

Solvency and Financial Condition Report 2021

If P&C Insurance Ltd (publ)



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Summary

Business and Performance

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

If is the leading property and casualty (P&C) insurer in the Nordics with market shares in Sweden, Norway, Finland and Denmark of approximately 18%, 22%, 21% and 6% respectively. For Nordic industrial customers operating on a global level If has European branch offices and international partners.

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). Business area Private accounts for more than half of the total premium income, where motor, property and personal insurances constitute the main lines of business.

The technical result amounted to 8,636 MSEK (7,970 MSEK) and the combined ratio was 81.6% (82.5%). The gross written premium increased by 4.1% excluding currency effects. All business areas contributed to the positive premium development and geographically, the growth was particularly strong in Norway.

The stock markets performed strongly during 2021 and in summary, asset management generated a positive result. At full market value, the profit from asset management increased to 4,999 MSEK (2,577 MSEK), corresponding to a total return of 4.6% (2.5%).

System of Governance

To ensure a well working capital and risk management, If has established a system of governance consisting of several layers. The organisational set-up includes the legal and operational structure in which the business is run. The Board of Directors and the CEO have decided on a framework of steering documents 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 as well as the Internal Control System where the Risk Management System is included.

The three lines model ensures that the responsibility and the different roles of the Risk Management System are clearly established and defined.

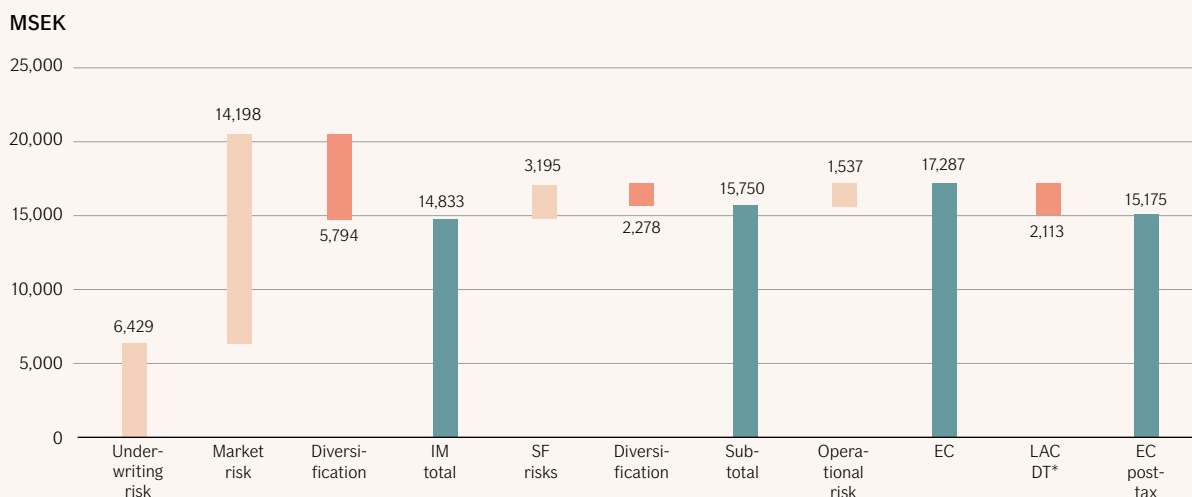
Risk Profile

For internal quantitative risk measurement and reporting, as well as for decision-making, the measure Economic Capital (EC) is used. The economic capital is based on If's Internal Model for underwriting risk and market risk. 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. Risks that are not possible to quantify are only qualitatively assessed. These risks are liquidity risk, legal risk, strategic risk, compliance risk, reputational risk and emerging risk.

As shown in the figure below, the risk categories that contribute the most to economic capital pre-tax, are underwriting risk and market risk.

Figure 1 – Overview of If's economic capital, 31 December 2021



* Loss Absorbing Capacity of Deferred Taxes

Valuation for Solvency Purposes

The valuation of assets and liabilities in the Solvency II balance sheet is based on fair value principles. Items in the Solvency II balance sheet are based on corresponding items in the Annual Report and adjusted in accordance with the Solvency II regulation. The Annual Report is prepared according to Swedish accounting regulation referred to as IFRS restricted by law. Figures in the Annual Report are referred to as statutory accounts value in this report.

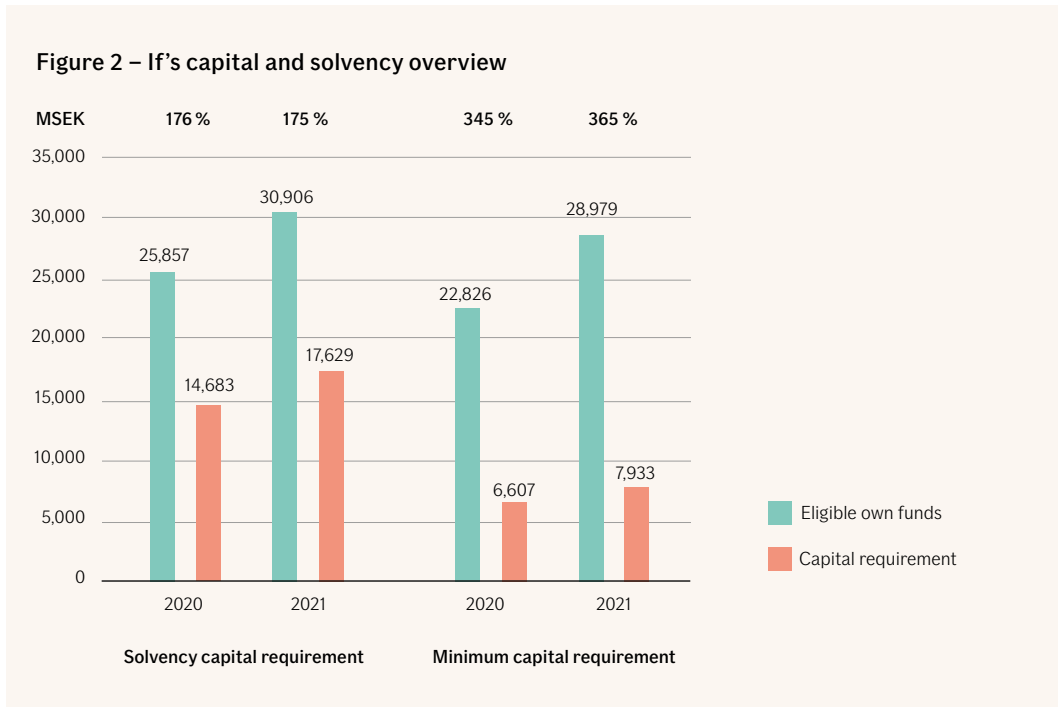
The accounting policies used in the statutory accounts have not been subject to any significant amendments in 2021. Balance sheet items in foreign currency are translated to SEK using the closing date exchange rate, both in the statutory accounts and in Solvency II.

As an effect of the Solvency II adjustments the excess of assets over liabilities is 3,972 MSEK higher in the Solvency II balance sheet compared to the statutory accounts at year-end. The Solvency II adjustments are mainly related to technical provisions.

Capital Management

If 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 business planning period. This means ensuring that the available capital exceeds the internal and regulatory capital requirements.

At 31 December 2021, according to the partial internal model, the solvency capital requirement ratio amounted to 175% (176%) and the minimum capital requirement ratio to 365% (345%).



The solvency capital requirement has increased relatively more than the eligible own funds compared to the previous year, which explains the lower solvency ratio presented in the figure above. The capital requirement has increased due to increased equity risk, currency risk and interest rate risk.

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

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 registered office is in Stockholm, Sweden. If Holding is in turn a wholly owned subsidiary of Sampo plc (Sampo), a Finnish listed company, whose registered office is in Helsinki.

The number of employees amounted to 6,332 at year-end. The average number of employees in 2021 was 6,270.

1.1.2 If's financial supervisory authority

Finansinspektionen
Box 7821
103 97 Stockholm, Sweden

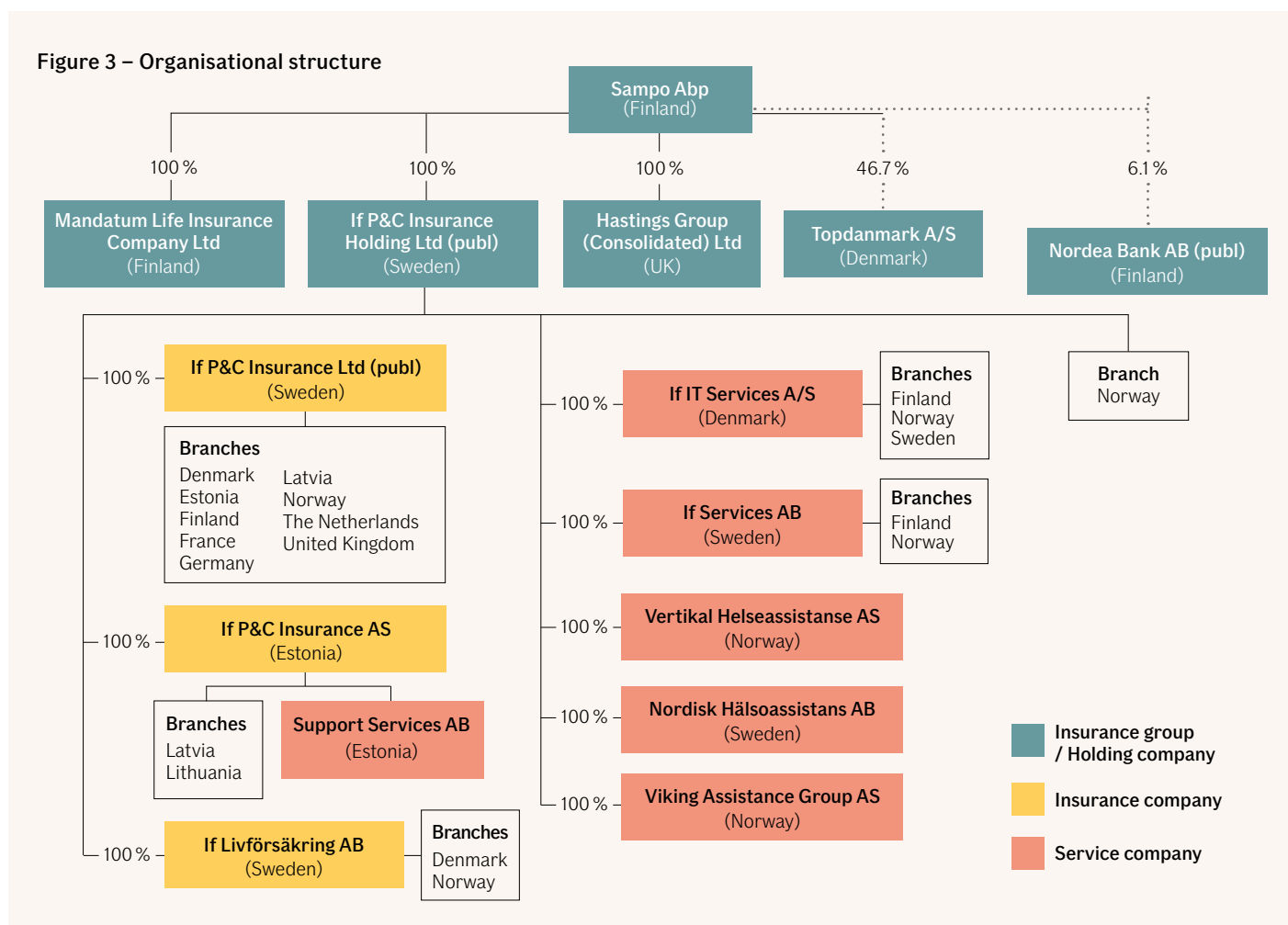
1.1.3 Sampo's financial supervisory authority

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

1.1.4 External auditors

Deloitte AB
113 79 Stockholm, Sweden

Figure 3 – Organisational structure



1.1.5 Branches and geographical areas

If is the leading property and casualty (P&C) insurer in the Nordics with market shares in Sweden, Norway, Finland and Denmark of approximately 18%¹, 22%², 21%³ and 6%⁴ respectively. For Nordic industrial customers operating on a global level If has European branch offices and international partners.

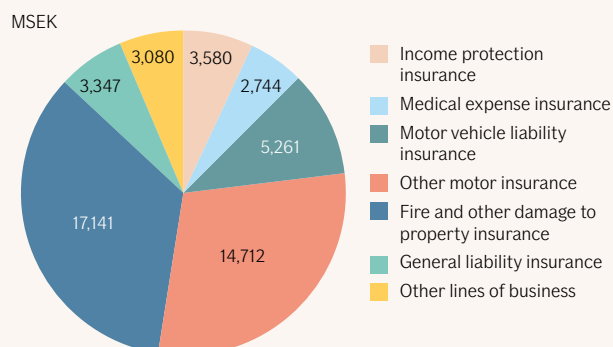
The insurance business within If is organisationally divided by customer segments into the cross-Nordic business areas Private, Commercial (small and medium sized companies) and Industrial (large corporates). Business area private accounts for more than half of the total premium income, where motor, property and personal insurances constitute the main lines of business. The insurances are provided through the own brand, through other brands, in co-branding and partnerships, to offer the customers a full range of competitive insurance solutions.

¹ SE: Insurance Sweden (Q3 2021)

² NO: Finance Norway (Q2 2021)

³ FI: Finance Finland (Q4 2020)

⁴ DK: Insurance & Pension Denmark (Q3 2020)

Figure 4 – Premiums written (gross) by Solvency II lines of business, 31 December 2021

1.1.6 Significant events over the reporting period

Except for the Covid-19 pandemic no significant events have occurred during the reporting period. See 1.5 Any other information.

1.2 Underwriting performance⁵

The technical result amounted to 8,636 MSEK (7,970 MSEK)⁶ and the combined ratio was 81.6% (82.5%).

The gross written premium increased by 4.1% excluding currency effects. All business areas contributed to the positive premium development and geographically, the growth was particularly strong in Norway.

The start of the year was affected by lower frequency claims than last year, for instance within travel and motor. In the last quarter, traffic volumes were reduced again, due to Covid-19 restrictions, although early winter conditions involved both motor and property business lines negatively. In 2021, the large claims outcome was lower than the outcome in 2020 and the total risk ratio⁷ amounted to 60.6% (61.2%).

The cost ratio⁸ decreased compared to the preceding year to 21.0% (21.3%).

In the tables below, gross premiums earned and underwriting performance, per line of business and geographical area are presented. Revenues per geographical area are distributed among the countries in which If has branches, corresponding largely with the customers' geographic domicile.

