

Solvency and Financial Condition Report 2023

If P&C Insurance Ltd (publ)



Content

Summary	1
1 Business and Performance	3
1.1 Business.....	3
1.2 Underwriting performance.....	4
1.3 Investment performance.....	5
1.4 Performance of other activities.....	5
1.5 Any other information.....	5
2 System of Governance	6
2.1 General information on system of governance.....	6
2.2 Fit and proper assessments	7
2.3 Risk management system including own risk and solvency assessment.....	8
2.4 Internal control	12
2.5 Internal audit function	13
2.6 Actuarial function.....	14
2.7 Outsourcing	14
2.8 Any other information.....	14
3 Risk Profile	15
3.1 Underwriting risk.....	16
3.2 Market Risk.....	18
3.3 Credit risk.....	21
3.4 Liquidity Risk.....	23
3.5 Operational risk	23
3.6 Other material risks.....	24
3.7 Other Information.....	25
4 Valuation for Solvency Purposes	26
4.1 Assets.....	27
4.2 Technical Provisions.....	28
4.3 Liabilities (other than technical provisions)	31
4.4 Alternative Methods for Valuation	32
4.5 Any other information.....	33
5 Capital Management	35
5.1 Own funds.....	35
5.2 Solvency capital requirement and minimum capital requirement.....	38
5.3 Use of the duration-based equity risk sub-module in the calculation of the solvency capital requirement.....	39
5.4 Differences between the standard formula and the internal model	39
5.5 Non-compliance with the minimum capital requirement and non-compliance with the solvency capital requirement	40
5.6 Any other information.....	40
Appendix	41
Appendix 1 – Explanation of measures used to monitor If’s capital position	41
Appendix 2 – Quantitative reporting templates	41

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, Finland. If is part of the If group together with the insurance companies If Livförsäkring AB and If P&C Insurance AS.

If is the leading property and casualty 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.

If's insurance business is divided by customer segments into the cross-Nordic business areas Private, Commercial (small and medium sized companies) and Industrial (large corporations). 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. Insurance is provided through If's own brand, other brands and in co-branding and partnerships, to offer customers a full range of competitive insurance solutions.

The technical result for 2023 amounted to 7,652 MSEK (9,808 MSEK¹) and the combined ratio was 86.6% (80.7%).

Gross written premium increased by 6.3%, excluding currency effects. All business areas contributed to the premium development, especially in Finland.

After a favourable large claims outcome in the beginning of the year, the subsequent quarters brought adverse large claims and severe weather development which resulted in a deteriorated risk ratio of 65.7% (59.8%). The cost ratio remained stable at 20.9% (20.9%) despite increased cost pressure due to high inflation.

During 2023, the inflation rate declined from historically high levels. After a period of interest rate increases, rates declined significantly during the latter part of the year, especially those for the long terms.

The investment result for 2023 amounted to 9,601 MSEK (-5,092 MSEK²). The result corresponded to a total investment return of 8.5% (-4.3%). The increase in the result compared with the preceding year was mainly due to strong positive results for both the fixed-income portfolio and the equity portfolio.

System of Governance

If has established a system of governance consisting of several parts to ensure a well working capital and risk management. The organisational set-up includes the legal and operational structure in which the business is run. The BoD 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 and the risk management system.

The Institute of Internal Auditors' three lines model is applied to ensure an efficient risk management and internal control as well as a clear division of roles and responsibilities within the organisation.

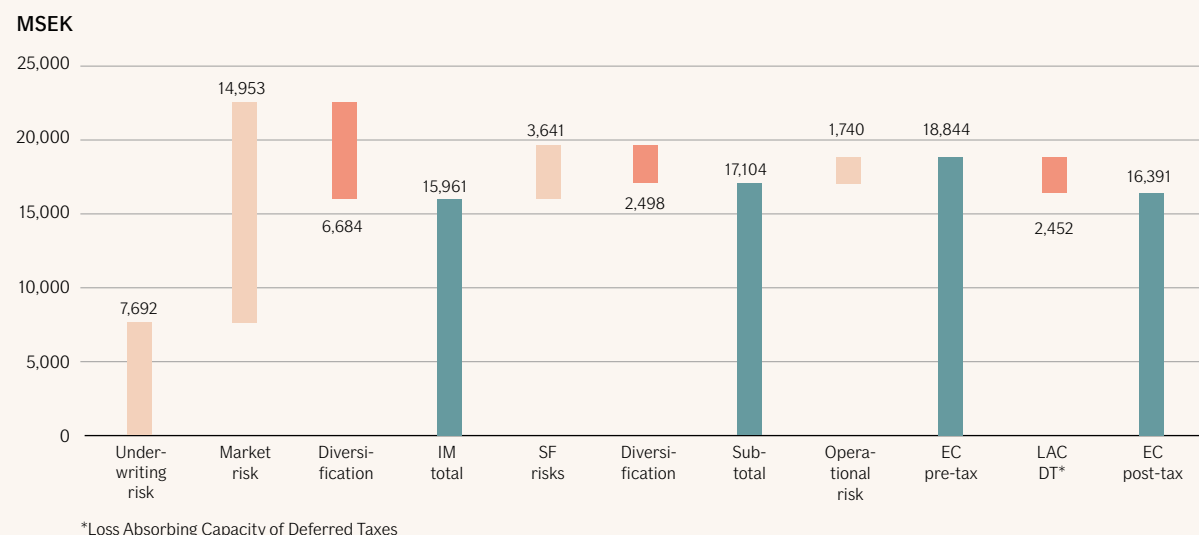
Risk Profile

The risk measure economic capital is used for internal quantitative risk measurement and reporting, as well as for decision-making. The economic capital (EC) 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 qualitatively assessed. These risks are liquidity risk, strategic risk, compliance risk, reputational risk and emerging risk.

The risk categories that contribute the most to economic capital are market risk and underwriting risk as shown in the figure below.

Figure 1 – Overview of If's economic capital, 31 December 2023



¹ Figures in brackets throughout the report refer to figures from the previous corresponding period.

² Of which 2,910 MSEK in the income statement and -8,003 MSEK in other comprehensive income.

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, 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.

Since 1 January 2023, If applies the accounting standard IFRS 9 Financial instruments. The comparative year 2022 has not been restated in accordance with these principles. 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 6,531 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.

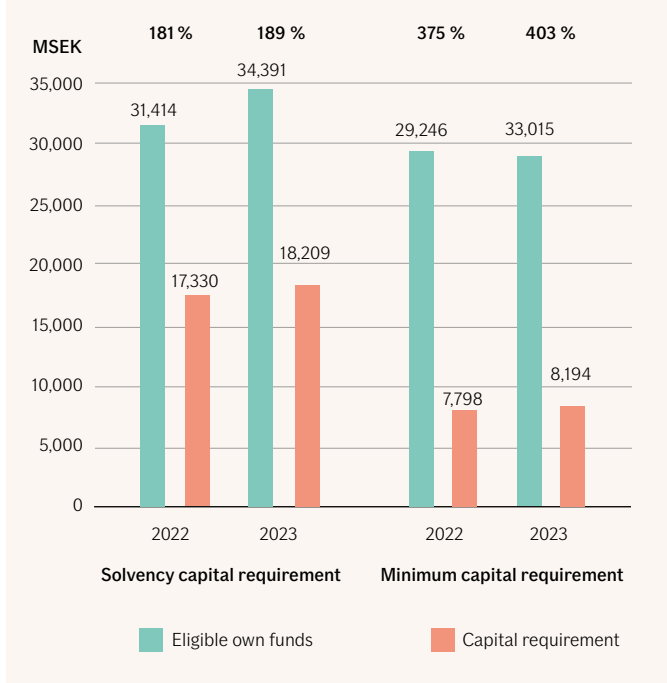
Capital Management

If focuses on both capital efficiency and sound risk management whilst keeping capital resources at an appropriate level in relation to the risks. This involves ensuring that the available capital exceeds the internal and regulatory capital requirements.

If's regulatory solvency capital requirement is calculated using the partial internal model. On 31 December 2023, the solvency capital requirement ratio amounted to 189% (181%) and the minimum capital requirement ratio to 403% (375%).

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.

Figure 2 – If's capital and solvency overview



Eligible own funds have increased more than the solvency and minimum capital requirement during the year, which explains the increased solvency ratios. The capital requirements have increased mainly due to increased underwriting risk.

1 Business and Performance

1.1 Business

1.1.1 Legal structure

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, Finland. If is part of the If group together with the insurance companies If Livförsäkring AB and If P&C Insurance AS. The number of employees amounted to 6,819 at year-end. The average number of employees was 6,785.

