requirement.

5.6 Any other information

No other material information regarding the capital management is considered relevant to disclose.

Appendix 1 – Explanation of measures used to monitor If's capital position

Measure	Eligible own funds (EOF)
<p>Economic Capital (EC): Economic capital is based on If's internal model and is a risk measure used in both internal and external risk reporting and in decision-making.</p> <p>The economic capital is calculated by aggregating the insurance risk and the market risk from the internal model, with the remaining risks calculated using the Solvency II standard formula. The loss coverage capacity for deferred tax is considered. The economic capital is defined as the difference between the expected result and the simulated result at the 99.5% percentile over a one-year horizon (1 in 200 years).</p>	<p>The eligible own funds for coverage of economic capital are based on the Solvency II balance sheet, but with the risk margin in technical provisions calculated on the basis of the economic capital and not on the regulatory solvency capital requirement.</p>
<p>Solvency capital requirement according to the partial internal model (SCR PIM TEM): The solvency capital requirement is calculated by aggregating the insurance risk from the internal model, with the remaining risks calculated using the Solvency II standard formula, including transitional equity measures. The purpose of the transitional equity measure is to smoothen the transition from Solvency I to Solvency II. The loss coverage capacity for deferred tax is considered.</p> <p>The insurance risk from the internal model is defined as the difference between the expected result and the simulated result at the 99.5% percentile over a one-year horizon (1 in 200 years).</p>	<p>The eligible own funds for coverage of the solvency capital requirement are based on the Solvency II balance sheet, where the risk margin is calculated based on the partial internal model.</p>
<p>Minimum capital requirement (MCR): The level of the minimum capital requirement is linked to the solvency capital requirement as it should normally be 25-45% of the solvency capital requirement.</p>	<p>The eligible own funds for coverage of the minimum capital requirement are based on the Solvency II balance sheet as are also own funds for coverage of the solvency capital requirement. There are, however, additional restrictions on the inclusion of specific eligible own fund items.</p>

Appendix 2 – Quantitative reporting templates

The following reporting templates (QRT) are included as attachments to the report. The files can be found on www.if.se/solvens-och-verksamhetsrapporter

S.02.01.02 Balance sheet

S.05.01.02 Premium, claims and expenses per line of business

S.05.02.01 Premiums, claims and expenses by country

S.12.01.02 Life and Health SLT technical provisions

S.17.01.02 Non-life Technical Provisions

S.19.01.21 Non-life insurance claims total non-life business

S.23.01.01 Own funds

S.25.02.21 Solvency capital requirement

S.28.01.01 Minimum capital requirement

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