During 2021, gross premiums earned increased in all major lines of business. The strongest premium development was recorded in Fire and other damage to property insurance. From a geographical perspective, premiums earned increased in all countries except Finland where the outcome was mainly dampened by a slow development within Workers' compensation insurance.

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

MSEK Line of Business	Premiums earned (gross)		Underwriting performance (net)	
	2021	2020	2021	2020
Income protection insurance	3,483	3,342	496	656
Medical expense insurance	2,708	2,662	484	162
Motor vehicle liability insurance	5,231	5,182	2,787	3,358
Other motor insurance	14,573	14,136	2,664	2,211
Fire and other damage to property insurance	16,714	15,694	1,856	1,096
General liability insurance	3,251	3,041	522	424
Other lines of business	3,073	3,280	-281	-47
Sum	49,033	47,336	8,528	7,861
Allocated investment return as part of the technical account			144	171
Other technical income and expenses			-37	-62
Technical result from property and casualty insurance, GAAP			8,636	7,970

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

MSEK Country	Premiums earned (gross)		Underwriting performance (net)	
	2021	2020	2021	2020
Denmark	4,815	4,763	374	312
Finland	10,046	10,298	1,769	1,203
Norway	15,792	14,527	2,290	1,773
Sweden	17,832	17,272	4,265	4,554
Other	548	476	-170	19
Sum	49,033	47,336	8,528	7,861

The underwriting performance increased and amounted to 8,528 MSEK (7,861 MSEK). The improvement for motor lines of business was mainly driven by lower frequency claims cost due to less traffic during the pandemic. For Fire and other damage to property insurance, the underwriting performance improved due to the large claims outcome. Broken down by geography, the underwriting performance

improved in all countries, except for Sweden where the underwriting performance was slightly deteriorated.

After another challenging year affected by the Covid-19 pandemic and an unpredictable situation around the world, 2021 became in many ways another good year for If. The business model with strong customer orientation in all parts of the organisation, a continued

⁵ 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.

⁶ Figures in brackets throughout the report refer to figures from the previous corresponding period.

⁷ Total sum of insurance claims on own account, excluding claims adjustment costs, in relation to premiums earned on own account, expressed as a percentage.

⁸ Total sum of operating expenses in insurance operations on own account and claims-adjustment costs in relation to premiums earned on own account, expressed as a percentage.

focus on underwriting, sustainability and leading digital services that simplifies for the customer, was crucial for the solid performance during the year. The organisation's ability to quickly move to home offices and with undiminished strength continue to help customers all over the Nordic countries, has also been of great importance. Customer related key performance indicators, such as customer satisfaction, customer loyalty and the number of new customers, confirm that If succeeded in delivering the best possible service to its customers during the year.

1.3 Investment performance

The stock markets performed strongly during 2021 and in summary, asset management generated a positive result. Interest rates remained low, although the rate of inflation increased by the end of the year.

At full market value, the profit from asset management increased to 4,999 MSEK (2,577 MSEK), corresponding to a total return of 4.6% (2.5%). Net investment return amounted to 2,338 MSEK (1,583 MSEK) in the income statement and 2,661 MSEK (994 MSEK) in other comprehensive income.

The total return on equities including funds amounted to 27.3% (11.0%), where the bulk of the positive result was generated in the Scandinavian and North American markets. The return on Scandinavian equities was 33.3%. The return of the Latin American investment was negative and the investment was sold to a significant extent during the second half of the year.

Interest bearing assets returned 1.7% (1.6%). Corporate high yield bonds and index linked bonds were among the strongest performers, yielding 9.0% and 5.9% respectively.

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 2021

	Fair value		Return 2021				
	31 Dec 2021		Interest, dividends etc.	Changes in value, Income statement	Total, Income statement	Other comprehensive income	Total return
	MSEK	%					
Interest-bearing securities	93,849	85	1,414	440	1,854	-162	1,692
Equities	17,066	15	487	414	902	2,822	3,724
Currency (active positions)	1	0	-	0	0	-	0
Currency (other)	93	0	-	-138	-138	-	-138
Properties	9	0	0	7	7	-	7
Other	-	-	-293	6	-286	-	-286
Total investment assets	111,017	100	1,610	728	2,338	2,661	4,999

Table 4 – Investment performance, 31 December 2020

	Fair value		Return 2020				
	31 Dec 2020		Interest, dividends etc.	Changes in value, Income statement	Total, Income statement	Other comprehensive income	Total return
	MSEK	%					
Interest-bearing securities	91,159	88	1,564	-802	763	768	1,530
Equities	13,240	13	302	686	989	226	1,214
Currency (active positions)	10	0	-	42	42	-	42
Currency (other)	-316	0	-	78	78	-	78
Properties	35	0	0	1	1	-	1
Other	-	-	-291	3	-288	-	-288
Total investment assets	104,127	100	1,575	8	1,583	994	2,577

1.4 Performance of other activities

Costs not included in the underwriting performance or in the investment performance mainly relate to amortisation of goodwill. Amortisation amounted to 2 MSEK (2 MSEK).

For information regarding leasing agreements, see section 4.5.1 Lease arrangements.

1.5 Any other information

If's Board of Directors decided in March 2022 to propose a dividend payment of 8,000 MSEK to If Holding. The proposed dividend was deducted from eligible own funds at 31 December 2021.

After another challenging year still affected by the pandemic, If's business model has proven robust due to the high degree of diversification and long-standing tradition of remote and online-based distribution. If is continuously monitoring the development of the Covid-19 pandemic and the effects on the business.

In February 2022, Russia attacked Ukraine, which has dramatically changed the political situation in Europe and contributed to significant uncertainty in the financial markets. If has implemented decided sanctions and follows the development of events closely. Affected insurance exposure is assessed to be low and the financial turbulence can be handled with a continued good solvency situation.

2 System of Governance

2.1 General information on System of Governance

To ensure a well working capital and risk management, If has established a system of governance consisting of several layers. The organisational set-up includes the legal and operational structure in which the business is run. The Board of Directors and the CEO have decided on a framework of steering documents 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 as well as the Internal Control System where the Risk Management System is included.

To ensure efficient risk management and internal control as well as a clear division of roles and responsibilities within the organisation, the three lines model is applied.

In 2021 a new governance structure for sustainability was established to ensure that If's sustainability-related targets, activities and risks are continuously followed-up and reported in a structured way.

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. During 2021 a new claims unit has also been established, to handle Nordic claims within all business areas. The operational structure spans across several companies within the If Group. Corporate functions such as Finance, Legal, Human Resources, Communication and IT support the business areas.

2.1.2 Decision-making bodies

2.1.2.1 General Meeting

The General Meeting is the highest decision-making body, where the shareholders exercise their rights 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 the risk management and internal control, as well as for making sure that the company has appropriate risk management systems and efficient processes. Further, the Board of Directors decides on the policy framework and approves material and strategic decisions. The steering documents are revised annually.

The Board of Directors reviews and decides annually the Rules of Procedure for its work and adopts an instruction for the CEO specifying the CEO's responsibilities. The Board of Directors 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, including aligning strategies, processes and reporting in order to reach the goals. The CEO has the possibility to delegate the decision authority concerning the daily business activities but retains the ultimate responsibility for such decisions.

The CEO is the deciding body for several instructions within the 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. 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 license to conduct insurance business.

2.1.3.3 Internal Audit function

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

The Remuneration Policy, together with the Sampo Group Remuneration Principles, sets the principles for the remuneration system. The Remuneration Policy is part of the 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. 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 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 staff⁹. Based on the Remuneration Policy, part of the payment of the variable compensation to identified staff shall be deferred for a defined period. 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 Variable compensation

In general, 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 the 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 Sampo Group's return on capital at risk, and/or on the insurance margin of the If Group.

2.1.4.3 Supplementary pension or early retirement schemes

Members of the Board, CEO and key function holders¹⁰ 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. Members of the Board are entitled to pension from their ordinary employment according to above and do not receive any further pension benefits for board assignments.

2.1.5 Material transactions

The following material transactions with shareholders, with persons who exercise a significant influence on the undertaking and with members of the Board 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 had an asset management agreement according to which all investment decisions, within the framework of the Investment Policy, were outsourced to Sampo. If paid a fixed commission calculated on the market value of the managed investment assets. Since September 2021 the agreement has been replaced with an asset management agreement with a more limited scope between If and a subsidiary to Sampo. The compensation is calculated in a similar manner; and
- If has paid a dividend of 5,500 MSEK to If Holding.

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

During 2021, there has been no material changes in the System of Governance.

2.2 Fit and Proper Assessments

2.2.1 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 result of 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, as well as regarding the collective competence of the Board of Directors, 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 (Board of Directors, management, CEO and Key functions) 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 2021.

2.3 Risk Management System including own risk and solvency assessment

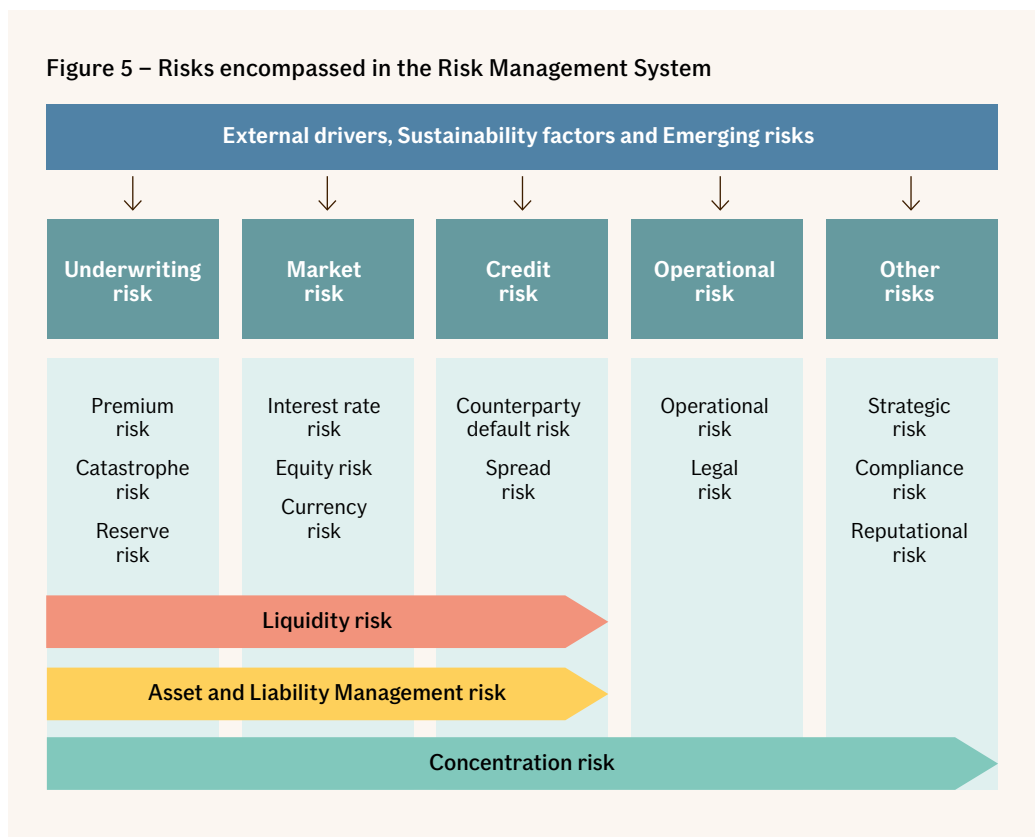
2.3.1 Description of the Risk Management System

If has an effective Risk Management System in place to identify, assess/measure, manage, monitor and report the risks at an individual level and at an aggregated level considering the risks' interdependencies. The Risk Management System is comprised of strategies, processes and reporting procedures, and covers all risks which the company is or could be exposed to. The Risk Management function facilitates the implementation and development of the Risk Management System.

The Risk Management System is part of the Internal Control System and linked with the If Group Risk Management System that

ensures that all risks are managed from a company perspective as well as from a group perspective.

If's main risk categories are underwriting risk, market risk, credit risk, operational risk, and other risks. External drivers, sustainability factors and emerging risks have a potential impact on all risk categories and key risk areas are subject to dedicated risk management processes. Within the Risk Management System, sustainability related risks, such as climate change risks, are not assessed and reported as a stand-alone risk category. Instead, the risks are assessed as an integrated part of the assessments per defined risk category. Steering documents are in place for each risk area specifying restrictions and limits chosen to ensure that the risk level at all times complies with the overall risk appetite and capital constraints.



2.3.2 Objective of the Risk Management System

The objective of the Risk Management System is to create value for the 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 risk and capital.

A high-quality risk management process is a prerequisite for running the business and for ensuring a stable result and the delivery of the long-term return targets.

2.3.3 Risk management strategy

If's risk management strategy is part of the System of Governance. The Risk Management Policy defines the overall risk strategy and the risk appetite for main risks. The risk management strategies are to:

- ensure a strong governance structure to optimise development and maintenance;
- ensure a sound and well-established internal control and risk culture;

- 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, 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 position are analysed and reported in the quarterly own risk and solvency assessment process (ORSA-process). The process also includes an analysis 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 The Risk Management Process

The overall risk management process includes five main steps: risk identification, risk assessment/measurement, risk mitigation, monitoring and risk reporting. When risks are identified and assessed, sustainability aspects should also be considered.

Figure 6 – The Risk Management Process



Risk identification. Risks are identified by the line organisation. 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. The second line supports the line organisation by providing the framework and tools needed for a consistent risk assessment process across the different risk categories. The line organisation is responsible for assessing and measuring the identified risks.

In If there are two main methods, quantitative and qualitative, for risk measurement and risk reporting. Underwriting risk and market risk are quantitatively measured using If's internal model. In addition, qualitative assessments of all risks, including the risks that are difficult to quantify, are performed. The qualitative method assesses the impact on the expected outcome in 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.

Risk mitigation. The first line is responsible for assessing their risks and for deciding how the risks should be managed. Effective control activities shall be implemented to mitigate the risks.

Monitoring. The first line is responsible for monitoring that all risks are identified, assessed/measured, managed and reported. The second line monitors both the risk management processes within the first line as well as that the overall risk profile is in line with the stated risk appetite.

Risk reporting. The first line reports to the second line as well as to applicable risk committees on a monthly, quarterly, bi-annual or annual basis. The second line is responsible for the risk reporting to the Board of Directors and CEO, which includes the following reports:

- Own Risk and Solvency Committee (ORSA Committee) report (quarterly)
- Own Risk and Solvency Assessment (ORSA) report (annual)
- Report on risk management activities performed and a plan for activities during the following year (annual).