1.1.2 If's financial supervisory authority

Finansinspektionen
Box 7821
103 97 Stockholm, Sweden

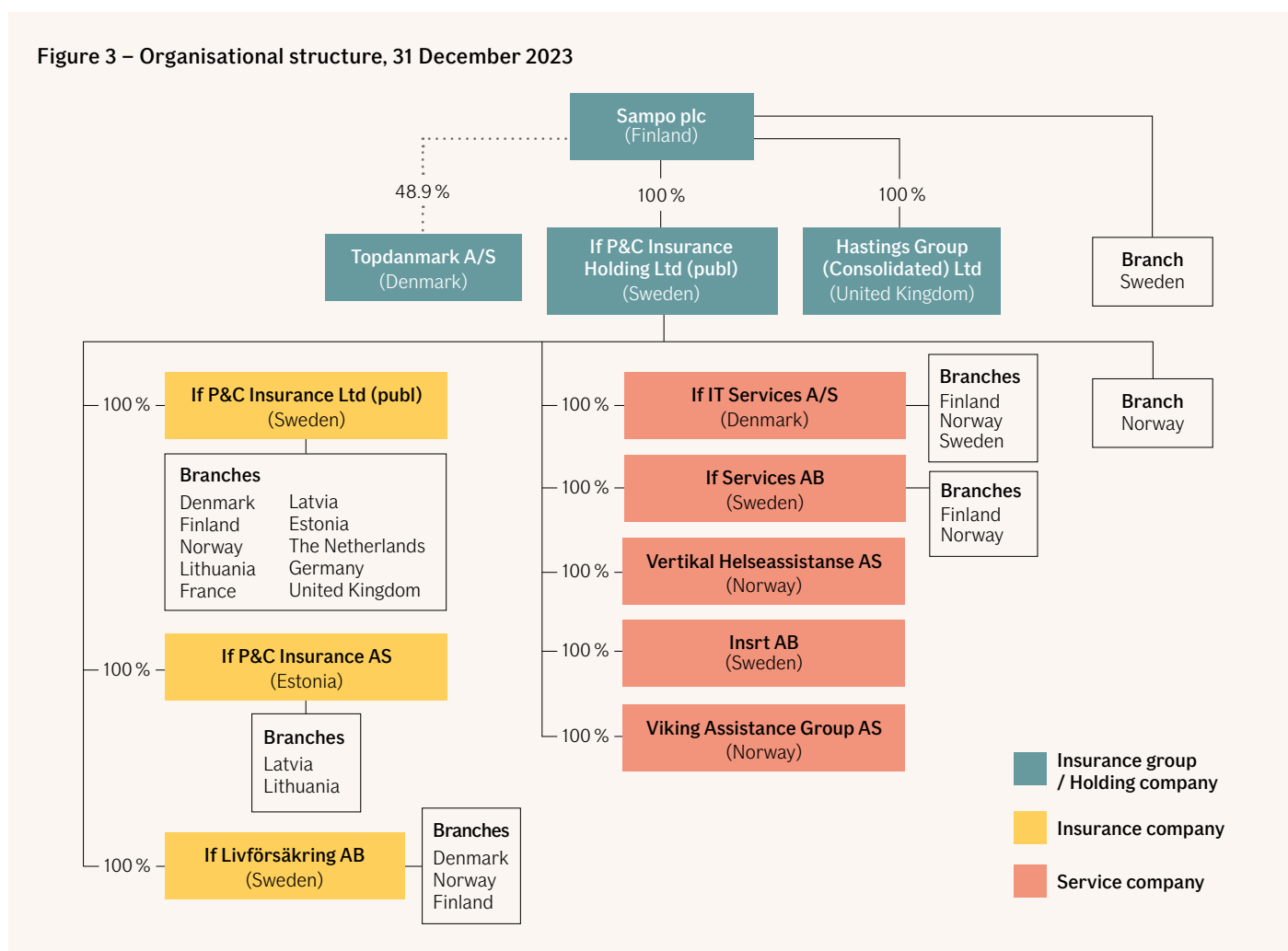
1.1.3 Sampo's financial supervisory authority

Finansinspektionen
Box 7821
103 97 Stockholm, Sweden

1.1.4 External auditors

Deloitte AB
113 79 Stockholm, Sweden

Figure 3 – Organisational structure, 31 December 2023



1.1.5 Business areas and geographical areas

If is the leading property and casualty insurer in the Nordics with market shares in Sweden, Norway, Finland and Denmark of approximately 18%³, 22%⁴, 21%⁵ and 6%⁶ respectively. For Nordic industrial customers operating on a global level, If has European branch offices and international partners.

If's insurance business is divided by customer segments into the cross-Nordic business areas Private, Commercial (small and medium sized companies) and Industrial (large corporations). 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. Insurance is provided through If's own brand, other brands and in co-branding and partnerships, to offer customers a full range of competitive insurance solutions.

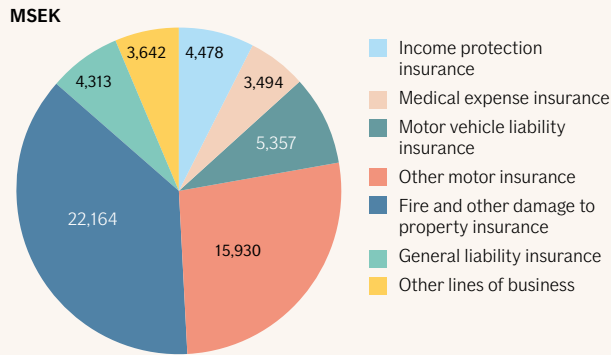
³ SE: Insurance Sweden (Q3 2023)

⁴ NO: Finance Norway (Q3 2023)

⁵ FI: Finance Finland (Q4 2022)

⁶ DK: Insurance & Pension Denmark (Q3 2022)

Figure 4 – Premiums written (gross) by Solvency II lines of business, 31 December 2023



1.1.6 Significant events over the reporting period

The year 2023 was marked by geopolitical uncertainty and a challenging macroeconomic environment with historically high inflation and interest rates. Nordic claims frequencies returned to closer to pre-pandemic levels and If was also affected by more severe weather-related claims than normal. This included floodings caused by the storm Hans, as well as harsher winter seasons than usual.

If's insurance exposures in Russia and Ukraine are limited to certain Nordic industrial line clients, with coverage subject to war exclusions. On the asset side, If has no direct investments in Russia or Ukraine.

1.2 Underwriting performance

The technical result for 2023 amounted to 7,652 MSEK (9,808 MSEK⁷) and the combined ratio was 86.6% (80.7%).

Gross written premium increased by 6.3%, excluding currency effects. All business areas contributed to the premium development, especially in Finland. The premium development was to a large extent driven by active pricing to mitigate claims inflation and portfolio renewals with higher average premiums. During the year, the market environment hardened but retention remained high and stable.

After a favourable large claims outcome in the beginning of the year, the subsequent quarters brought adverse large claims and severe weather development which resulted in a deteriorated risk ratio⁸ of 65.7% (59.8%). It is also notable that the risk ratio in 2022 was considerably favoured by decreased provisions for annuities following an increased discount rate in Finland. The cost ratio⁹ remained stable at 20.9% (20.9%) despite increased cost pressure due to high inflation. Strong premium growth and continued streamlining of processes and procedures were the main explanations for the steady development. Gross premiums earned and underwriting performance per line of business and geographical area are presented in the tables below. Revenues per geographical area are distributed amongst the countries in which If has branches, corresponding largely with the customers' geographic domicile.

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

MSEK Line of business	Premiums earned (gross)		Underwriting performance (net)	
	2023	2022	2023	2022
Income protection insurance	4,312	3,964	909	757
Medical expense insurance	3,383	3,000	173	89
Motor vehicle liability insurance	5,376	5,403	2,040	301
Other motor insurance	15,803	15,257	1,482	1,936
Fire and other damage to property insurance	21,251	19,196	731	2,123
General liability insurance	4,201	3,786	646	59
Other lines of business	3,672	3,397	1,126	4,513
Total	57,997	54,004	7,106	9,779
Allocated investment return as part of the technical account			628	112
Other technical income and expenses			-83	-83
Technical result from property and casualty insurance, GAAP			7,652	9,808

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

MSEK Country	Premiums earned (gross)		Underwriting performance (net)	
	2023	2022	2023	2022
Denmark	5,957	5,414	126	-269
Finland	12,898	11,114	2,801	5,707
Norway	18,644	18,075	1,196	1,586
Sweden	19,685	18,723	2,636	2,985
Other	812	677	348	-230
Sum	57,997	54,004	7,106	9,779

During 2023, gross premiums earned increased in all business lines except Motor vehicle liability insurance. The strongest premium development was found within Fire and other damage to property insurance, primarily driven by rate increases in line with claims inflation and a continuously high retention. From a geographical

perspective, premiums earned increased in all countries, especially in Finland.

The underwriting performance decreased to 7,106 MSEK (9,779 MSEK). The Motor lines of business result was weaker than expected due to the continued slow sales of new cars and increased claim

⁷ Figures in brackets throughout the report refer to figures from the previous corresponding period.

⁸ Total sum of insurance claims on own account, excluding claims handling expenses, in relation to premiums earned on own account, expressed as a percentage.

⁹ Total sum of operating expenses in insurance operations on own account and claims handling expenses in relation to premiums earned on own account, expressed as a percentage.

costs. For other lines of business, which include Workers' compensation insurance, the underwriting performance was markedly deteriorated compared to previous year due to changes in the mortality model and increased discount rates for annuities in Finland during 2022. As a result of the outcome from Workers' compensation insurance, the underwriting performance was decreased in Finland as well, since this business line constitutes a significant part of the Finnish product portfolio.

Throughout 2023, the Nordic countries experienced a challenging macroeconomic environment with historically high inflation and interest rates. P&C insurers were also affected by more weather-related claims than normal. Despite such challenges, 2023 turned out to be a rather solid year for If. The business model with its strong customer orientation, focus on underwriting, sustainability, and leading digital services that simplifies for the customer, was once again proved essential for the total result. The overall high and stable key ratios for customer retention and satisfaction also confirm that If successfully delivered the best possible service to its customers during the year.