2.3.6 Reporting structure within the Risk Management System

The figure below illustrates the reporting structure within the Risk Management System. The system includes processes and activities including committees, functions and the line organisation.

Figure 7 – Risk Management reporting structure



2.3.7 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.

2.3.7.1 Board of Directors

The Board of Directors is responsible for risk control, internal control and for ensuring that the company has appropriate risk management systems and processes in place. The Board of Directors annually decides on the Risk Management Policy and other risk management documents, is the receiver of risk reporting from the second line as well as from the CEO and takes an active part in the forward-looking ORSA process.

2.3.7.2 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 an appropriate risk management set-up and promoting a sound risk culture.

2.3.7.3 Risk committees

ORSA Committee

The ORSA Committee assists the CEO in fulfilling the responsibility of overseeing the risks and the Risk Management System. The committee reviews the effectiveness of the 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 on a holistic level. In addition, the ORSA Committee supervises If's solvency position, and monitors that both the short-term and long-term aggregated risk profiles are in line with the risk strategy and capital requirements.

Other committees in the Risk Management System

There are separate committees in place for the main risk categories. These committees have the responsibility to assist in the work to manage and control all risks in accordance with steering documents. The chairmen of the committees are responsible for the reporting to the ORSA Committee. None of the committees have any collective decision-making mandate.

2.3.7.4 Risk Management function

The Risk Management function is responsible for coordinating the risk management activities in cooperation with the Compliance function and the Actuarial function. 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 as well as coordinating reporting from the line organisation;
- monitor and support the business areas and support 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 solvency position in accordance with both internal and external measurements;
- manage and develop If's internal model, including validation of the model;
- forecast risk and capital under normal and stressed circumstances;
- give advice to management on risk management related matters in strategic decisions, including the 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 together with the Compliance function and the Actuarial function part of the second line and is operationally independent in relation to the line organisation. This means that the function is not part of the governance of, or the decision-making processes in the operations of the licensed activities.

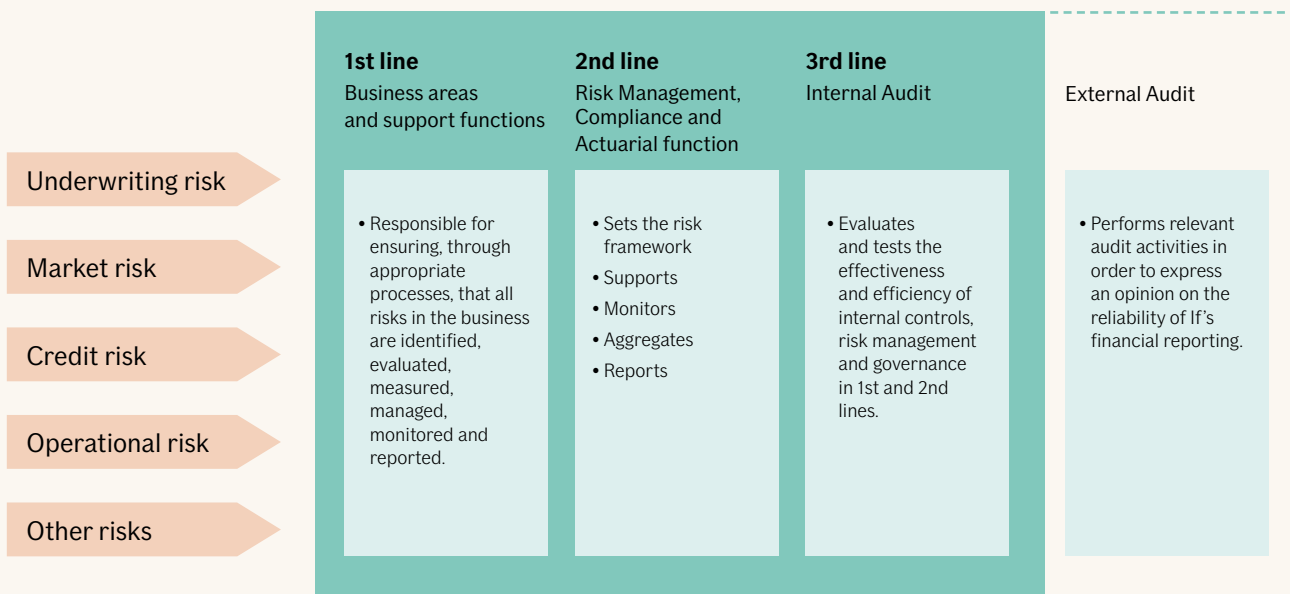
2.3.7.5 Line organisation

The line organisation has the day-to-day responsibility for identifying and managing risks within limits and restrictions set by risk policies, guidelines and instructions and has to ensure that it has resources and tools 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. The Head of Risk Control and Reporting and the Chief Compliance Officer issue instructions setting out the responsibility of the coordinators. The line organisation has an obligation to inform the second line of material risks according to the instructions.

2.3.7.6 Implementation of the Risk Management System

The three lines 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 the figure below.

Figure 8 – Three lines model



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.

Risks are identified and measured in the Risk Management System, especially through the internal model. The results are used in significant business decisions.

2.3.8 ORSA 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 in the quarterly ORSA process. A report is prepared for the ORSA Committee, of which a summary is sent to the Board of Directors.

The ORSA consists of a quantitative and qualitative assessment of the material risks resulting in an assessment on the overall solvency position. A comprehensive ORSA is performed at least annually in order to ensure that the eligible own funds are, and will remain, sufficient to cover the risks resulting from the proposed business plan. The annual ORSA process is carried out in parallel with, and supporting, the business plan that is approved by the Board of Directors.

The solvency position is assessed partly in relation to If's own view of risk, economic capital, and partly in relation to the regulatory solvency capital requirement. Eligible own funds and capital requirements are forecasted 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 the risk owners, the management and the Board of Directors.

In addition to a quantification of the main risk categories, a qualitative assessment of the key risks over the planning period is conducted. The risks are assessed on an impact and likelihood basis. The assessment indicates how the risk would affect the ability to deliver the set strategy, objectives and financial plan as well as the probability with which the risks could occur over the financial planning period. The concluding assessment is performed by the Risk Management function, based on self-assessments made by the line organisation.

The outcome of the annual ORSA process is documented in an ORSA report, based on data as per 30 September. The report for 2022-2024 was approved by the Board of Directors in December 2021. 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 the Internal Model

If applies an internal model for various risk and capital related purposes. This section covers the governance of the 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 solvency capital requirement;
- evaluation of reinsurance program structures; and
- ORSA over the planning period.

If has an approval from the Swedish FSA to use the internal model for calculation of the solvency capital requirement for the main underwriting risks. Other risks are calculated according to the Solvency II standard formula.

The internal control and governance around the internal model are considered to be adequate, taking into account the structure and coverage of the model. There are 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 the 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 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. The Board of Directors makes the material decisions around the internal model, such as major changes.

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 in the model 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 are required.

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. This includes compilation of the validation plan and the validation report and 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 does not have a collective decision mandate.

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

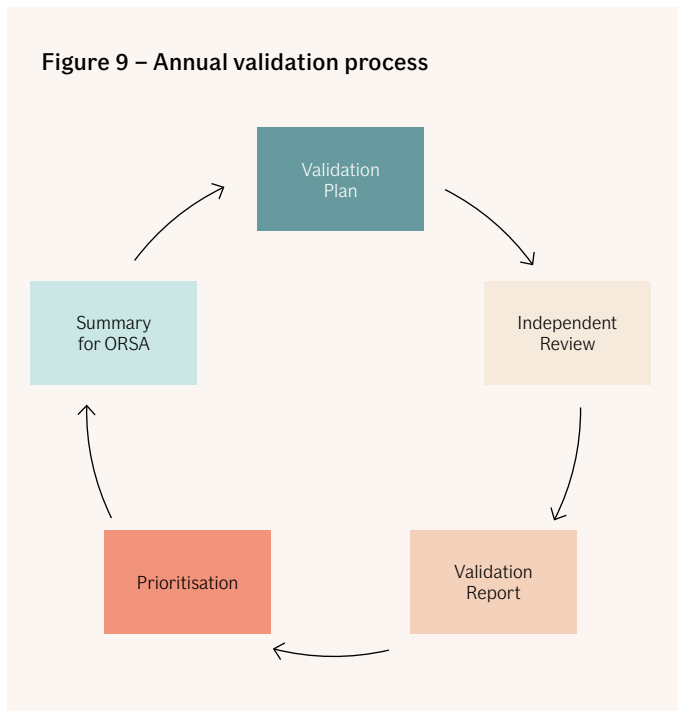
Other functions relating to the Internal Model

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 actions. 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 the Underwriting Committee.

2.3.9.2 Description of the validation process

The internal model validation process is an annual process that is carried out in accordance with a validation plan. Validation can also be initiated by a major change in the internal model. A major change to the internal model may be required if the risk profile changes due to internal or external events.



In the validation process, risks models and methods 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 process also covers 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. Findings from previous years are considered when setting the yearly plan.

2.4 Internal Control

2.4.1 The Internal Control System

The Internal Control System covers the entire If Group and is an integrated part of the company's organisational structure and decision-making processes. The purpose of the Internal Control System is to support an effective internal control within If by ensuring effective and efficient operations, 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 the financial information. An effective Internal Control System provides the Board of Directors and CEO with reasonable assurance that the company's objectives related to operations, reporting and compliance are reached.

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

The Internal Control Policy sets the framework for an effective Internal Control System and is annually reviewed and approved by the Board of Directors. The purpose of the policy is to describe how internal control activities are carried out appropriately with regards to the nature, size and complexity of the business. The internal control framework is based on the COSO¹³ framework. The framework provides 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 organisational structure, roles and responsibilities, integrity, steering documents, ethical values and the competence of the employees.

The risk assessment includes goal setting as well as the identification and analysis of the risk of not reaching these goals.

Control activities consist of steering documents, approval procedures, routine descriptions and other controls to manage the identified risks such as authorisations, rules and referral, the four-eyes principle and the grandparent principle.

Through clear information and communication, employees are provided with responsibilities and authorities in an effective and efficient way.

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

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 related to If's license to conduct insurance business. The Compliance function also assesses the adequacy of the measures adopted to prevent non-compliance. It further assesses the possible impact of any changes in the legal environment on the operations as well as identifies and assesses risks for non-compliance. The Compliance function shall primarily address the rules that are related to If's license to conduct insurance business. Activities are also performed in other legal areas when deemed appropriate and necessary by the CCO and at the request of the Board of Directors or the CEO.

The Compliance function's areas of responsibilities have been divided into six sub-processes. A risk-based Compliance plan is annually established and approved by the Board of Directors.

Figure 10 – The Compliance function's subprocesses



2.4.2.2 Organisation

The Compliance function is separated from the business organisation, operationally independent and part of the second line. 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

Internal Audit is a function, independent of business operations, which evaluates the efficiency, effectiveness and the maturity of the Internal Control System. The function helps the organisation to accomplish its objectives by a systematic, disciplined approach to evaluate and suggest improvements in the risk management, control and governance processes. The function is established by the Board of Directors and managed by the Chief Audit Executive (CAE), appointed by the Board of Directors.

2.5.1.1 Internal Audit Policy

The Internal Audit Policy is established for the Sampo Group companies. It describes the principles and responsibilities of the Internal Audit function. According to the policy, the function is obliged to apply as applicable the International Professional Practices Framework set by the Institute of Internal Auditors.

The policy is reviewed annually and approved by the Board of Directors. During the reporting period, there has been no significant changes to the policy.

2.5.1.2 Internal Audit Activity Plan

An internal audit activity plan is annually established considering both short- and long-term aspects and approved by the Board of Directors. A risk-based approach is applied, and internal audit activities cover all main areas of the operations and the system of governance. External Audit is informed of the internal audit activity plan.

¹³ The Committee of Sponsoring Organizations of the Treadway Commission

2.5.1.3 Reporting

The Internal Audit function reports on the audits and the follow-up activities performed to the Board of Directors. 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. The key stakeholder sets an action plan, including action owners and a time plan. The final audit reports are approved by the CAE before final distribution.

The CAE submits status reports at least twice a year to the Board of Directors and to Sampo's Audit Committee. The status reports include the identified severe internal control deficiencies and potential follow-up issues, which have not been mitigated or remediated according to the agreed actions.

2.6 Actuarial function

2.6.1 The implementation of the Actuarial function

The Chief Actuary is responsible for the Actuarial function 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 ORSA Committee, the Underwriting Committee and the Reinsurance Committee, the latter focusing on securing appropriate 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 and the main tasks are to:

- coordinate the calculation of technical provisions including their reliability and adequacy;
- present an opinion on the Underwriting Policy;
- present an opinion on the adequacy of the reinsurance arrangements;
- present an opinion on the solvency position; and
- contribute to the Risk Management System, for example to the ORSA.

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. The external auditors receive detailed reconciliation sheets with all accounted differences.

Steering documents 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 the reporting of relevant questions that the Actuarial Committee advises to the ORSA Committee as well as for coordinating the quarterly reporting of reserve and premium risk to the ORSA Committee.

2.7 Outsourcing

2.7.1 The Outsourcing Policy

The Outsourcing Policy describes what should be deemed as outsourcing and sets the criteria for determining whether a function or activity should be considered as critical or important.

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 and reporting.

The Board of Directors has established an Outsourcing Committee that is responsible for monitoring that the 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 the insurance business more efficient, If outsources critical or important operational activities to internal and external service providers as described below.

Since the autumn 2021 the asset management is partially outsourced to Mandatum Asset Management Ltd. Because of If's operational structure with business areas Private, Commercial, Industrial and Claims operating through different legal entities and branch offices, a number of additional intra-group outsourcing arrangements have been established. For example, the procurement of IT services has been outsourced to the 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 upon. 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 the System of Governance

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

2.8.2 Any other material information

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

3 Risk Profile

If's overall risk strategy is to focus on both capital efficiency and sound risk management. Available capital shall exceed both the economic capital and the regulatory solvency capital requirement. In addition, If strives to maintain an A rating by both Standard & Poor's and Moody's¹⁴. This means that capital required for If's risks are quantified using different measures for different purposes.

In this chapter, If's risk profile and internal measurement of risks are described. The principles for risk measurement and the risk profile are presented on overall level, followed by a more detailed description and analysis of 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 regulatory solvency capital requirement.

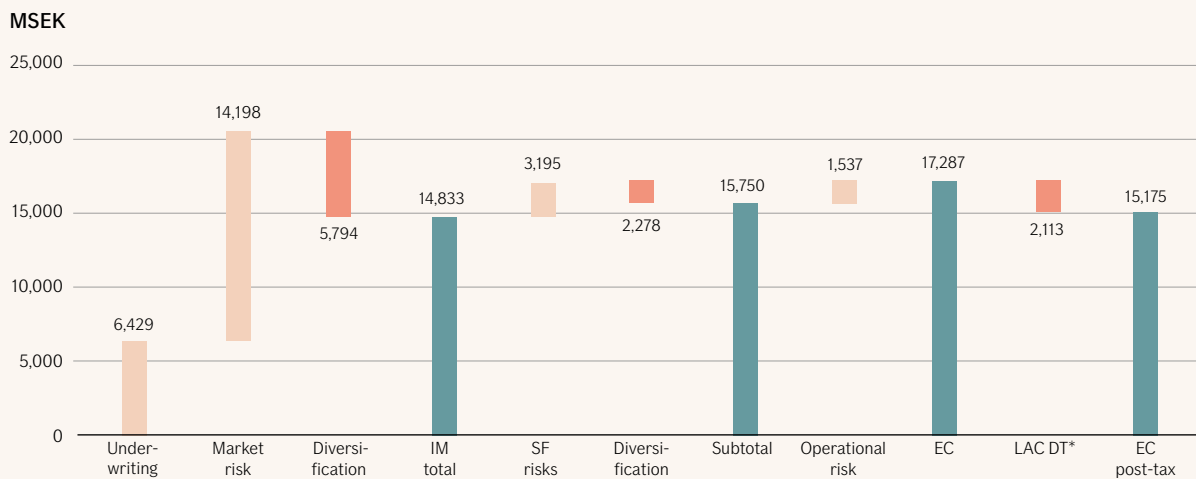
Measurement of risk

For internal quantitative risk measurement and reporting, as well as for decision-making, the measure economic capital (EC) is used. The economic capital is based on If's internal model (IM) for underwriting risk and market risk. 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. Risks that are not possible to quantify are only qualitatively assessed. These risks are liquidity risk, legal risk, strategic risk, compliance risk, reputational risk and emerging risk.

As shown in the figure below, the risk categories that contribute the most to economic capital pre-tax, are underwriting risk and market risk.

Figure 11 – Overview of If's economic capital, 31 December 2021

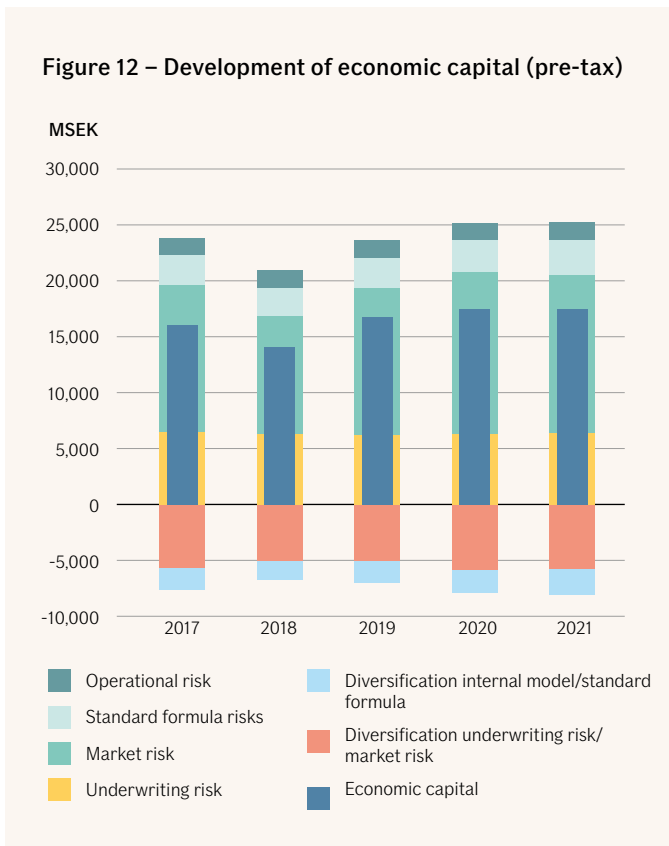


* Loss Absorbing Capacity of Deferred Taxes

¹⁴ Rating agency measures are not specifically handled in this report.

Risk profile

The figure below shows economic capital for the period 31 December 2017 to 31 December 2021.



The changes in economic capital during the past five years are mainly attributable to market risk. In 2021, economic capital increased slightly due to increased market risk, mainly driven by higher equity risk.

3.1 Underwriting risk

Underwriting risk refers to the risk of loss, or of adverse change, in the value of insurance liabilities, due to uncertainty in pricing and provisioning assumptions. Lapse risk, revision risk, premium risk, catastrophe risk, reserve risk and inflation risk are included in underwriting risk.

3.1.1 Risk exposure

For quantification of underwriting risk in the internal model, actuarial and statistical methods are used to model risks in 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.

The economic capital for underwriting risk reflects the exposure to underwriting risk over a one-year horizon and has increased from 6,328 MSEK to 6,429 MSEK during 2021. Premium risk and reserve risk have the largest effects on economic capital. During 2021, premium risk, catastrophe risk, reserve risk and inflation risk have all increased.

3.1.1.1 Premium risk and catastrophe risk

Premium risk refers to 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 refers to 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 volatility, claims inflation and pricing methodology. During 2021, the economic capital for premium risk increased due to portfolio growth.

3.1.1.2 Reserve risk and inflation risk

Reserve risk refers to 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.

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 and an increase in retirement age. During 2021, economic capital for reserve risk increased marginally, mainly due to changes in reserve levels in individual lines of business.

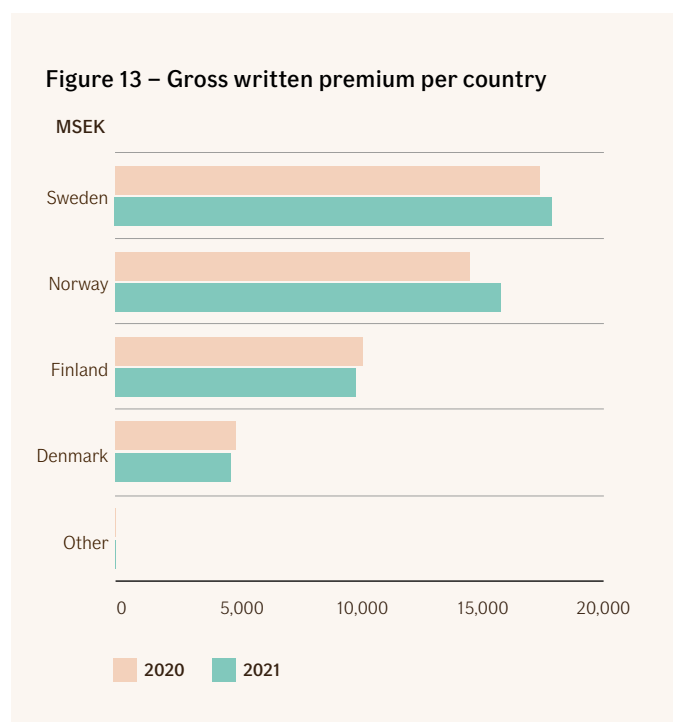
The reserves in If are dominated by long tailed business which amplifies the exposure to inflation risk. Future claims inflation is quantified separately for premium and reserve risk. During 2021, economic capital for inflation risk increased due to longer cash flows for liabilities.

The provisions for the lines of business Motor Third Party Liability and Workers' Compensation include annuities that are sensitive to changes in retirement age, mortality assumptions, claims inflation and discount rates. The Swedish Motor Third Party Liability portfolio constitutes the main reserve risk and accounts for 15% of the Solvency II claims reserve. 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 of 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 technical provisions, see 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 that is distributed across several different geographical areas and lines of business. The geographical distribution of gross written premium for 2021 is shown in the figure below.



Despite the diversified portfolio, risk concentrations and consequently severe claims may arise through for example pandemics or 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 the premium distribution across lines of business, see QRT S.05.01.02.

3.1.3 Risk mitigation

The principal methods for mitigating premium risk are reinsurance, diversification, prudent underwriting and follow-ups on a 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 claim costs.

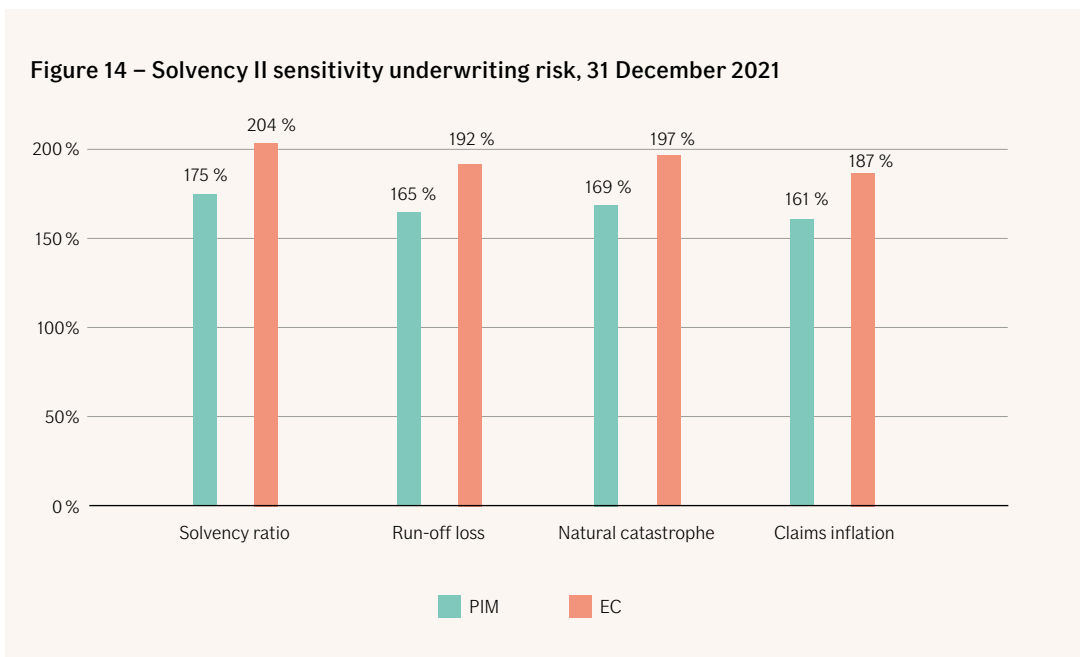
The provisions for annuities are calculated as discounted values based on the amounts and payment periodicity in each individual case, considering the expected investment income, expenses, indexation, mortality and other possible adjustments.

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 the internal model.

3.1.4 Risk sensitivity

Stress tests have been performed to assess the sensitivity to major risk factors. The sensitivity is expressed as the effect on If's capital position, based on the internal economic capital and on the regulatory solvency capital requirement, at 31 December 2021. The solvency ratio for economic capital is based on the 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 (PIM), where underwriting risk is based on the 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 one in ten-year run-off loss, one in ten-year natural catastrophe result or 100 basis points (bps) higher claims inflation than expected. In all tests, If maintains a solvency ratio above 160%.



In the run-off stress, it is assumed that the technical provisions will increase and lead to an increase in reserve risk and inflation risk. In the natural catastrophe stress, it is assumed that claims payments are immediate and hence technical provisions are not affected. Underwriting risk and market risk are unaffected, but the eligible own funds are reduced. In the inflation stress, the increase of claims inflation is assumed to increase the technical provisions.

3.2 Market Risk

Market risk refers to 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 and liabilities.

In accordance with the calculation of economic capital, If's market risk consists of currency risk, equity risk, interest rate risk 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. For information on the exposure, concentration, risk mitigation and sensitivity for spread risk, refer to section 3.3 Credit risk.

Asset and liability management (ALM) risk is not calculated separately but is included in the calculation of interest rate risk 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 decreased from 14,559 MSEK to 14,198 MSEK during 2021. The decrease was mainly due to a decreased spread risk which was partially offset by increased equity risk, interest rate risk and currency risk. If has a well-diversified investment portfolio, which has positive diversification effects when calculating the economic capital.

If's investments are mainly 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 is typically not complicated since If applies mark-to-market procedures to most of the 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 derivatives.

The main factors that could affect the level of If's market risk are geopolitical uncertainty and events that negatively affect the Nordic banking sector, since If's investment portfolio is concentrated towards Nordic financial institutions. Low interest rates for a long time also have 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 and liabilities to changes in the level or in the volatility of currency exchange rates.

If is mainly exposed to currency risk due to operations in foreign branches. In addition, If's investment decisions create currency exposure. Compared to 31 December 2020, the currency risk has increased slightly.

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 portfolio of global funds. Compared to 31 December 2020, the equity risk has increased mainly due to increased market values.

3.2.1.3 Interest rate risk

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

The duration of fixed income investments was 1.1 years at year-end 2021. Compared to 31 December 2020, the interest rate risk has increased slightly.

3.2.1.4 Spread risk

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

The spread risk has decreased, mainly due to lower spreads and lower spread volatility but also due to changes in the portfolio allocation. For information on the exposure, concentration, risk mitigation and sensitivity for spread risk, refer to section 3.3 Credit risk.

3.2.1.5 Asset and liability management risk

Asset and Liability Management (ALM) risk refers to 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 IBNR¹⁵ reserves, are discounted using interest rates in accordance with regulatory practice. 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 market interest rates, If is exposed to changes in inflation and nominal market rates.

3.2.2 Risk concentration

In the figures below, the market risk concentration of the investment portfolio as per 31 December 2021 is presented. Figure 15 shows the market values per type of asset and Figure 16 shows economic capital for market risk per type of asset (pre-diversification effects).

Figure 15 – Market values per type of asset, 31 December 2021

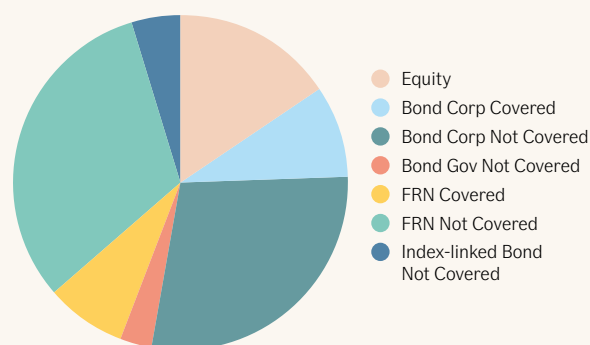
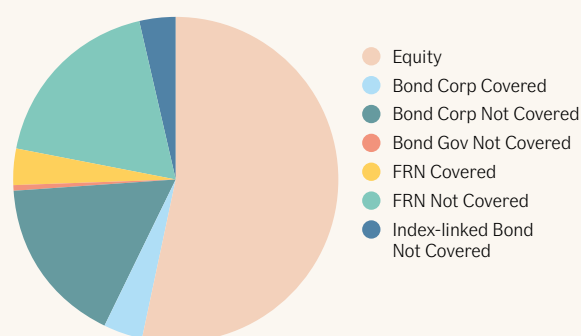


Figure 16 – Economic capital per type of asset, 31 December 2021



¹⁵ 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 presentation currency than the parent company.