1.3 Investment performance

During 2023, the inflation rate declined from historically high levels. After a period of interest rate increases, rates declined significantly during the latter part of the year, especially those for the long terms. The Stockholm Stock Exchange advanced and posted solid gains for the year.

The investment result for 2023 amounted to 9,601 MSEK (-5,092 MSEK¹⁰). The result corresponded to a total investment return of 8.5% (-4.3%). The increase in the result compared with the preceding year was mainly due to strong positive results for both the fixed-income portfolio and the equity portfolio.

Fixed income assets returned a total of 7.1% (-1.5%). Proceeds from matured bonds have gradually been reinvested at higher rates with longer-dated maturities, with the result benefitting from interest-rate declines during the fourth quarter. All interest-bearing assets generated positive results, corporate bonds in particular. The duration of fixed income assets was 2.4 years (1.9) at the end of the year.

Table 3 – Investment performance, 31 December 2023

MSEK	Fair value		Result 2023		
	31 December 2023		Interest, dividends etc.	Changes in value, Income statement	Total result
Interest-bearing securities	102,156	88.4%	4,239	2,957	7,196
Equities	13,831	12.0%	435	2,108	2,543
Currency (active positions)	14	0.0%	-	6	6
Currency (other)	-438	-0.4%	-	16	16
Properties	5	0.0%	-2	-5	-6
Other	-	-	-157	4	-153
Total investment assets	115,568	100%	4,515	5,086	9,601

Table 4 – Investment performance, 31 December 2022

MSEK	Fair value		Result 2022				
	31 December 2022		Interest, dividends etc.	Changes in value, Income statement	Total, Income statement	Other comprehensive income	Total result
Interest-bearing securities	97,464	87.8%	2,565	162	2,727	-4,238	-1,511
Equities	13,030	11.7%	450	148	598	-3,765	-3,167
Currency (active positions)	24	0.0%	-	36	36	-	36
Currency (other)	460	0.1%	-	-153	-153	-	-153
Properties	9	0.0%	-1	-12	-12	-	-12
Other	-	-	-286	1	-285	-	-285
Total investment assets	110,986	100%	2,729	182	2,910	-8,003	-5,092

The total return on equities was 20.6% (-20.4%). Stock markets where If has investments increased in value during the year, and the strongest contributors to the equity portfolio's result were the Scandinavian large cap companies.

The asset allocation remained stable. Fixed income assets comprised 88% (88%) and equities 12% (12%) of the total investment assets.

If has no investments in securitisations. Costs for hedging investment assets and other administrative costs are reported under Other in the tables above. Since 1 January 2023, If applies the accounting standard IFRS 9 Financial instruments. The comparative year 2022 has not been restated in accordance with these principles.

1.4 Performance of other activities

Costs excluded in the underwriting performance or in the investment performance have historically been related to amortisation of goodwill. At 31 December 2023 goodwill amounted to 0 MSEK (0 MSEK) and amortisation for goodwill to 0 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 (BoD) decided in March 2024 to propose a dividend payment of 8,000 MSEK to If Holding. The proposed dividend was deducted from eligible own funds at 31 December 2023.

¹⁰ Of which 2,910 MSEK in the income statement and -8,003 MSEK in other comprehensive income.

2 System of Governance

2.1 General information on system of governance

If has established a system of governance consisting of several parts to ensure a well working capital and risk management. The organisational set-up includes the legal and operational structure in which the business is run. The BoD 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 and the risk management system.

The Institute of Internal Auditors' three lines model is applied to ensure an efficient risk management and internal control as well as a clear division of roles and responsibilities within the organisation, see figure 8 Three lines model.

Efficient communication and reporting structures ensure that decisions made by the BoD 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 structure

The overall principles and division of responsibilities are defined on Sampo group level. If organises its operations in accordance with these principles whilst taking into account the specific characteristics of respective country and business area.

The insurance operation is organised in accordance with customer segments into the business areas Private, Commercial and Industrial. In all Nordic business areas, claims are handled by a common cross-functional Claims unit. 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 and the Claims unit.

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 BoD.

2.1.2.2 BoD

The BoD is responsible for ensuring that the business is organised in an appropriate manner. The BoD 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 an appropriate risk management system and efficient processes. Further, the BoD decides on the policy framework and approves material and strategic decisions. The steering documents are revised annually.

The BoD reviews and decides the rules of procedure for its work annually and adopts an instruction for the CEO specifying the CEO's responsibilities. The BoD has not appointed any formal committees within the BoD's responsibilities.

2.1.2.3 CEO

The CEO is responsible for organising and overseeing the daily business activities in accordance with instructions and guidelines from the BoD. The CEO has the possibility to delegate the decision authority of the daily business activities whilst retaining the ultimate responsibility for such decisions.

The CEO is the deciding body for several instructions within the policy framework. The CEO has responsibility for the effective implementation and development of the risk management system by ensuring appropriate risk management set-up and promoting a sound risk culture.

2.1.3 Key functions

2.1.3.1 Risk Management function

The Risk Management function is headed by the Chief Risk Officer (CRO). Responsibilities and tasks within the function are carried out by the Financial Risk and Capital Management unit, the Non-Financial Risk unit and the Validation team. The function facilitates the implementation and development of the risk management system. The Risk Management function reports to the BoD and 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 BoD 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 BoD.

2.1.3.4 Actuarial function

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

2.1.4 The remuneration system

The Remuneration Policy, together with the Sampo group Remuneration Principles, set the principles for the remuneration system.

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

2.1.4.1 Principles for the remuneration

If's remuneration forms are fixed compensation, variable compensation, pension and other benefits.

2.1.4.2 Fixed compensation

Fixed salaries shall be fair and competitive but not market-leading and be based on the employee's general responsibility level, position in the company, performance and quality of work as well as on other facts, such as salary market data.

2.1.4.3 Variable compensation

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 incentive programs, discretionary rewards in form of gratuities and long-term incentive schemes.

In general, variable compensation increases in relation to

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 and/or Sampo group. Employees in key functions are not entitled to variable compensation, however they are entitled to discretionary awards, with the exception of key function holders and employees working in the Internal Audit function.

Variable compensation programs always include triggers, rules and caps on the payment. The total variable compensation may not threaten If's ability to maintain an adequate capital base. The outcome of the long-term incentive schemes is based on the development of Sampo's share price and on the Sampo group's return on capital at risk.

If an employee's remuneration includes a variable component, there is to be an appropriate balance between the fixed and variable components. Both measurable quantitative as well as qualitative criteria should be used for assessing individual performance. The proportion of quantitative and qualitative criteria should be set in accordance with applicable regulation and be appropriately balanced based on position and responsibilities.

The Remuneration Policy contains specific arrangements applicable to identified staff, that is, persons who effectively run the company (BoD, management, CEO and key functions) and risk takers (employee whose professional activities may have a material impact on the company's risk profile). Based on the Remuneration Policy, part of the variable compensation payment¹¹ to identified staff shall be deferred for a defined period. After the deferral period, a retrospective risk adjustment review should be carried out where the BoD decides whether the deferred variable compensation is to be paid/released in full, partly or cancelled.

2.1.4.4 Supplementary pension or early retirement schemes¹²

Members of the Board, CEO and key function holders employed in Sweden are entitled to pension according to insurance industry's occupational pension plan, FTP17 or individually agreed defined pension contribution. Those under FTP are entitled to either a defined pension benefit or a defined pension contribution depending on year of birth. In Norway, employees of this group are covered by a defined pension contribution. Employees of this group in Finland are not covered by any supplementary pension or early retirement schemes¹³. Members of the Board are entitled to pension from their ordinary employment and do not receive any further pension benefits for board assignments.

2.1.5 Material transactions

The following material transactions with shareholders, persons who exercise a significant influence on the undertaking and board members 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. Material transactions have taken place on a regular basis in the structure during the year;
- Up until 1 October 2023, If and a subsidiary to Sampo, had an asset management agreement relating to parts of If's asset management. If paid a fixed commission calculated on the market value of the managed investment assets; and
- If has paid a dividend of 7,500 MSEK to If Holding.

2.1.6 Material changes in the system of governance during the reporting period

There have been no material changes in the system of governance during 2023.

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 Sampo group companies are managed with competence and integrity. A Fit and Proper Policy has been issued as a supplement to 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 sector or business. It also considers the respective duties allocated to that person.

To ensure that the company is managed in a professional manner, the fitness assessment takes into account the respective duties of the members of the BoD to ensure an appropriate diversity of qualifications, knowledge and relevant experience, both individually and collectively.

2.2.2.2 Propriety requirements

Assessed persons should be of good repute and integrity. The assessment includes an evaluation 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 Fit and proper process

The fit and proper assessment is conducted prior to the appointment of a person to a position that is subject to the fit and proper assessment. The persons are assessed on a regular basis to ensure that they meet the fit and proper criteria on an on-going basis. Furthermore, a reassessment is to 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 is considered fit and proper for the position. The decision regarding potential board members, as well as regarding the collective competence of the BoD, is to be taken by the BoD. Required notifications are made to the Swedish Financial Supervisory Authority.