Table 5 – Currency risk

MSEK Currency	EUR	NOK	DKK	GBP	USD	JPY	Other
Open position, 2021	-640	25	-182	-44	-102	1	-46
Open position, 2020	-123	84	23	-27	-208	173	-154

The investment portfolio consists mainly of fixed income investments (84.6%) and equities (15.4%).

Table 6 – Breakdown of equity investments by industry sector

MSEK Industry sector	2021		2020	
	Carrying amount	%	Carrying amount	%
Industrials	5,632	46.3	4,461	49.3
Consumer Discretionary	4,641	38.2	2,769	30.6
Materials	1,055	8.7	748	8.3
Telecommunication Services	572	4.7	548	6.1
Health Care	114	0.9	360	4.0
Energy	85	0.7	101	1.1
Consumer Staples	58	0.5	51	0.6
Financials	4	0.0	4	0.0
Total	12,160	100	9,042	100

The sector allocation of equity excludes investments made through equity funds, ETF: s and private equity funds of MSEK 4,906 (4,198).

Table 7 – Breakdown of equity investments by geographical regions

MSEK Geographical area	2021		2020	
	Carrying amount	%	Carrying amount	%
Sweden	9,320	54.7	6,919	52.8
Europe	3,108	18.3	2,365	18.0
Asia	1,771	10.4	1,563	11.9
Norway	1,309	7.7	981	7.5
North America	1,167	6.9	826	6.3
Latin America	278	1.6	402	3.1
Denmark	73	0.4	49	0.4
Finland	-	-	-	-
Total	17,027	100	13,104	100

The geographical allocation of equity excludes investments made through private equity funds of MSEK 39 (136).

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

The average duration of fixed income investments was 1.1 years at year-end 2021. The duration of the fixed income investments is shown in the table below.

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

MSEK Instrument type ¹	2021			2020		
	Carrying amount	%	Duration	Carrying amount	%	Duration
Scandinavia, index-linked bonds	5,088	5.4	23.9	3,184	3.5	9.3
USA, long-term government and corporate securities	1,540	1.6	2.2	1,758	1.9	2.5
Global, long-term government and corporate securities	1,327	1.4	1.8	1,424	1.6	2.5
Europe, long-term government and corporate securities	11,469	12.2	1.4	12,648	13.9	1.9
Scandinavia, long-term government and corporate securities	66,182	70.5	0.7	70,299	77.1	1.0
Short-term fixed income	8,243	8.8	0.1	1,846	2.0	0.0
Total	93,849	100	1.1	91,159	100	1.4

¹ IR Derivatives are included in the table.

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

3.2.3 Risk mitigation

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

When deciding on risk limits and setting targets, the overall risk appetite, risk tolerance, regulatory requirements, rating targets as well as the structure and nature of the technical provisions are taken into account. 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 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 presentation currency on a regular basis. The currency exposure in investment assets is controlled weekly and hedged when the exposure reaches a specified level, which is set with respect to cost efficiency and minimum transaction size. It 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.

The 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 the Investment Policy, equity investments in relation to the total investment portfolio shall be limited.

The interest rate risk is managed by sensitivity limits for interest rate sensitive instruments. The ALM risk is managed in accordance with Sampo's Group-wide principles. ALM is taken into account through the risk appetite framework and is governed by the 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 monitored and controlled by the Investment Control Committee and reported to the ORSA Committee on a regular basis.

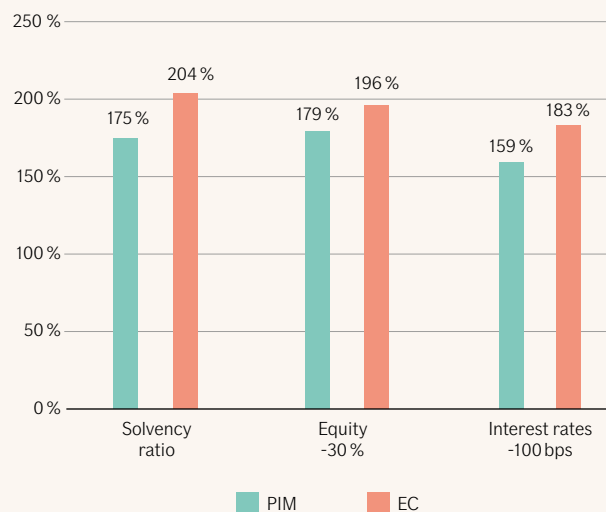
3.2.4 Risk sensitivity

To test the sensitivity to changes in market risk, equity and interest rate stresses have been performed. The sensitivity is expressed as

the effect on the capital position, both in terms of internal economic capital and in terms of the regulatory solvency capital requirement as per 31 December 2021.

The purpose of the stress tests is to estimate how the capital position is affected by a 30% decrease in the market values for equities and by a 100 bps decrease in interest rates. In both stresses, If maintains a solvency ratio above 155%.

Figure 17 – Market risk sensitivity, 31 December 2021



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 for equities explicitly taken into consideration for the regulatory capital requirement. Due to a change in symmetric adjustment for equity risk the solvency ratio increases despite the loss to own funds from a 30% decrease in the market values for equities. In the interest rate stress, the decreased interest rates increase the investment assets as well as 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 ultimate forward rate used in the long end, which is not stressed in this calculation.

3.3 Credit risk

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

3.3.1 Risk exposure

Counterparty default risk refers to the risk of loss due to unexpected default, or deterioration in the credit standing, of counterparties and debtors. Counterparty default risk is calculated using the standard formula.

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. For economic capital spread risk is calculated using the internal model as described in section 3.2 Market risk. For the regulatory solvency capital requirement spread risk is calculated using the standard formula.

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 the asset 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 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 assets, a materialisation of the risk typically leads to a negative impact on own funds. Likewise, counterparties defaulting on payments can adversely affect own funds.

Additional risks, stemming either from lack of diversification in the asset portfolio or from a large default risk exposure towards a single issuer of securities or a group of related issuers not captured by the spread risk or counterparty default risk, are 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 the table below. In the table 1,653 MSEK (1,379 MSEK) is excluded which mainly relates to captives and statutory pool solutions.

Table 9 – Reinsurance recoverables

MSEK Rating (S&P)	2021	%	2020	%
AAA	-	-	-	-
AA	772	51.0	614	44.5
A	739	48.8	763	55.3
BBB	0	0.0	0	0.0
BB – CCC	-	-	-	-
Not rated	4	0.3	3	0.2
Total	1,515	100	1,380	100

The distribution of ceded treaty and facultative premiums per rating category is presented in the table below.

Table 10 – Ceded treaty and facultative premiums per rating category

MSEK Rating (S&P)	2021	%	2020	%
AAA	-	-	-	-
AA	432	54.0	352	57.9
A	368	46.0	256	42.1
BBB	-	-	-	-
BB – CCC	-	-	-	-
Not rated	-	-	-	-
Total	800	100	608	100

3.3.2.2 Concentration in investment operations

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

Table 11 – Fixed income exposure by sector, asset class and rating, 31 December 2021

MSEK Sector	AAA	AA+ - AA-	A+ - A-	BBB+ - BBB-	BB+ - C	D	Not rated	Total	Equities	Properties	Derivatives	Total	Change compared to Dec 31, 2020
Basic Industry	-	-	-	1,046	174	-	47	1,267	544	-	-	1,811	93
Capital Goods	-	-	797	474	194	-	1,164	2,630	7,387	-	-	10,017	3,262
Consumer Products	-	-	1,223	2,237	179	-	876	4,515	3,454	-	-	7,969	130
Energy	-	-	-	-	-	-	1,200	1,200	-	-	-	1,200	180
Financial Institutions	389	5,874	10,162	6,656	987	-	1,186	25,253	-	-	5	25,258	-264
Governments	5,294	-	-	-	-	-	-	5,294	-	-	-	5,294	1,911
Government Guaranteed	-	248	-	-	-	-	-	248	-	-	-	248	-1
Health Care	72	-	104	144	12	-	631	963	43	-	-	1,006	-71
Insurance	-	-	411	848	161	-	2,718	4,138	4	-	-	4,142	1,631
Media	-	-	-	-	-	-	225	225	-	-	-	225	-1
Packaging	-	-	-	-	-	-	115	115	-	-	-	115	3
Public Sector, Other	5,375	651	-	-	-	-	-	6,026	-	-	-	6,026	515
Real Estate	-	350	2,177	4,586	476	-	5,197	12,787	85	9	-	12,881	4,051
Services	-	-	-	483	775	-	476	1,734	-	-	-	1,734	76
Technology and Electronics	-	-	186	77	-	-	809	1,073	-	-	-	1,073	189
Telecommunications	-	-	202	1,167	491	-	182	2,042	572	-	-	2,614	-6
Transportation	-	575	448	-	-	-	1,805	2,828	0	-	-	2,828	550
Utilities	-	-	538	1,515	800	-	217	3,070	-	-	-	3,070	573
Covered Bonds	18,088	-	-	-	-	-	-	18,088	-	-	-	18,088	-6,710
Funds	-	-	-	-	-	-	-	-	4,906	-	-	4,906	709
Others	-	-	-	-	-	-	451	451	71	-	-	522	39
Clearinghouse	-	-	-	-	-	-	-	-	-	-	5	5	5
Total	29,218	7,698	16,248	19,233	4,250	0	17,301	93,948	17,066	9	10	111,032	6,863
Change compared to Dec 31, 2020	-4,249	401	3,001	131	-779	-12	4,568	3,061	3,826	-26	2	6,863	0

3.3.3 Risk mitigation

Credit risk in the investment operations is managed by specific limits stipulated in the 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. In accordance with the Investment Policy, the prudent person principle is considered when investment decisions are taken. The default risk of derivative counterparties is mitigated by diversification, a careful selection of counterparties and clearing houses as well as by using collateral.

To limit and control credit risk associated with ceded reinsurance, the Reinsurance Policy sets requirements for 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 Policy. The Chairman is responsible for the reporting of policy deviations and other issues dealt with by the Committee to the ORSA Committee.

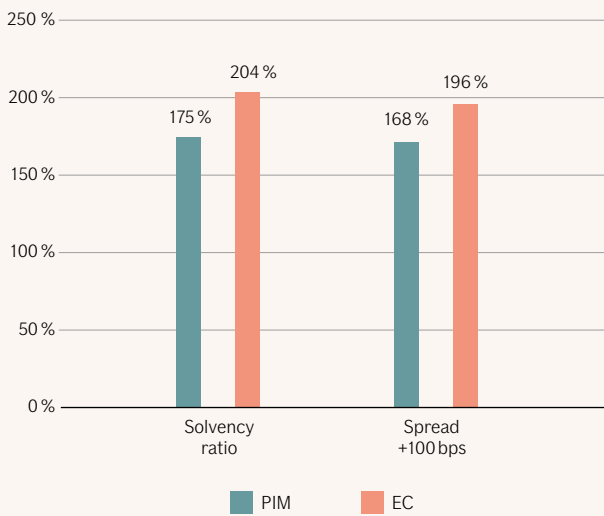
The development of the portfolio with respect to credit risk is monitored and reported to the Investment Control Committee and the Reinsurance Security Committee and the the ORSA Committee on a regular basis.

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 ratio and the economic capital ratio as per 31 December 2021. It maintains a ratio above 165% after the stress. The spread stress estimates an impact on the solvency ratio of a 100 bps increase in the spreads. The key assumption in the spread stress is that the stress does not have an impact on technical provisions.

Figure 18 – Credit risk sensitivity in investment operations, 31 December 2021

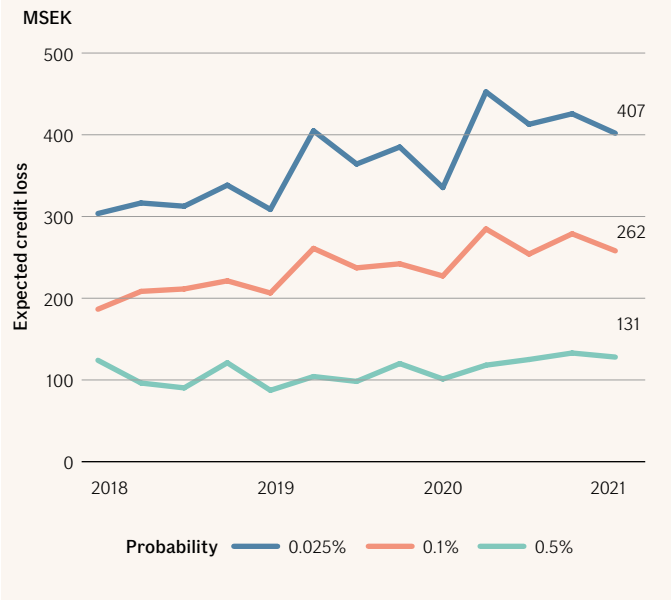


3.3.4.2 Risk sensitivity in reinsurance operations

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 2021. The credit simulation shows the maximum loss with a given probability over a one-year horizon.

As shown in Figure 19 the maximum loss decreased during the end of the year but increased totally in 2021. The increase is mainly due to increased reinsurance recoverables. However, the exposure to credit risk towards reinsurance counterparties is limited.

Figure 19 – Risk sensitivity



3.4 Liquidity Risk

Liquidity risk refers to the risk of being unable to realise investments and other assets in order to settle 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. Hence liquidity risk is identified and managed regularly but solvency needs are not quantified.

3.4.2 Risk concentration

The maturities of cash flows for technical provisions, financial assets and liabilities are presented in Table 12. In the table, financial assets and liabilities are divided into contracts with a contractual maturity profile and those without contractual maturity. The table also shows expected cash flows for net technical provisions, which are inherently associated with a degree of uncertainty.