¹¹ Including any parts of termination payments that exceeds the salary for the notice period and a possible non-competition period.

¹² One member of the board is not employed in the company, but within Sampo Group.

¹³ For more information about pensions, see the Annual Report - Note 12 "Salaries and other remuneration for senior executives and other employees".

2.3 Risk management system including own risk and solvency assessment

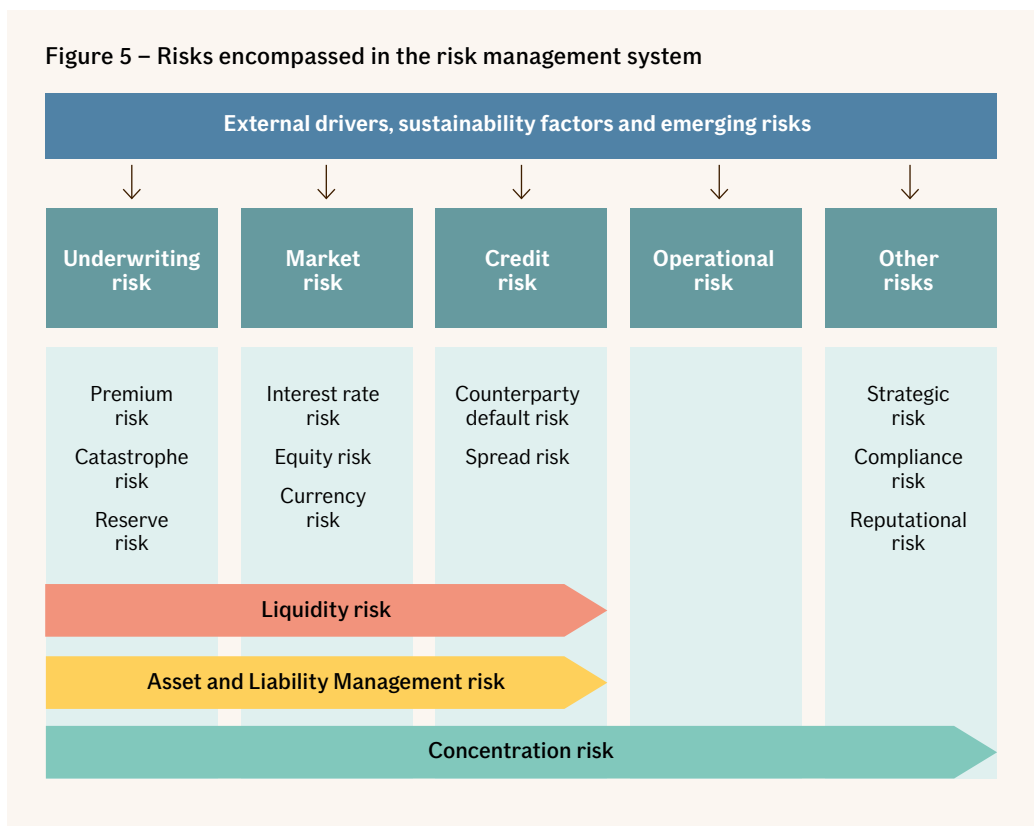
2.3.1 Description of the risk management system

Risks and risk management are an essential and inherent element of the business activities and operating environment in If. A high-quality risk management process is a prerequisite for running the business effectively and achieving established goals.

The risk management system comprises strategies, processes and reporting procedures necessary to continuously identify, assess, measure, mitigate, monitor and report risks. As a part of the system of governance, the risk management system ensures that all risks are managed from a legal entity perspective. The 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. Each key risk is subject to a dedicated risk management process. Within the risk management system, sustainability related risks, such as climate risk, 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 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 providing input to business decisions by considering the effect on risk and capital.

2.3.3 Risk strategy

The Risk Management Policy defines the overall risk strategy and the risk appetite for the 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 the adequacy of capital in relation to risks and risk appetite;
- limit fluctuations in the economic values of group companies;
- ensure a strong financial data management;

- ensure that risks affecting the profit and loss account and the balance sheet are identified, assessed, mitigated, 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

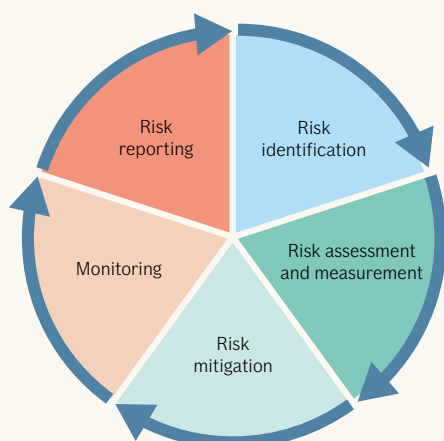
If's risk appetite framework defines the boundaries for what level of risk the company is willing to accept in the pursuit of the objectives. The framework includes the risk appetite statement, capital adequacy, steering documents, processes and controls.

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: identification, assessment/measurement, mitigation, monitoring, and reporting. Sustainability aspects are considered when identifying and assessing risks.

Figure 6 – The risk management process



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

Risk assessment and measurement. The first line is responsible for assessing and measuring the identified risks. The Risk Management function, the Compliance function and the Actuarial function (second line) supports the first line by providing the framework and tools needed for a consistent assessment of the different risk categories.

If uses both quantitative and qualitative methods for risk measurement and reporting. Underwriting risk and market risk are quantitatively measured using If's internal model. In addition, qualitative assessments of all risks, including 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 mitigated. 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, mitigated 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.

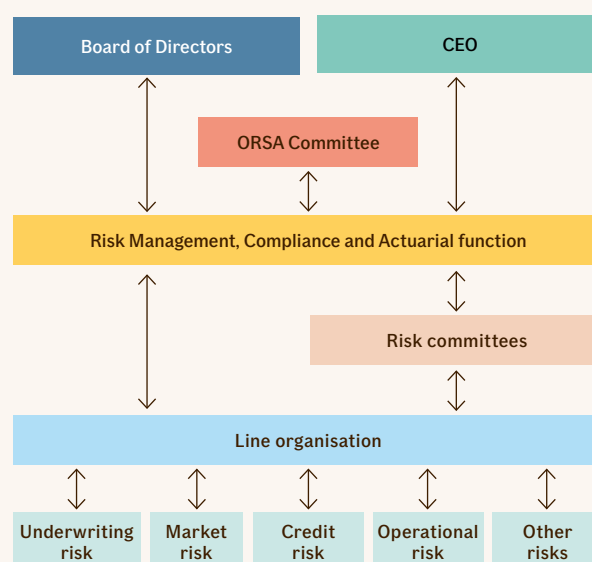
Risk reporting. The first line reports to the second line as well as to applicable risk committees on a monthly, quarterly, bi-annual or annual basis. The second line is responsible for the risk reporting to the CEO, the BoD and the ORSA Committee, which includes the following:

- Quarterly risk reporting;
- Annual ORSA reporting; and
- Annual reporting of performed and planned risk management activities.

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, central functions and the line organisation.

Figure 7 – Risk Management reporting structure



2.3.7 Responsibilities within the risk management system

The main responsibilities within the risk management system are defined below.

2.3.7.1 BoD

The BoD is responsible for risk control, internal control and for ensuring that the company has an appropriate risk management system and processes. The BoD annually approves changes to the Risk Management Policy and other risk steering documents. The BoD is the receiver of risk reporting from the second line as well as from the CEO and takes an active part in the 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 BoD. The CEO has the ultimate responsibility for the effective implementation and development of the risk management system by ensuring an appropriate risk management set-up and promoting a sound risk culture.

The CEO shall also, in consultation with the CAE and If's external auditors, supervise that the internal control is performed in accordance with policies, internal guidelines and instructions.

2.3.7.3 Risk committees

ORSA Committee

The ORSA Committee assists the CEO in fulfilling the responsibility of overseeing the risk management system. The committee also reviews the effectiveness of the internal control system, as well as initiates and monitors efforts and actions relating to these areas. The committee is the receiver of analyses and reporting of risks on a holistic level. Furthermore, the committee monitors that the short-term and long-term aggregated risk profile is aligned with the risk strategy and capital requirements. The committee meets at least four times a year.

Other committees in the risk management system

There are additional committees in place for key risk areas. These committees have the responsibility to monitor that risks are managed and controlled as decided by the BoD. The committees also monitor the effectiveness of the steering documents and provide input regarding changes and updates, if needed. None of the committees have any decision-making mandate.

2.3.7.4 Risk Management function

The Risk Management function is responsible for coordinating the risk management activities on behalf of the BoD and the CEO. The main responsibilities of the Risk Management function are to:

- assist the BoD 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 corporate functions in their work to manage all risks;
- secure a holistic view of the risks If is exposed to, including monitoring, measuring, reporting and following up on If’s aggregated 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 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.