Table 12 – Maturities of cash flows for financial assets, financial liabilities and net technical provisions, 31 December 2021

MSEK	Carrying amount	of which without maturity	of which with contractual maturity	Cash flows						
				2022	2023	2024	2025	2026	2027-2036	2037-
Financial assets	130,308	18,907	111,401	43,949	17,402	20,877	14,062	13,130	5,026	-
Derivative liabilities	-77	-	-77	-83	-	-	-	-	-	-
Other financial liabilities	-6,906	-146	-6,760	-6,628	-	-	-	-	-	-
Net technical provisions	-86,915	-86,915	-	-32,879	-9,864	-5,205	-3,593	-2,881	-17,282	-19,713

3.4.3 Risk mitigation

Together with the prudent person principle and the instruction for the Investment Control Committee, the Investment Policy establishes strategies, objectives, processes, reporting and procedures for the management of 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 amounted to 2,234 MSEK (2,058 MSEK) at 31 December 2021.

3.5 Operational risk

Operational risk refers to the risk of loss arising from inadequate or failed processes or systems, from personnel or from external events (expected or unexpected). The definition also includes legal risk that refers to the risk of loss due to disputes not related to insurance claims, breach of contract or entry into illegal contracts as well as 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 and therefore the level of risk mitigation needs to be balanced. Managers within the line organisation are the risk owners and 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 risks are identified, assessed, managed, monitored and reported regularly. Identified risks are assessed from a likelihood and impact perspective and evaluated using a traffic light system. An operational risk coordinator network supports the risk owners in the OCRA process and the results are challenged and aggregated by the Risk Management function. The most significant risks are reported to the Operational Risk Committee, the ORSA Committee and to the Board of Directors on a regular basis. The operational risks are classified into five different categories:

- process execution failure
- business disruption and system failures
- customers, products and business practices
- employment practices
- internal and external fraud.

Key risk indicators are used to identify and follow the development of various risks. Incident reporting and quality assurance reviews are two important sources of risk indicators.

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 is in place to identify and report any external and internal fraud.

The main operational risks are related to internal, customer and partner processes and are driven by core system transition, old legacy systems and complex processes. Other operational risks are related to inadequate system functionality due to increased complexity and limited resources for system development. Furthermore, information security is significant within the operational risk area related to the risk of insufficient information protection and insufficient cyber protection and resilience.

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 regarding operational risk.

3.5.3 Risk mitigation

Examples of key risk mitigating techniques used to manage operational risk are clear and well implemented steering documents, set mandates, four-eyes and grandparent principles, clear roles and division of responsibilities, employee training as well as other automated and manual controls in key business processes.

There are a number of steering documents which are relevant for the management of operational risk. These include but are not limited to the Operational Risk Policy, the Business Continuity and Security Policy and the Information Security Policy. There are also processes and instructions in place to manage the risk of external and internal fraud. Training on If's ethical rules and guidelines is provided to employees on a regular basis. Policies and other internal steering documents are also reviewed and updated on a regular basis.

To manage the main operational risks there is a plan for a new core system strategy to enable efficient transition to new systems, a changed governance and management structure and standardised routines to meet new demands. Examples of risk mitigating activities are the Identity and Access Management project for governing identities and accesses and the Access Logging project, improving incident response from alerts in security tools and threat hunting activities.

The 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 organisation is able to deliver even when something unpredictable happens.

Steering documents regulate the work on information security and vulnerabilities are continuously monitored and addressed to improve the 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 the financial result.

3.6 Other material risks

3.6.1 Strategic risk

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

3.6.1.1 Risk exposure

Strategic risks are identified by the business in the yearly financial planning process and are reported to Corporate Control. 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 insurance needs in the society, in the operational environment and to If's capability to proactively adjust to the changes. Strategic risk for If is mainly related to competitors' behaviour and the risk of losing market shares due to price reductions or increased distribution capacity in the insurance market. If's operations are also affected by changes in relevant legislation and case law. The development of the Covid-19 pandemic and the implications for If's business are monitored closely and the need for mitigating actions through for example product changes are continuously evaluated.

Changes in the car insurance market is also an important strategic risk for If. During the reporting period the development towards new ways of owning and using car related services continued, which may change the insurance need in the long-term. This development is also closely monitored by If.

3.6.1.2 Risk concentration

No significant risk concentrations regarding 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 Corporate Control. The risks are evaluated at least annually in the 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 risk

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

3.6.2.1 Risk exposure

Compliance risks are identified and assessed in the OCRA process, see section 3.5 Operational risk. The compliance risks are measured by assessing the impact and likelihood of breaching applicable rules. The main compliance risks are identified as the risk of breaching the General Data Protection Regulation (GDPR) and the risk of breaching the Anti-Money Laundering (AML) legislation.

There have been no material changes in the risk exposure during the reporting period.

3.6.2.2 Risk concentration

No significant risk concentrations regarding 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, access rights, segregation of duties, the four-eyes

principle and other manual and automatic control activities. The effectiveness of the risk mitigation techniques is monitored through various kinds of quality follow-ups in the business.

3.6.3 Reputational risk

Reputational risk is often a consequence of a materialised operational or compliance risk and refers to the risk of damage to the company through deterioration of its reputation among customers and other stakeholders.

3.6.3.1 Risk exposure

When operational risks and compliance risks are assessed by the line organisation, the reputational risk is also evaluated. The risks are assessed based on likelihood and impact. Some processes, such as marketing and claims handling, are especially sensitive to reputational risk. Identified reputational risks are managed by the business and, when applicable, also by the Communication department. A risk assessment is reported to the Operational Risk Committee by the Head of Communication at least twice a year.

To maintain a good reputation, the focus areas 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 exposure to reputational risk.

3.6.3.2 Risk concentration

No significant risk concentrations regarding reputational risk have been identified.

3.6.3.3 Risk mitigation

Professional behaviour and clear communication are key to mitigating reputational risk. Additional mitigating techniques are for example clear and implemented steering documents, e.g. the Ethics Policy and the Social Media Instruction, as well as incident handling procedures and the whistleblowing process. Close monitoring of all types of media reporting is performed continuously to identify potential negative publicity at an early stage.

3.6.4 Emerging risk

Emerging risk refers to 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 emerging risks materialise, or identified risks change, they are primarily identified, assessed and managed by the underwriting and claims teams in the different business areas as part of the regular risk assessment processes. As seen in Figure 5, Risks encompassed in the Risk Management System, emerging risk is not managed as a stand-alone category of risk but rather managed as an integrated part of the main categories of risks. For example, climate change risks such as more severe weather-related claims are identified, assessed and reported as part of the underwriting process. Due to the risk of a potentially large accumulation of emerging risks that could negatively affect the long-term solvency position, the Emerging Risk Core Team has been established, consisting of key persons from various business areas. The team meets regularly to follow up and analyse important emerging risks factors and to suggest possible actions. The risks assessed as being most serious are reported at least twice a year to the ORSA Committee by the Emerging Risk Coordinator.

Key risks that have been monitored during 2021 are the lack of climate change adaption, risks related to Internet of Things (IoT), terrorism and infrastructure blackouts.

The lack of climate change adaption increases the likelihood of both acute and chronic physical risks that may affect If's business, as well as the likelihood of so-called transitional risk. Transitional risk is for instance the risk of not being able to quickly adapt to rapidly changing legal, technological or market factors that take place when climate change adaption is accelerated at a societal level. This may cause reputational damage or even threaten the viability of parts of If's business.

The risk stemming from the IoT is expected to increase in conjunction with the implementation of 5G technology. The IoT enables remote influence on machines which can lead to physical damage that is not covered by cyber insurance but by traditional property or liability insurance.

3.6.4.2 Risk concentration

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

3.6.4.3 Risk mitigation

The main principle is that each business area is responsible for identifying 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. To mitigate the risk, identified emerging risks can be excluded from future insurance policies or an appropriate premium element can be added to the policies for insurable risks. Reinsurance is also used as a mitigating technique.

3.6.5 Risk sensitivity other material risks

Strategic, compliance, reputational and emerging risk 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 regulatory 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 consequence.

A significant compliance risk that materialises can for example result in 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 If's risk profile.

4 Valuation for Solvency Purposes

The valuation of assets and liabilities in the Solvency II balance sheet is based on fair value principles. Items in the Solvency II balance sheet are based on corresponding items in the Annual Report and adjusted in accordance with the Solvency II regulation. The Annual Report is prepared according to Swedish accounting regulation referred to as IFRS restricted by law. Figures in the Annual Report are referred to as statutory accounts value in this report.

The accounting policies used in the statutory accounts have not been subject to any significant amendments in 2021. Balance sheet items in foreign currency are translated to SEK using the closing date exchange rate, both in the statutory accounts and in Solvency II.

As an effect of the Solvency II adjustments the excess of assets over liabilities is 3,972 MSEK higher in the Solvency II balance sheet compared to the statutory accounts at year-end. The Solvency II adjustments are mainly related to technical provisions.

Table 13 provides an overview of the balance sheet adjustments for Solvency II.

Table 13 – Balance sheet adjustments for Solvency II, 31 December 2021

MSEK	Statutory accounts value	Solvency II adjustments	Solvency II value	Category
Assets				
Goodwill	2	-2	-	A
Deferred acquisition costs	1,122	-1,122	-	B
Intangible assets	-	-	-	A
Deferred tax assets	-	-	-	G
Property, plant and equipment held for own use	213	1,602	1,814	C
Investments (other than assets held for index-linked and unit-linked contracts)	106,363	-	106,363	
<i>Property (other than for own use)</i>	9	-	9	
<i>Equities</i>	12,131	-	12,131	
<i>Bonds</i>	89,147	-	89,147	
<i>Collective Investments Undertakings</i>	4,902	-	4,902	
<i>Derivatives</i>	175	-	175	
Loans and mortgages	3,082	-	3,082	
Reinsurance recoverables from:	3,263	-395	2,868	B
<i>Non-life and health similar to non-life</i>	3,250	-395	2,855	
<i>Life and health similar to life, excluding health and index-linked and unit-linked</i>	13	-0	13	
Insurance and intermediaries receivables	15,335	-10,770	4,565	B
Reinsurance receivables	281	-	281	
Receivables (trade, not insurance)	3,123	-678	2,444	D
Cash and cash equivalents	1,832	-	1,832	
Any other assets, not elsewhere shown	431	-74	356	C, E
Total assets	135,047	-11,439	123,608	
Liabilities				
Total Technical provisions	90,178	-17,309	72,869	B
<i>Technical provisions – non-life (excluding health)</i>	50,005	-14,414	35,591	
<i>Technical provisions - health (similar to non-life)</i>	16,736	-2,541	14,196	
<i>Technical provisions - life (excluding index-linked and unit-linked)</i>	23,437	-354	23,083	
Provisions other than technical provisions	80	-	80	
Pension benefit obligations	236	0	236	E
Deferred tax liabilities	1,633	1,095	2,729	G
Derivatives	77	-	77	
Financial liabilities other than debts owed to credit institutions	-	1,601	1,601	C
Insurance and intermediaries payables	1,514	-	1,514	
Reinsurance payables	431	-69	362	B
Payables (trade, not insurance)	4,151	-678	3,473	D
Subordinated liabilities	-	-	-	F
<i>Subordinated liabilities in Basic Own Funds</i>	-	-	-	
Any other liabilities, not elsewhere shown	1,811	-52	1,760	B
Total liabilities	100,112	-15,411	84,701	
Excess of assets over liabilities	34,934	3,972	38,906	

The adjustments in the table above can be divided into the following 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 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 payables (trade, not insurance) to technical provisions and netted against receivables related to the pool;
- E. Pension benefit obligations are valued according to IAS 19 which involves some reclassifications and nettings;
- F. Subordinated liabilities measured at amortised cost in the statutory accounts are revalued 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 separately for each material class in the sections below. The disclosure includes the basis, methods and main assumptions as well as a quantitative and qualitative explanation of any material differences between the valuation in the statutory accounts and in accordance with Solvency II. The aggregation of assets and liabilities into material classes is based on the nature, function and materiality of the items.

4.1 Assets

4.1.1 Goodwill

Goodwill pertaining to acquisition of companies and portfolios is recognised in the statutory accounts. The total carrying amount at year-end 2021 was 2 MSEK. Goodwill is valued at zero in Solvency II since it is not possible to derive the fair value.

4.1.2 Intangible assets

As of December 31, 2021, there were no intangible assets in the Annual Report or 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 initially valued at acquisition value. Acquisition value includes not only the purchase price but also expenses directly attributable to the acquisition. Machinery and equipment are reported at historical acquisition value, less accumulated straight-line depreciation in the statutory accounts. Depreciation is based on the historical acquisition value and the estimated economic useful life.

The acquisition value is considered a reasonable approximation of the fair value and the current treatment in the statutory accounts is therefore applicable also for Solvency II.

Right of use assets related to rented real estate are reported as property, plant and equipment held for own use in the Solvency II balance sheet. Information about 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 owned properties are recognised as investment assets both in the statutory accounts and in Solvency II. Properties are fair valued both in the statutory accounts, pursuant to IAS 40, and in Solvency II.

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 are fair valued in the statutory accounts and in Solvency II. For equities listed on an authorised stock exchange or marketplace, the sales value normally refers to the latest trade price on the closing date.

4.1.4.3 Bonds

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

4.1.4.4 Collective investment undertakings

Collective investment undertakings in the Solvency II balance sheet relate to ownership in investment 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 Solvency II. Unlisted securities included in private equity investments are valued using established valuation models in the statutory accounts and in Solvency II.

4.1.4.5 Derivatives (assets and liabilities)

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

4.1.5 Loans and mortgages

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

4.1.6 Reinsurance receivables and receivables (trade, not insurance)

Reinsurance receivables and receivables (trade, not insurance) are reported in the amounts expected to be received in both the statutory accounts and in Solvency II. This is considered to be a reasonable approximation of the fair value. Provisions for doubtful receivables are normally based on individual valuation of the receivables.

Receivables (trade, not insurance) in the Solvency II balance sheet mainly consist of inter-company receivables.

The receivables on the Finnish Medical Malpractice Pool for the public sector, amounting to 678 MSEK, have been reclassified to best estimate technical provisions in Solvency II.

4.1.7 Cash and cash equivalents

In the statutory accounts and in Solvency II, 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. The assets are mainly accrued income and prepaid expenses not directly related to insurance operations, pension assets and an asset related to leasing. Except for the treatment of pension assets, which are described in section 4.3.2 Pension benefit obligation, and reversal of prepaid expenses related to leasing agreements, which are described in section 4.5.1 Lease arrangements, these balances are treated consistently in the statutory accounts and in Solvency II, as the carrying amount is considered a reasonable approximation of the fair value.