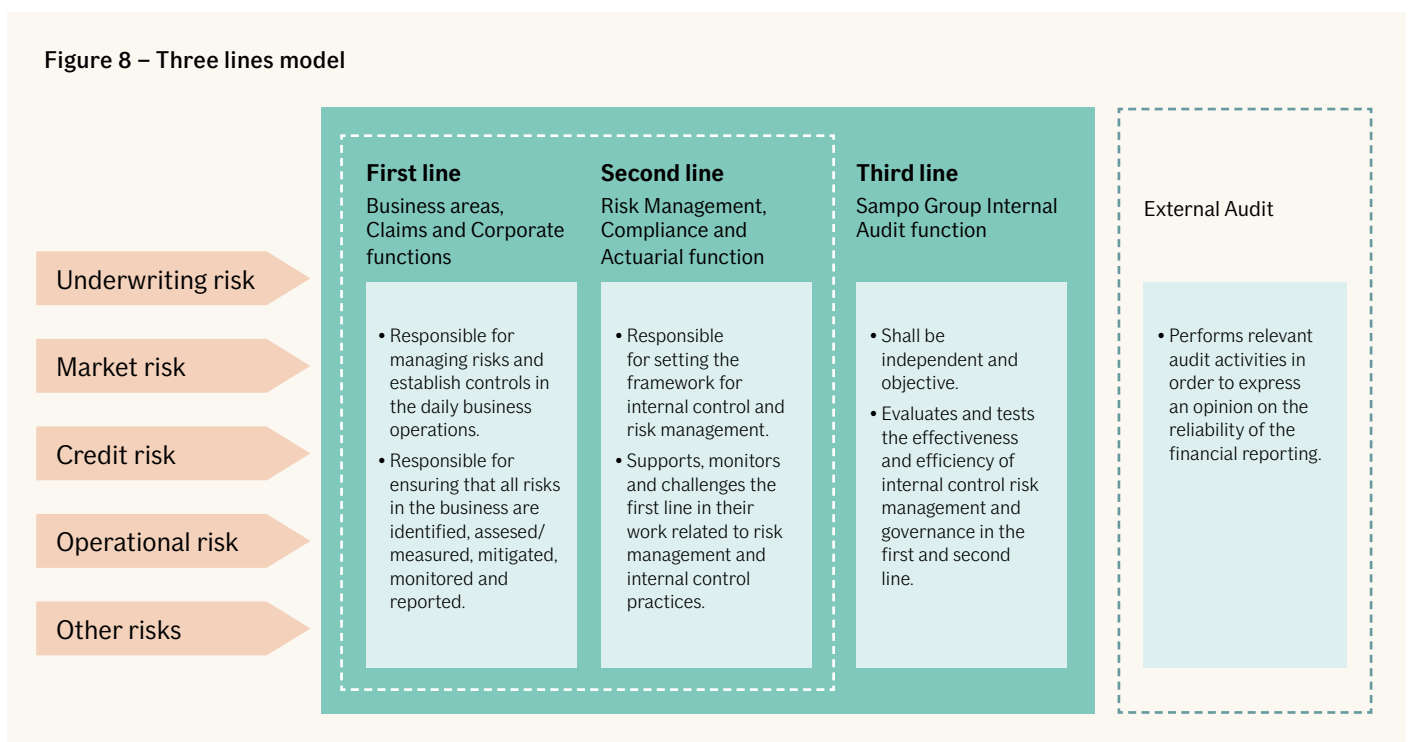
2.3.7.5 Line organisation

The line organisation has the day-to-day responsibility for identifying and managing risks within the limits and restrictions set by risk policies, guidelines and instructions and to ensure that it has resources and tools in place to do so. On behalf of the heads of the business areas and the corporate functions, a risk coordinator structure is established. The CRO and the CCO issue instructions describing the responsibility of the risk coordinators. The line organisation has the obligation to inform the Risk Management function and the Compliance function of material risks.

2.3.7.6 Implementation of the risk management system

The three lines model addresses how specific duties related to risk and control are assigned and coordinated within If. The responsibilities for each line are described in the figure below.

Figure 8 – Three lines model



The Risk Management function assist the BoD and CEO in the implementation and operation of the risk management system by setting requirements on data and processes and coordinating reporting from the line organisation. The ORSA Committee assists the CEO in overseeing the risk management system, and reviews analyses and reporting on a holistic level.

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, mitigate, monitor and report all material risks to the second line and relevant risk committees.

Risks are identified and measured in the risk management system, especially through the internal model, but also through qualitative methods for non-financial risks.

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 whilst 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 and a summary is sent to the BoD.

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 financial plan. The annual ORSA process is carried out in parallel with, and is regarded in, the financial plan that is approved by the BoD.

The solvency position is assessed partly through If's economic capital, and partly through the regulatory solvency capital requirement. Eligible own funds and capital requirements are forecasted over a three-year planning period. The assessment includes stress tests, sensitivity analyses and reverse stress tests, covering the main risks and simultaneous adverse effects from different risks. The tests are developed in cooperation with the risk owners and the management and approved by the BoD.

In addition to a quantification of the main risk categories, a qualitative assessment of the key risks is conducted over the planning period. 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 a report, based on data as per 30 September and approved by the BoD. The report for 2024-2026 was approved by the BoD in December 2023. 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 Financial Supervisory Authority.

2.3.9 Governance of the internal model

If applies an internal model for various risk and capital related purposes. The main applications 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
- calculation of own solvency needs over the planning horizon.

If has an approval from the Swedish Financial Supervisory Authority 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 surrounding the internal model are considered 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 BoD 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 governance of the internal model 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.

BoD

The BoD 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 BoD makes material decisions regarding 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.

The responsibility to design and develop the internal model has been delegated to the Financial Risk and Capital Management unit and the responsibility to organise an independent validation of the internal model has been delegated to the validation team.

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 BoD and prior approval by the Swedish Financial Supervisory Authority is required.

Financial Risk and Capital Management unit

The Financial Risk and Capital Management unit is responsible for:

- the development of the internal model, and ensuring that the output for model use, including the reporting to committees, is appropriately documented and presented;
- that the 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 the appropriateness of the data and, if needed, take appropriate action regarding data quality.

The Head of Financial Risk and 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 the documentation on changes to the model. These updates are to be reported at the subsequent meeting of the Internal Model Committee. The Head of Financial Risk and Capital Management verifies that the internal model is updated at least quarterly and that these updates are quality assured.

Validation team

The validation team is responsible for the internal model validation. This includes compiling the validation plan and the validation report and reporting the performed validation and its findings to the CRO, CEO and to the BoD.

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 BoD 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 Chief Financial Officer, Head of Financial Risk and Capital Management and a representative from at least one business area.

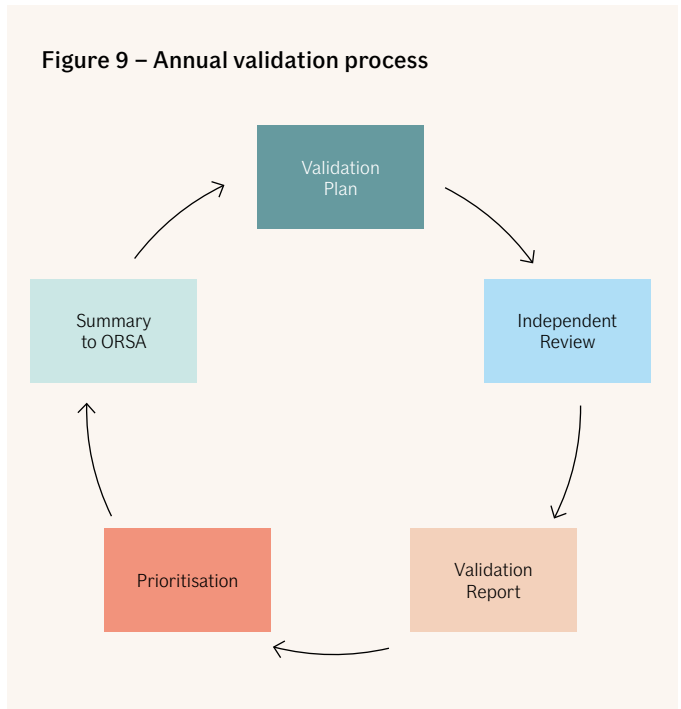
Other functions relating to the internal model

A specific instruction regulates the responsibility for data related to the internal model. 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 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 on 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 Head of Financial Risk and Capital Management. Findings from previous years are considered when setting the annual 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 objectives of the internal control system are to ensure effective and efficient operations, reliable financial and non-financial reporting as well as compliance with external laws and regulations. An effective internal control system provides the BoD and CEO with reasonable assurance that these objectives can be reached. Internal control related to financial reporting ensures that the BoD and management have access to relevant and reliable financial information supporting their decision-making, and that external stakeholders can rely on the financial information provided.

The Internal Control Policy sets the framework for an effective internal control system. The policy is reviewed and approved annually by the BoD. 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 system is based on two specific frameworks; the Three Lines Model and the COSO¹⁴ framework.

¹⁴ The Committee of Sponsoring Organizations of the Treadway Commission.

If applies the Three Lines Model, each with different roles and responsibilities. The Three Lines Model addresses how specific duties related to risk and control are assigned and coordinated within If. All three lines shall ensure that timely reporting is carried out to the BoD and the CEO, enabling them to fulfil their responsibility of overseeing the internal control system in If and ensuring the system's effectiveness.