4.1.9 Assets linked to the calculation of Solvency II technical provisions

4.1.9.1 Deferred acquisition costs

Deferred acquisition costs in the 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 assets in the statutory accounts.

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 are 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 the Solvency II classification, insurance and intermediaries receivables relate to receivables amounts due by policyholders, other insurers, and receivables linked to the insurance business. Under the Solvency II classification, the technical provisions should fully take account of all cash inflows and outflows. Rather than recognising 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 the 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

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 insurance and reinsurance obligations to another undertaking.

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 their lifetime. The solvency capital requirement for the risk margin calculations is based on the partial internal model.

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

For more information about the partial internal model see section 5.2 Solvency capital requirement and minimum capital requirement.

4.2.1 Valuation used for solvency purposes

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

- recognition of the premium provisions in Solvency II compared to the unearned premium reserve of the statutory accounts;
- application of discounting and differences in discounting rates; 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 reinsurers' share of technical provisions.

The total effect of revaluation of net technical provisions for Solvency II purposes as per 31 December 2021 was 5,142 MSEK. This includes adjustments related to premium receivables described in section 4.1 Assets, as well as removal of deferred acquisition costs.

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

Table 14 – Revaluation of technical provisions according to Solvency II

MSEK	2021	2020
Solvency II adjustments		
Gross deferred acquisition costs	-1,122	-1,126
Ceded technical provisions	-395	-377
Premium receivable asset	-10,770	-10,232
Total adjustment of assets	-12,287	-11,735
Technical provisions gross (excl. risk margin)	-19,804	-16,028
Reinsurance payable liability	-69	-79
Ceded deferred acquisition costs	-52	-45
Introduction of risk margin	2,495	2,403
Total adjustment of liabilities	-17,429	-13,749
Total adjustment of technical provisions according to Solvency II	-5,142	-2,014

4.2.1.1 Main quantitative differences explained

The main difference in valuation of technical provisions between Solvency II and the statutory accounts is related to the inclusion of future cash inflows for payments not yet due by policyholders being a part of the premium receivables in the statutory accounts. Another difference is related to discounting whereas the majority of the technical provisions are undiscounted in the statutory accounts (with the exception of vested annuities in the claims provision and the related annuity IBNR and reserve for claim adjustment expenses). In Solvency II all reserves are subject to discounting. As a result of the discounting, ceded provisions and gross provisions decrease. The valuation adjustments are partly offset by adding a risk margin.

The table below displays differences in valuation of technical provisions between Solvency II and the statutory accounts.

Table 15 – Split of technical provisions by Solvency II lines of business

MSEK Type of technical provisions	Reinsurers' share of best estimates			Technical provisions, gross				
	Statutory accounts	Solvency II adjustment	Solvency II value	Statutory accounts	Solvency II adjustment	Solvency II value	Best estimate	Risk margin
Total	3,263	-395	2,868	90,178	-17,309	72,869	70,374	2,495
Health similar to life	-	-	-	11,707	102	11,809	11,495	314
Income protection insurance (annuities)	-	-	-	547	-6	540	520	20
Medical expense insurance (annuities)	-	-	-	24	1	25	25	0
Workers' compensation insurance (annuities)	-	-	-	11,136	108	11,244	10,950	294
Health similar to non-life	251	-20	232	16,736	-2,541	14,196	13,484	711
Income protection insurance	7	0	7	8,525	-1,747	6,777	6,473	304
Medical expense insurance	5	-1	3	2,786	-599	2,187	2,080	107
Workers' compensation insurance	239	-19	221	5,426	-194	5,231	4,931	301
Life excluding health	13	0	13	11,730	-456	11,273	11,019	254
Fire and other damage to property insurance (annuities)	-	-	-	54	-3	52	50	1
Motor vehicle liability insurance (annuities)	13	0	13	11,494	-452	11,041	10,797	244
General liability insurance (annuities)	-	-	-	182	-2	180	171	9
Non-life excluding health	2,998	-375	2,623	50,005	-14,414	35,591	34,376	1,215
Fire and other damage to property insurance	1,732	-185	1,547	17,227	-4,560	12,667	12,266	402
Marine, aviation and transport insurance	172	-30	142	1,016	-129	886	824	62
Other motor insurance	25	-7	18	10,203	-5,832	4,371	4,259	112
Motor vehicle liability insurance	12	-2	10	14,249	-3,401	10,848	10,519	329
General liability insurance	1,056	-151	905	7,310	-492	6,818	6,508	310

According to IFRS 4, the recognition of a liability as an insurance contract in the statutory accounts would 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 treated as a service contract with its components recognised in other assets and other liabilities. According to Solvency II this liability should be recognised as an insurance obligation. 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 the receivables are premium cash inflows and thus included in the best estimate.

4.2.2 Assumptions underlying the calculation of Solvency II technical provisions

4.2.2.1 General Provisions

All material assumptions underlying the calculation of technical provisions are reviewed quarterly, and material changes are reviewed

in the actuarial opinion of each business area actuary. Assumptions are documented 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 (see section 4.2.2.13 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. Reserves are calculated in a transparent manner and would be possible to review by a qualified expert.

4.2.2.2 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.

4.2.2.3 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. Neither volatility adjustment nor matching adjustment is applied.

4.2.2.4 Basic risk-free interest rate term structure

The basic risk-free rates are derived for DKK, EUR, GBP, NOK, SEK and USD. These currencies cover more than 99% of the technical provisions.

4.2.2.5 Segmentation and setting up of homogenous risk group

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

Lines of business as defined by Solvency II differ from the presentation of lines of business in the statutory accounts.

4.2.2.6 Methods and assumptions

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

4.2.2.7 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.

4.2.2.8 Assumptions on policyholder behaviour

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

Future policyholder behaviour is considered 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.

4.2.2.9 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, the premium provision of the best estimate for insurance obligations and for expected loss due to counterparty default.

4.2.2.10 Boundary of contract

If adopts a proportionate approach regarding the boundary of insurance contracts used for solvency purposes. This means that 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.

4.2.2.11 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 section 4.2.2.10 Boundary of contract, cash flows for premium provisions will include future premium payments on existing contracts where they have 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.

4.2.2.12 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 rate 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.

4.2.2.13 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 relates to expected losses due to counterparty default. The adjustment 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 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 deposit¹⁶.

4.2.2.14 Uncertainties connected to the calculations

There is always an inherent uncertainty associated with the calculations of technical provisions since it involves assumptions about future events. The 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

Provisions other than technical provisions relate to liabilities of uncertain timing or amount. The item mainly relates to restructuring reserves for approved organisational changes and to provisions for other commitments and uncertain obligations. The treatment of the item is consistent in the statutory accounts and in Solvency II.

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 plans 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 the 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 34 MSEK (assets) are netted against pension obligations in the accounts of 236 MSEK, leading to a net position of 202 MSEK; and

- As a result of revaluation of pension obligations using IAS 19 the net liability increased by 34 MSEK when compared with the statutory accounts, leading to a revalued net position of 236 MSEK.

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

4.3.3 Deferred tax assets and liabilities

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

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. The table below presents the tax rates used when calculating deferred tax assets and liabilities.

Table 16 – Tax rates

Country	2021	2020
Sweden	20.60%	20.60%
Norway	25.00%	25.00%
Denmark	22.00%	22.00%
Finland	20.60%	20.60%
UK	20.60%	20.60%
Germany	27.90%	27.90%
France	25.83%	27.37%
Netherlands	20.60%	20.60%

¹⁶ If has no special purpose vehicles.

For the year-end 2021, a net deferred tax liability of 1,633 MSEK was recognised in the statutory accounts. As an effect of Solvency II valuation adjustments, the deferred tax liability was increased by 1,096 MSEK to a deferred tax liability position of 2,729 MSEK.

Table 17 – Reconciliation of net deferred tax position in Solvency II balance sheet, 31 December 2021

MSEK	Statutory accounts value	Solvency II adjustments	Solvency II value
Reconciliation of net deferred tax position			
1. Provisions, including pension obligations, reported in line with IAS 19 in Solvency II	62	11	73
2. Goodwill eliminated in Solvency II	-	0	0
3. Under-depreciation	0	-	0
4. Investment assets at fair value	-1,684	-	-1,684
5. Deferred tax relating to untaxed reserves	-98	-	-98
6. Technical provisions recalculated according to Solvency II	-	-1,115	-1,115
7. Other intangible assets eliminated in the Solvency II	-	-	0
8. Subordinated liabilities	-	-	-
9. Leasing according to IFRS 16	-	8	8
10. Other temporary differences	85	-	85
Deferred tax liabilities, net	-1,633	-1,096	-2,729

The main drivers for this change are technical provisions (including re-insurance recoverables) and the impact of IAS 19 recognition of pension obligations. The deferred tax asset is due to Solvency II adjustments and cannot be offset with deferred tax liabilities since they do not pertain to the same tax authority. Deferred taxes related to untaxed reserves (refers to the Swedish security reserve¹⁷ are not recognised in Solvency II. Hence untaxed reserves have the same value in the statutory accounts and in Solvency II.

4.3.4 Derivatives

Derivative liabilities are treated the same way as Derivative assets, see section 4.1.4.5 Derivatives.

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 and other insurers as well as payables 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 Solvency II, 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 payables linked to reinsurance.

Under Solvency II classification, the technical provisions should fully take account of all cash inflows 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 best estimate premium provisions, i.e. (the reinsurance recoverables). Payables of 69 MSEK are reclassified from reinsurance payables to the ceded part of the insurance obligation. The remaining balance in reinsurance payables consists of amounts payable to reinsurers. The treatment of these balances in the statutory accounts is applicable also in Solvency II.

¹⁷ In Swedish "säkerhetsreserv"

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 Solvency II, as the carrying amount is considered a reasonable approximation of the fair value.

4.3.9 Subordinated liabilities

Subordinated liabilities valued at 1,195 MSEK were redeemed in December 2021. There are no subordinated liabilities in the balance sheet at 31 December 2021. See also section 5.1.2.1 Changes in own funds over the reporting period.

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. The carrying amount is considered a reasonable approximation of the fair value. Reinsurers' share of ceded deferred acquisition costs amounting to 52 MSEK are eliminated in Solvency II.

4.4 Alternative methods for valuation

The default valuation method in Solvency II 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 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).

No Solvency II adjustments are necessary for investments or financial liabilities, apart from leasing liabilities. As the Solvency II framework bears many affinities and similarities to the IFRS framework when it comes to identification and measurement of financial assets and liabilities, the presentation in Solvency II is based on the disclosures 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.

The table below provides information on how the assets are split

between categories QMP/QMPS and AVN. Technical provisions and those classes of assets and liabilities where the carrying amount is considered a reasonable approximation for the fair value are not included in the table. The level of uncertainty is immaterial since only some of the investment assets are classified as AVN. A brief description of valuation according to alternative valuation methods follows below.

Table 18 – Solvency II assets split between QMP/QMPS and AVN, 31 December 2021

MSEK	AVN	QMP/QMPS	Total
Government bonds	-	13,190	13,190
Corporate bonds	28	75,930	75,957
Derivatives	-	175	175
Equities	82	12,049	12,131
Collective investment undertakings	39	4,863	4,902
Property (other than own use)	9	-	9
Total	157	106,206	106,363

Corporate bonds that are valued with AVN are illiquid assets that are rarely traded. The values are based on latest market transactions.

External evaluations are obtained for some unlisted equities. The external valuations are based on models that contain non-observable assumptions.

The fair values for private equity investments in collective investment undertakings are based on prices and share-values obtained from the fund administrators. These quotations are based on the value of the underlying assets in accordance with market practice.

The value of property (other than for own use) corresponds to the net realisable value and is set annually by external surveyors using the local sales-price method or cash flow models. For more information see section 4.1.4.1 Property (other than for own use).

4.5 Any other information

4.5.1 Lease arrangements

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

Table 19 – Operating leases, 31 December 2021

MSEK Asset class	Total future minimum lease payments			Total	Total lease payments during the period
	<1 year	1-5 years	>5 years		
Property, plant and equipment	262	871	773	1,906	274

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. No right-of-use assets or liabilities are recognised in the balance sheet. Instead, all lease payments are recognised as an expense in the income statement in accordance with IAS 17. In Solvency II, the right-of-use assets and liabilities 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 assets are recognised under Property, plant and equipment held for own use in Solvency II and initially the value

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.

Only lease agreements attributable to major office premises are treated according to the IFRS 16. At 31 December 2021 application of IFRS 16 in Solvency II has only a minor effect on the excess of assets over liabilities.

Table 20 – Lease arrangements according to Solvency II, 31 December 2021

IFRS 16 Lease Agreements MSEK	Solvency II
Right-of-use assets and reversal of prepaid lease expenses	1,562
Lease liabilities	-1,601
Net effect on excess of assets over liabilities in Solvency II	-39

4.5.2 Defined benefit pension plans (post-employment benefits)

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, referring to a life-long pension after anticipated retirement age. All employees in Norway born in 1957 or earlier and who were employed by If in 2013 are also entitled to a temporary pension before the anticipated retirement age.

Table 21 – Employee benefit obligations

MSEK	2021	2020
Present value of estimated pension obligation, including social costs	3,012	3,382
Fair value of plan assets	2,745	2,402
Net pension obligation recognised in the Solvency II balance sheet	267	980

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 payments. 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 of the employees, 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 covered bonds, issued in local currency. The chosen discount rates 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 22 – Specification of employee benefit obligations by geographical area, 31 December 2021

MSEK	Sweden	Norway
Recognised in income statement and other comprehensive income		
Current service cost	-62	-9
Past service cost	-	-
Interest expense on net pension liability	-8	-5
Total in income statement	-70	-14
Remeasurement of the net pension liability	743	2
Total in comprehensive income statement	674	-12
Recognised in balance sheet		
Present value of estimated pension liability, including social costs	2,516	496
Fair value of plan assets	2,561	184
Net liability/ net asset recognised in balance sheet	-44	311
Distribution by asset class		
Debt instruments	41%	55%
Equity instruments	27%	12%
Property	9%	13%
Other	23%	20%

Table 23 – Actuarial assumptions used for the calculation of defined benefit pension plans

2021	Sweden	Norway
Discount rate	1.75%	2.00%
Future salary increases	2.50%	3.00%
Price inflation	1.75%	2.00%
Mortality table	DUS14	K2013
Average duration of pension liabilities	20 years	12 years
Expected contributions to the defined benefit plans during 2022	73 MSEK	8 MSEK

Table 24 – Sensitivity analysis of effect of reasonably possible changes

MSEK	2021			2020		
	Sweden	Norway	Total	Sweden	Norway	Total
Discount rate, +0.50%	-296	-26	-323	-338	-31	-369
Discount rate, -0.50%	340	29	369	390	35	425
Future salary increases, +0.25%	80	1	82	93	2	95
Future salary increases, -0.25%	-74	-1	-75	-85	-2	-87
Expected longevity, +1 year	122	13	135	138	15	152

Table 25 – Analysis of the employee benefit obligation

MSEK	2021			2020		
	Funded plans	Unfunded plans	Total	Funded plans	Unfunded plans	Total
Present value of estimated pension liability, including social costs	2,704	308	3,012	3,091	291	3,382
Fair value of plan assets	2,745	-	2,745	2,402	-	2,402

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 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 business planning period. This means ensuring that the available capital exceeds the internal and regulatory capital requirements.