The COSO framework outlines the structure and principles that are necessary to ensure an effectively managed internal control system within If. It provides three categories of objectives that need to be achieved in order for If to reach its goals. To achieve the three objectives, five integrated components need to be in place and functioning as intended. The five components are:

Control environment, sets the tone of the organisation and includes:

- the organisation's integrity and ethical values;
- the BoD's independent oversight of the internal control's development and performance;
- the CEO's establishment of structures, reporting routines, roles and responsibilities as well as mandates to reach the objectives of internal control;
- the organisation's engagement in attracting, developing and retaining competence; as well as
- the organisation's demand on establishing clear lines of responsibility within the business to reach the objectives of internal control.

Risk assessment, is the foundation for an effective and efficient internal control. The risk assessment process includes goal setting as well as identifying and analysing the risks of not reaching set goals and strategies. As part of the risk assessment work, it is necessary to identify and evaluate changes within the organisation. An effective risk assessment is a prerequisite for determining whether a risk should be accepted or managed via control activities.

Control activities, are the risk responses which ensure that necessary actions are taken to mitigate the identified risks and reach set goals. The purpose of control activities is to mitigate the risks threatening the achievement of objectives related to operations, reporting and compliance to acceptable levels. Control activities consist of steering documents, approvals, authorisations, reconciliations, appropriately restricted access rights, rules and referral, four eyes principle and the grandfather principle, comprehensive process documentation, performance reviews as well as identification and management of conflicts of interest.

Information and communication, is the method for implementing the components of internal control throughout the organisation by generating and using relevant information. Information needs to be identified, gathered and communicated to internal and external parties in an accurate and timely manner that enables internal control to be carried out effectively and efficiently.

Monitoring, is the assessment of the effectiveness and efficiency of internal control by evaluating whether the above-mentioned components are present and functioning as intended. Monitoring activities are performed by the first, second and third line.

2.4.2 Compliance function

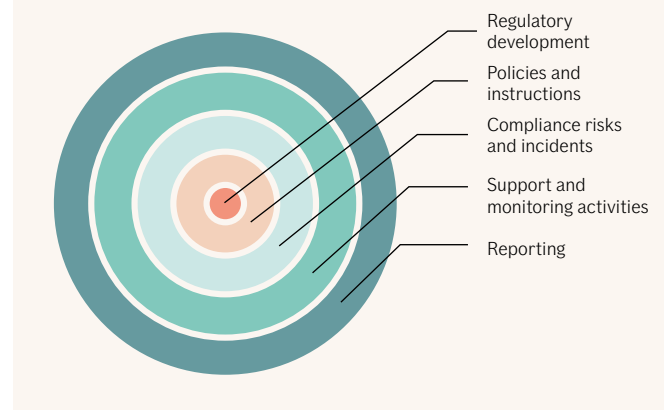
The Compliance function is responsible for advising the BoD and the CEO on compliance with the rules related to If's license to conduct insurance business. The Compliance function identifies and assesses the risk of non-compliance. The function also assesses the possible impact of any changes in the legal environment on the operations as well as the adequacy of the measures adopted to prevent non-compliance.

The Compliance function primarily addresses 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 BoD or the CEO.

The Compliance function is separated from the business organisation, operationally independent and part of the second line. The compliance function's areas of responsibilities have been divided into five sub-processes.

Figur 10 – The Compliance function's subprocesses



The CCO is appointed by the BoD and has the overall responsibility for the function and the sub-processes. The BoD has issued an instruction for the CCO, describing the responsibilities in more detail. The CCO appoints Compliance Officers to perform compliance activities. A risk-based Compliance plan is established annually and approved by the BoD.

2.5 Internal audit function

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 BoD and managed by the CAE as appointed by the BoD.

2.5.1 Internal Audit Policy

The Internal Audit Policy describes the principles and responsibilities of the Internal Audit function. According to the policy, the function is to apply the International Professional Practices Framework set by the Institute of Internal Auditors. The policy is reviewed annually and approved by the BoD. No significant changes were made to the policy during the reporting period.

2.5.2 Internal audit activity plan

An internal audit activity plan is established annually by the Internal audit function and considers both short- and long-term aspects. The plan is approved by the BoD. A risk-based approach is applied, and internal audit activities cover all main areas of the operations and the system of governance. The external auditors are informed about the internal audit activity plan.

2.5.3 Reporting

The Internal Audit function reports on the audits and the performed follow-up activities to the BoD. Severe internal control deficiencies are reported without delay to the BoD 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 distribution.

The CAE submits status reports at least twice a year to the BoD and to Sampo's Audit Committee. The status reports include identified severe internal control deficiencies and potential follow-up issues yet to be remedied according to the agreed actions.

2.5.4 Independence and objectivity

The Internal Audit function is independent and objective and does not carry out any operational tasks. Internal auditors are refrained from assessing the operations that they have been responsible for during the last 12 months. Internal auditors are chosen based on their knowledge, skills and integrity.

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 BoD 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 Actuarial function is a part of the system of governance and the second line in the Three lines model. The tasks of the Actuarial function are described in the instruction for the Actuarial function. 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 through the ORSA-process.

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.

Solvency II premium and claims provisions are based on parameters from actuaries from each business area and the Chief Actuary unit. 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 the steering documents and that local rules and regulations are reflected in guidelines and working routines.

2.6.2 Reporting

The Actuarial function reports information regarding material tasks that have been undertaken as well as their results at least annually to the BoD and the CEO. The function also provides advice on how to remedy any deficiencies. The report includes the methods used, calculations, reliability and adequacy of technical provisions as well as an opinion on the Underwriting Policy and the adequacy of reinsurance arrangements.

The Actuarial function ensures, after each quarterly book closing, that a report is submitted to the BoD and the CEO, consisting of an opinion on the adequacy and appropriateness of the technical provisions.

The Actuarial function is responsible for the quarterly reporting of relevant Actuarial Committee questions 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 critical or important.

The outsourcing process ensures an effective control of the outsourcing of critical or important functions or activities as well as mitigating the 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 BoD has established an Outsourcing Committee to monitor that outsourcing is conducted in accordance with the Outsourcing Policy. Any new or materially amended outsourcing agreement regarding critical or important functions or activities, should be reported to, and assessed by, the Outsourcing Committee and approved by the BoD prior to notifying the Swedish Financial Supervisory Authority.

2.7.2 Outsourcing of critical or important operational functions or activities

In order to increase efficiency in the insurance business, If outsources critical or important operational activities to internal and external service providers as described below.

Up until 1 October 2023, If and a subsidiary to Sampo, had an asset management agreement relating to parts of If's asset management. As of 1 October 2023, this agreement was replaced by a similar agreement with Sampo, whereby some investment decisions are outsourced to Sampo.

As a result of If's business areas and Claims operating through different legal entities and branch offices, a number of 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 claim handling arrangements have also been signed with service providers. These contracts are entered in order to provide claim handling services in areas where If has no physical presence. There are also claim handling arrangements which have been concluded as part of larger partner cooperations and include sales and franchising arrangements. The partners are mainly located in the Nordic countries.

2.8 Any other information

2.8.1 Adequacy of the system of governance

If's system of governance is considered 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 should exceed both the internal risk measurement economic capital and the regulatory solvency capital requirement. In addition, If strives to maintain at least an A rating by both Standard & Poor's (S&P) and Moody's¹⁵. This means that capital required for If's risks is quantified using different measures for different purposes.

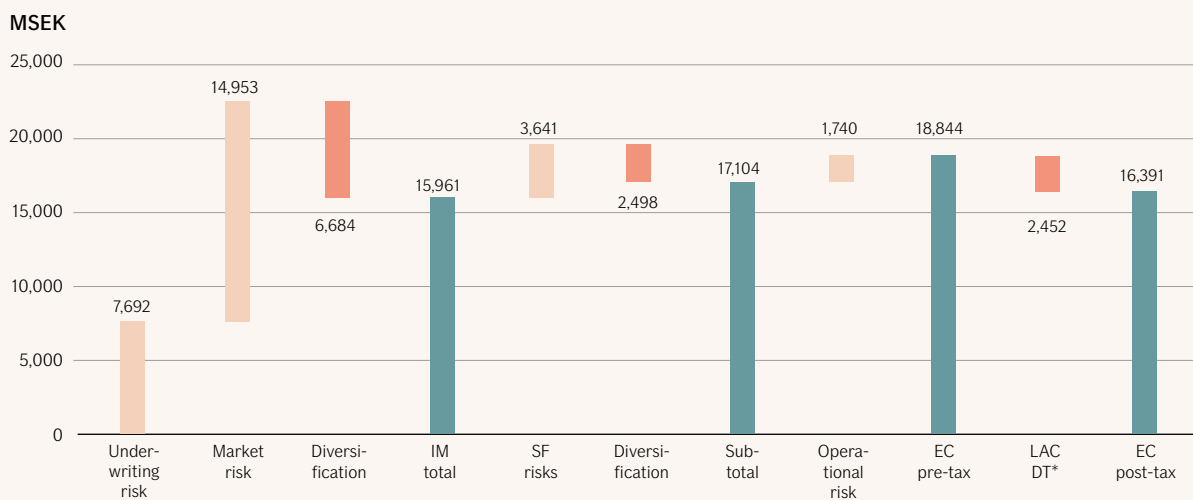
In this chapter, If's risk profile and economic capital are described. The principles for risk measurement and the risk profile are presented on an overall level, followed by a more detailed description and analysis of each risk category. The main risk categories described in this section are underwriting 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.