Capital management is based on a risk-appetite statement decided by the Board of Directors, which provides further details on risk preferences and risk tolerances. The risk profile, capital requirements and available capital are measured, analysed and reported to the ORSA Committee and the Board of Directors on a quarterly basis, or more often when deemed necessary. In order to maintain a sufficient level of capital, If:

- estimates buffers and capital needs;
- performs stress and scenario tests to evaluate risk sensitivities and to evaluate the future capital situation;
- projects risks and capital according to the financial plan;
- allocates capital to business areas and lines of business, ensuring that a risk-based approach is used for target setting and profitability evaluation; and
- assures dividend capacity through the effective use of reinsurance, group synergies and diversification benefits.

The Risk Management function assesses the solvency position in accordance with both external and internal measurements through its ongoing analysis and evaluation.

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 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 2.3.8 ORSA 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 the 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 effective monitoring and projection of capital needs over the 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 take into account risks over a three year planning period 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 requirement measures

The regulatory solvency capital requirement intends to cover all potential quantifiable risks that the business is exposed to. Available capital is referred to as eligible own funds. According to the regulation an insurance company must have own funds amounting to at least the solvency capital requirement.

¹⁸ Decided by the Board of Directors in December 2021.

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. The confidence level for the solvency capital requirement is 99.5% which corresponds to an event that occurs once in 200 years. A breach of the solvency capital requirement triggers an intervention in the supervision.

The minimum capital requirement 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.

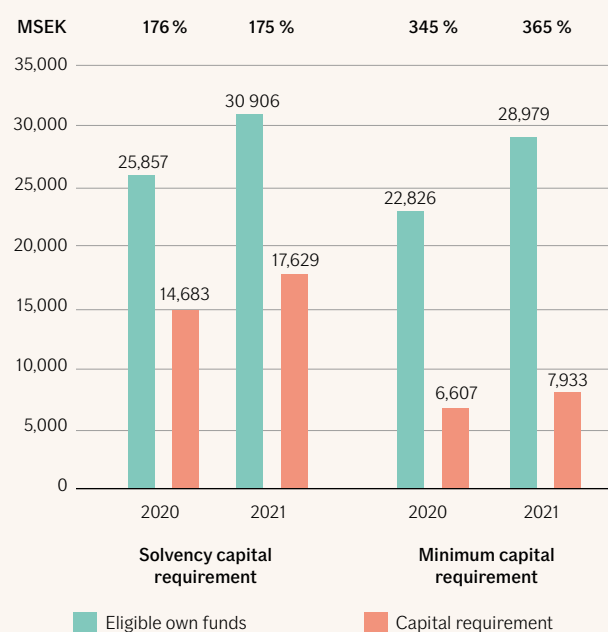
5.1.2 Own funds and solvency position

On 31 December 2021, according to the partial internal model, the solvency capital requirement ratio amounted to 175% (176%) and the minimum capital requirement ratio to 365% (345%).

The solvency capital requirement has increased relatively more than the eligible own funds compared to the previous year, which explains the lower solvency ratio presented in Figure 20. The capital requirement has increased due to increased equity risk, currency risk and interest rate risk.

Based on the financial plan¹⁸ If is considered to have a strong capital structure and solvency position, a high level of profitability, and stable results. If is considered to be in a good position to generate capital and to maintain a level of capital needed to support risks and business objectives going forward.

Figure 20 – If's capital and solvency overview



5.1.2.1 Changes in own funds over the reporting period

Total eligible own funds for the solvency capital requirement coverage increased by 5,050 MSEK (499 MSEK) over the reporting period. The subordinated debt, that was included in Tier 2 of the eligible own funds, was redeemed at first call date in December 2021. At redemption, the nominal value plus accrued interest amounted to 1,195 MSEK. No new own funds items have been issued during the year and at 31 December 2021, there was no subordinated debt in eligible own funds.

On 31 December 2021, there was no deferred tax assets in Tier 3 (137 MSEK).

Table 26 – 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 2021	25,857	21,504	-	4,216	137
Net result, statutory accounts	8,319	8,319	-	-	-
Other comprehensive income, statutory accounts	2,496	2,496	-	-	-
Change in own funds items not included in equity in the statutory accounts	-933	1	-	-934	-
Change in Solvency II valuation adjustments in excess of assets over liabilities	3,193	3,299	-	30	-137
Add back of change in Solvency II valuation adjustment for subordinated liabilities	-25	-	-	-25	-
Transfer between tiers	-	-226	-	226	-
Proposed dividend	-8,000	-8,000	-	-	-
Eligible own funds for solvency capital requirement coverage at 31 December 2021	30,906	27,393	-	3,514	-

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

Own funds comprise basic own funds consisting of the excess of assets over liabilities in the Solvency II balance sheet which may be called up in order to absorb losses. On 31 December 2021, there was no own funds items qualifying for ancillary own funds treatment.

The 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

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

On 31 December 2021, the reconciliation reserve amounted to 27,288 MSEK (21,400 MSEK). The reconciliation reserve consisted 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 8,000 MSEK (5,500 MSEK) has been deducted from the reconciliation reserve. The reconciliation reserve was included in eligible own funds and was classified as a Tier 1 unrestricted item.

The Norwegian branch provides property insurance that includes 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. The natural perils capital of 3,514 MSEK (3,085 MSEK) was included as Tier 2 own funds and presented as other items approved by the supervisory authority. The item included an untaxed part of 3,071 MSEK (2,868 MSEK) and a taxed part of 443 MSEK (217 MSEK).

Table 27 – The tiering of own funds, 31 December 2021

MSEK	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Ordinary share capital	104	104	-	-	-
Reconciliation reserve	27,288	27,288	-	-	-
Subordinated liabilities	-	-	-	-	-
Deferred taxes	-	-	-	-	-
Other own fund items approved by the FSA	3,514	-	-	3,514	-
Total eligible own funds, in QRT template S.23.01.01	30,906	27,393	-	3,514	-

5.1.2.4 Minimum duration requirements criteria for basic own funds items

All items included in Tier 1 own funds items were undated and thus fulfilled the permanence requirements.

5.1.2.5 General eligibility limit application

Eligible own funds were sufficient to meet both with the solvency capital requirement and the minimum capital requirement. There were no eligibility constraints on Tier 2 own funds for solvency capital requirement coverage, but there was an eligibility constraint for the minimum capital requirement coverage, as Tier 2 own funds are limited to cover maximum 20% of the minimum capital requirement.

Table 28 – Assessment of eligible own funds, 31 December 2021

MSEK	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Total eligible own funds to meet the solvency capital requirement	30,906	27,393	-	3,514	-
Total eligible own funds to meet the minimum capital requirement	28,979	27,393	-	1,587	-
Solvency capital requirement	17,629	-	-	-	-
Solvency capital requirement, ratio	175%	-	-	-	-
Minimum capital requirement	7,933	-	-	-	-
Minimum capital requirement, ratio	365%	-	-	-	-

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

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

The subordinated liability that was redeemed in December 2021 was recognised as part of the basic own funds in 2020 and was revalued in accordance with the Solvency II regulation.

Table 29 – Shareholders' equity and untaxed reserves, excess of assets over liabilities and available basic own funds

MSEK	2021	2020
Ordinary share capital	104	104
Statutory reserve	388	388
Fund for costs of development	-	144
Fair value reserve	7,649	5,519
Retained earnings and net income for the year	19,761	16,433
Untaxed reserves	7,032	6,859
Total equity and untaxed reserves statutory accounts	34,934	29,446
Solvency II valuation adjustments		
Eliminations for goodwill and intangible assets	-2	-147
Changes in deferred taxes	-1,095	-226
Changes in net technical provisions	5,142	2,014
Changes in pension benefit obligations	-34	-816
Changes in valuation of leasing agreements	-39	-21
Changes in valuation of subordinated liabilities	-	-25
Sum of all reconciling movements, due to differences in valuation	3,972	779
Excess of assets over liabilities, Solvency II balance sheet template	38,906	30,226
Subordinated liabilities in basic own funds	-	1,131
Proposed dividend	-8,000	-5,500
Total available basic own funds, reported in the own funds QRT	30,906	25,857

5.2 Solvency capital requirement and minimum capital requirement

If applies the partial internal model for its regulatory solvency capital requirement calculation (SCR). The modelling of underwriting risk in the partial internal model is combined with the other risk modules calculated using the standard formula (SF). The solvency capital requirement is a combination of the major underwriting risks calculated using the internal model (IM) and the other risks, including market risks, calculated using the standard formula. 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 requirements, 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.

When demonstrating the utilisation of the loss-absorbing capacity of deferred taxes (LAC DT) it is assumed that the eligible own funds pre-tax decreases by an amount corresponding to the solvency capital requirement (SCR shock). To the extent possible, current net deferred tax liabilities are used to offset the loss and the remaining part is justified with increases in deferred tax assets following available future taxable profit.

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. In the final minimum capital requirement computation, the minimum capital requirement must be in the range between 25% and 45% of the solvency capital requirement, but never below the absolute floor of 3.7 MEUR.

The minimum capital requirement on 31 December 2021 corresponds to the upper limit of the minimum capital requirement (7,933 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.

Table 30 – Description of the loss-absorbing capacity of deferred taxes, 31 December 2021

MSEK	
LAC DT	2,749
- whereof justified by reversion of deferred tax liability	2,729
- whereof justified by reference to probable future taxable economic profit	20
- whereof justified by carry back	-

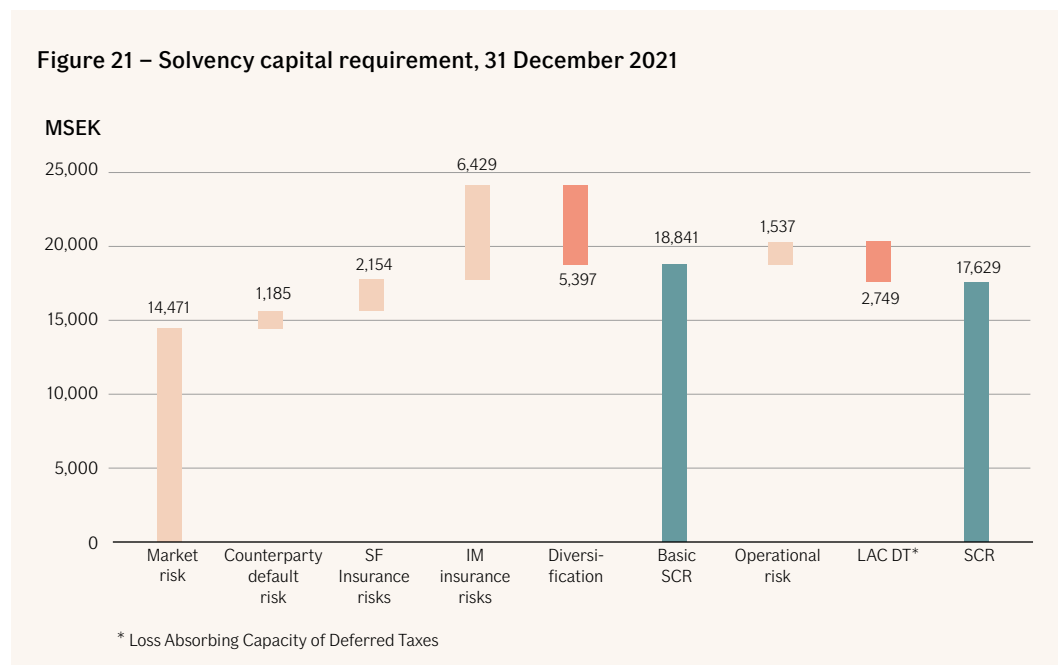
To demonstrate the probability of future available taxable profit after the SCR shock, the following assumptions are made:

- If's financial plan is adjusted for the increased lapse rates following the SCR shock with the effect being kept constant throughout the financial planning period;
- The effects of the SCR shock on the balance sheet and future available taxable profits are explicitly considered;
- A capital injection is assumed post SCR shock, to restore the solvency ratio to 100%;
- New business sales beyond the financial planning period are not assumed and appropriate haircuts are applied to profits that materialise after the financial planning period; and
- The investment forecast is adjusted to be in line with the risk-free rate of return following the SCR shock. It is assumed that risk premiums are continued to be earned on the equity and corporate bond portfolios post shock.

The linear minimum capital requirement is calculated for each individual line of business by adding two factors. The first one is applied to technical provisions (not including the risk margin), net of reinsurance, subject to a minimum of zero. The second one is applied

5.2.1 Overview of regulatory solvency capital requirements

The figure below summarises If's solvency capital requirement based on the partial internal model.



Aside from underwriting risk, market risk is predominant in the calculation of the basic Solvency Capital Requirement (SCR). The largest components of the market risk 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 14,683 MSEK to 17,629 MSEK, mainly driven by an increase in equity risk and currency risk, which has led to an overall increase in market risk. The minimum capital requirement has increased from 6,607 MSEK to 7,933 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.

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 total 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 and 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 internal model is primarily used for calculation of the solvency capital requirement and 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. If underwrites policies that cover risks of individuals and corporations on a geographically diverse area covering mainly Sweden, Norway, Finland and Denmark but it also underwrites 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 are key drivers for If's 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, Reserve and Risk Data Instruction.

5.5 Non-compliance with the minimum capital requirement and non-compliance with the solvency capital requirement

If 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

There is no other material information regarding capital management to disclose.

Appendix

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 risk reporting and in decision-making.</p> <p>The economic capital is calculated by aggregating the underwriting 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, where the risk margin is calculated based on the economic capital.</p>
<p>Solvency capital requirement according to the partial internal model (SCR PIM): 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. 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. The minimum capital requirement must at least be 3.7 MEUR.</p> <p>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.</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.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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