The measure economic capital is used for internal quantitative risk measurement and reporting, as well as for decision-making. The economic capital (EC) 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 qualitatively assessed. These risks are liquidity risk, strategic risk, compliance risk, reputational risk and emerging risk.

The risk categories that contribute the most to economic capital are market risk and underwriting risk as shown in the figure below.

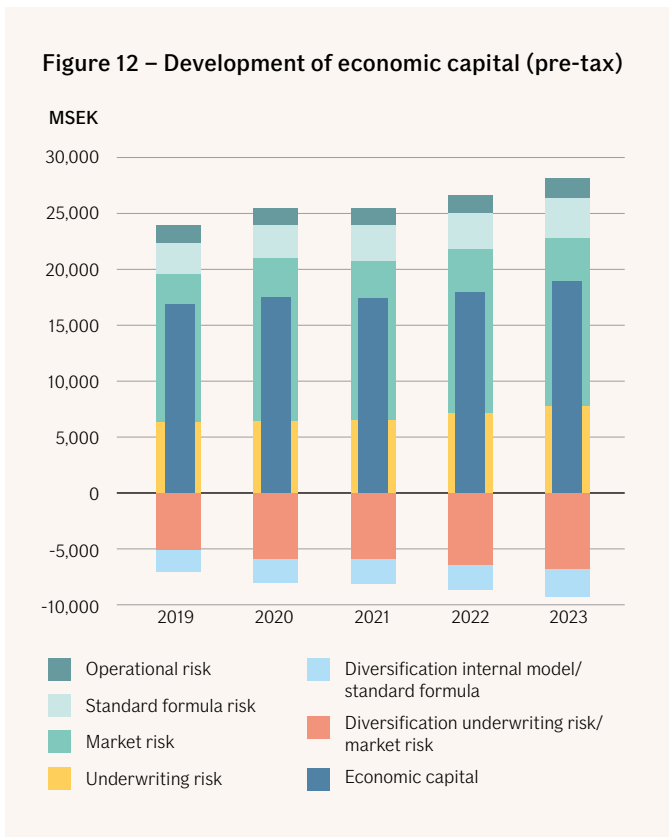
Figure 11 – Overview of If's economic capital, 31 December 2023



*Loss Absorbing Capacity of Deferred Taxes

¹⁵ Rating agency measures are not specifically described in this report.

The figure below shows the economic capital for the period 31 December 2019 to 31 December 2023.



The changes in economic capital during the past five years are mainly attributable to market risk. However, during the last two years, underwriting risk has increased slightly as well, mainly due to underlying business growth.

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

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

If's economic capital for underwriting risk reflects the underwriting risk exposure over a one-year horizon and has increased from 7,221 MSEK to 7,811 MSEK during 2023. Premium risk and reserve risk have the largest effects on economic capital. During 2023, premium risk, catastrophe risk, reserve risk and inflation risk have 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. The economic capital for premium risk increased due to portfolio growth during 2023.

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 annually by the Chief Actuary on an impact and likelihood basis. The main risk factors affecting reserve risk are claims inflation, decreased discount rates, increased retirement age and increased life expectancy. During 2023, economic capital for reserve risk increased, mainly due to changes in reserve levels in individual lines of business.

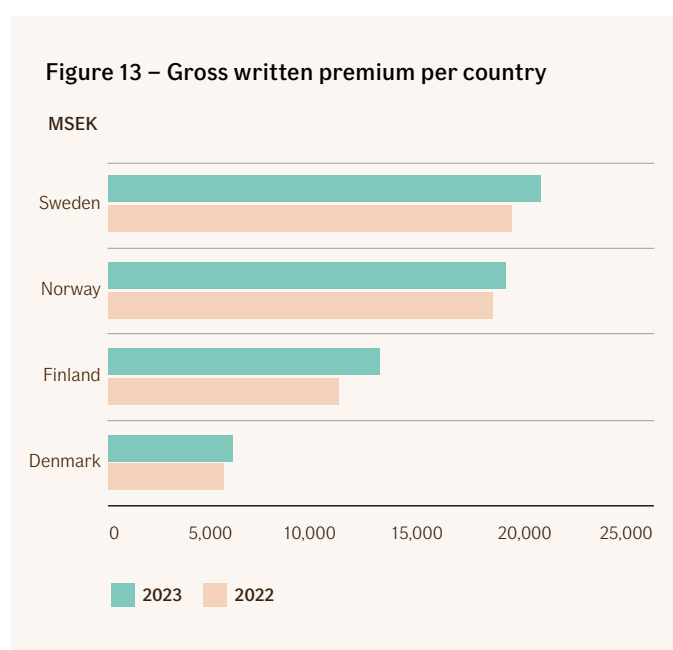
If's reserves are dominated by long tailed business which amplifies the exposure to inflation risk. Future claims inflation is quantified separately for premium and reserve risk. During 2023, economic capital for inflation risk increased due to underlying business growth.

The provisions for Motor third party liability and Workers' compensation lines of business 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 14% 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 yearly increases are included in the insurance premium. The effect of a decrease in discount rates is dampened 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 insured persons.

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 If's large customer base that is distributed across several different geographical areas and lines of business. The geographical distribution of gross written premium is shown in the figure below.



Despite the diversified portfolio, risk concentrations and thereby 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 regular follow-ups 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 loss development trends, the level of unpaid claims, changes in legislation, case law and economic conditions. Established actuarial methods are used when setting provisions, 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.

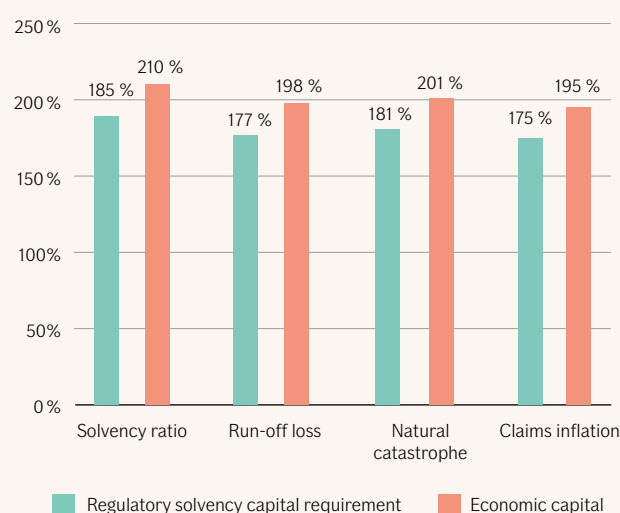
The economic impact of natural disasters and large single claims is managed through a combination of reinsurance and diversification. The need and optimal choice of reinsurance is evaluated by comparing the expected cost versus the benefit of reinsurance, the impact on result volatility as well as capital requirements. The main tool in the 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 economic capital and on the regulatory solvency capital requirement. 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, 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, or 100 basis points higher claims inflation than expected. If maintains a solvency ratio above 170% in all tests.

Figure 14 – Solvency II sensitivity underwriting risk, 31 December 2023



In the run-off stress, it is assumed that the technical provisions will increase and lead to a consecutive increase in reserve risk and inflation risk. In the natural catastrophe stress, it is assumed that claim payments are immediate, thus not affecting technical provisions. Underwriting risk and market risk are unaffected whilst 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 to be a part of credit risk. For information on the exposure, concentration, risk mitigation and sensitivity for spread risk, see section 3.3 Credit risk.

Asset and liability management 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 increased from 14,567 MSEK to 14,953 MSEK during 2023. The increase was mainly due to increased spread risk and equity risk, partially offset by decreased interest rate 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. Third party managed investments are mainly used when investing in non-Nordic securities, funds or other assets. 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 If's level of 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.

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 its operations in foreign branches. In addition, If's investment decisions create currency exposure. The currency risk has decreased compared to 31 December 2022.

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 2022, 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 2.4 years at year-end 2023. Interest rate risk has decreased compared to 31 December 2022.

3.2.1.4 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, whilst the annuity and annuity IBNR¹⁶ 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

The market risk concentration of the investment portfolio as per 31 December 2023 is presented in the figures below.

Figure 15 – Market values per type of asset, 31 December 2023

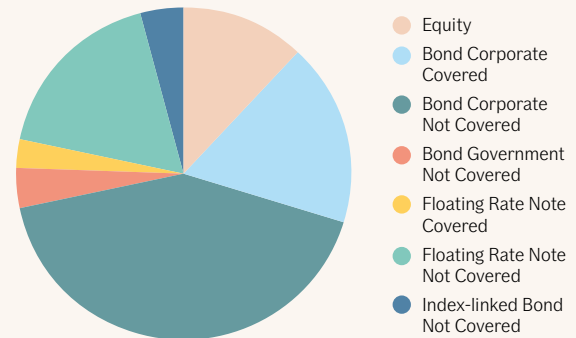
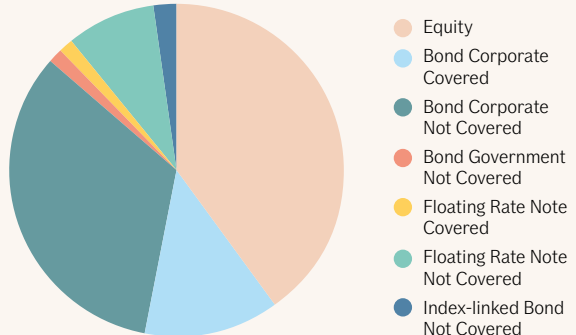


Figure 16 – Economic capital per type of asset, 31 December 2023



¹⁶ Incurred But Not Reported.

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 Open position	EUR	NOK	DKK	GBP	USD	JPY	Other
2023	-432	-49	-18	-172	-218	52	-98
2022	-722	-475	-16	-102	-387	143	-110

The investment portfolio consists mainly of fixed income investments 88%, and equities 12%.

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.

Table 6 – Breakdown of equity investments by industry sector

MSEK Industry sector	2023		2022	
	Carrying amount	%	Carrying amount	%
Industrial	5,858	65.0	4,765	56.9
Consumer Discretionary	1,695	18.8	2,277	27.2
Materials	773	8.6	769	9.2
Telecommunication Services	416	4.6	431	5.1
Energy	205	2.3	51	0.6
Consumer Staples	50	0.6	55	0.7
Health Care	16	0.2	26	0.3
Finance and Real Estate	4	0.0	4	0.0
Total	9,017	100	8,378	100

The sector allocation of equity excludes investments made through equity funds, ETF:s and private equity funds of 4,814 MSEK (4,652 MSEK).

Table 7 – Breakdown of equity investments by geographical area

MSEK Geographical area	2023		2022	
	Carrying amount	%	Carrying amount	%
Sweden	6,860	49.7	5,875	45.2
Europe	2,776	20.1	2,944	22.6
Asia	1,555	11.3	1,698	13.1
North America	1,288	9.3	1,077	8.3
Norway	1,117	8.1	1,139	8.8
Latin America	217	1.6	272	2.1
Denmark	2	0.0	3	0.0
Finland	-	-	-	-
Total	13,815	100	13,007	100

The geographical allocation of equity excludes investments made through private equity funds of 23 MSEK (23 MSEK).

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	2023			2022		
	Carrying amount	%	Duration	Carrying amount	%	Duration
Short-term fixed income	1,107	1.1	0.0	926	0.9	0.0
Scandinavia, long-term government and corporate securities	74,720	73.1	2.0	75,753	77.7	1.7
Scandinavia, index-linked bonds	4,666	4.6	4.0	4,489	4.6	5.0
Europe, long-term government and corporate securities	15,326	15.0	3.1	11,829	12.1	2.3
USA, long-term government and corporate securities	3,912	3.8	4.1	2,348	2.4	3.5
Global, long-term government and corporate securities	2,425	2.4	4.7	2,120	2.2	2.0
Total	102,156	100	2.4	97,464	100	1.9

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 market risks. It sets the guiding principles, for instance the prudent person principle, specific risk restrictions and decision-making structure for the investment activities.

According to the prudent person principle, investments are only made in assets and instruments whose risks properly can be identified, measured, monitored, mitigated and controlled, and appropriately considered in the assessment of the overall solvency needs. Furthermore, all assets are invested with the objective of ensuring the security, quality, liquidity, profitability and availability of the portfolio as a whole, whilst considering sustainability factors.

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 BoD decides on the Investment Policy at least annually. The Investment Policy is supplemented with guidelines, defining mandates, authorisations and the use of derivatives.

Currency risk is reduced by matching technical provisions with investment assets in the corresponding currencies or by the use of 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. If is also exposed to translation risk, which is not hedged since those investments are regarded as being of a long-term nature and the currency effects related to them will not affect the results.

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 are to be limited in relation to the total investment portfolio.

The interest rate risk is managed by sensitivity limits for interest rate sensitive instruments.

ALM risk is managed in accordance with Sampo's group-wide principles. ALM is considered through the risk appetite framework and governed by the Investment Policy. To contain 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.

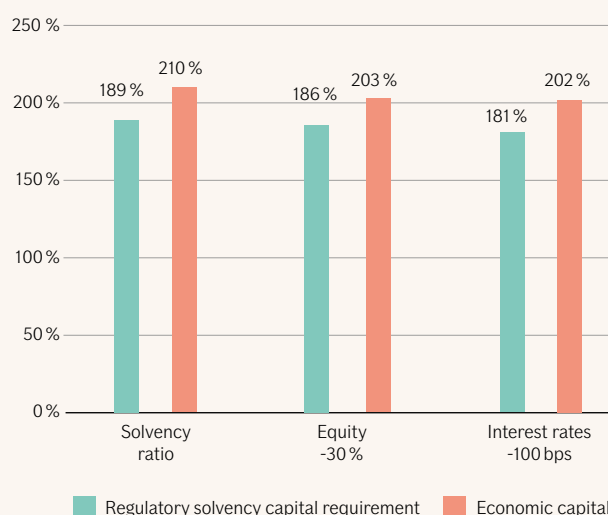
The market risk is monitored and controlled by the Investment Control Committee and reported to the ORSA Committee on a regular basis.

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 solvency ratio, both in terms of economic capital and in terms of the regulatory solvency capital requirement as per 31 December 2023.

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 basis points (bps) decrease in interest rates. In both stresses, If maintains a solvency ratio above 180%.

Figure 17 – Market risk sensitivity, 31 December 2023



The key assumption in the equity stress is that the equity risk decreases with the same proportion as the market value, 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 decreases by less than implied by 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 increase in technical provisions is larger than the increase in investment assets due to the longer duration of the 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, counterparties and any debtors to which insurance undertakings are exposed in the form of counterparty default risk, spread risk or market risk concentrations.

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

3.3.1 Risk exposure

Credit risk exposure towards policyholders is very limited since non-payment of premiums generally results in the cancellation of insurance policies but material in relation to investment and reinsurance counterparties.

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. Counterparty default risk is calculated using the standard formula for both economic capital and the regulatory solvency capital requirement.

3.3.1.1 Credit risk in investment operations

In 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 is affected partly by the market's risk assessment of an individual issuer, and partly by the general appetite for credit risk in 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 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 table 9.

Table 9 – Exposure by sector, asset class and rating, 31 December 2023

MSEK Industry sector	AAA	AA+ -AA-	A+ -A-	BBB+ -BBB-	BB+ -C	Non-rated	Total	Equities	Properties	Derivatives	Total	Change compared to Dec 31, 2022
Basic Industry	-	-	376	1,560	345	326	2,607	439	-	-	3,046	499
Capital Goods	-	-	949	1,307	383	1,544	4,183	5,773	-	-	9,956	1,419
Consumer Products	-	-	1,140	3,222	179	867	5,409	2,119	-	-	7,528	1,208
Energy	-	-	175	-	-	695	870	205	-	-	1,076	-155
Financial Institutions	371	6,199	14,830	6,888	409	451	29,148	-	-	62	29,210	1,562
Governments	4,860	509	-	-	-	-	5,369	-	-	-	5,369	674
Government Guaranteed	-	249	-	-	-	-	249	-	-	-	249	9
Health Care	-	-	159	1,304	95	501	2,059	16	-	-	2,075	908
Insurance	-	-	343	1,161	-	1,454	2,958	4	-	-	2,962	-408
Media	-	-	-	-	-	145	145	-	-	-	145	-111
Packaging	-	-	-	-	237	-	237	-	-	-	237	47
Public Sector, Other	5,567	205	-	-	-	-	5,771	-	-	-	5,771	-159
Real Estate	-	645	1,401	1,809	211	1,774	5,840	-	5	-	5,845	-663
Services	-	-	445	1,885	1,200	240	3,770	-	-	-	3,770	1,930
Technology and Electronics	-	119	228	465	-	626	1,438	-	-	-	1,438	503
Telecommunications	-	-	-	1,837	-	265	2,102	416	-	-	2,517	775
Transportation	-	394	450	-	-	892	1,736	-	-	-	1,736	-698
Utilities	-	-	187	1,737	669	536	3,129	-	-	-	3,129	-139
Covered Bonds	23,813	-	-	-	-	-	23,813	-	-	-	23,813	-2,969
Funds	-	-	-	118	-	-	118	4,814	-	-	4,932	173
Other	-	-	175	187	-	345	707	46	-	-	753	158
Clearing House	-	-	-	-	-	-	-	-	-	18	18	-29
Total	34,610	8,320	20,857	23,480	3,729	10,661	101,658	13,831	5	80	115,575	4,533
Change compared to Dec 31, 2022	-2,742	1,200	525	6,110	-803	-581	3,708	802	-4	27	4,533	-

3.3.2.2 Concentration in reinsurance operations

The increase in reinsurance recoverables during 2023 is due to an increase in ceded claims, and in particular a few very large claims. The distribution of reinsurance receivables and recoverables excluding expected loss is presented in the table below. 2,268 MSEK (1,695 MSEK) is excluded in the table, mainly relating to captives and statutory pool solutions.

Table 10 – Reinsurance recoverables

MSEK Rating (S&P)	2023	%	2022	%
AA	2,554	50.9	728	48.5
A	2,466	49.1	770	51.3
BBB	-	-	0	0.0
Non-rated	2	0.0	3	0.2
Total	5,021	100	1,500	100

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

Table 11 – Ceded treaty and facultative premiums per rating category

MSEK Rating (S&P)	2023	%	2022	%
AA	1,043	55.3	425	46.7
A	843	44.7	486	53.3
Total	1,886	100	911	100

3.3.3 Risk mitigation

Credit risk in 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 in investment decisions. 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 gives 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 to the ORSA Committee.

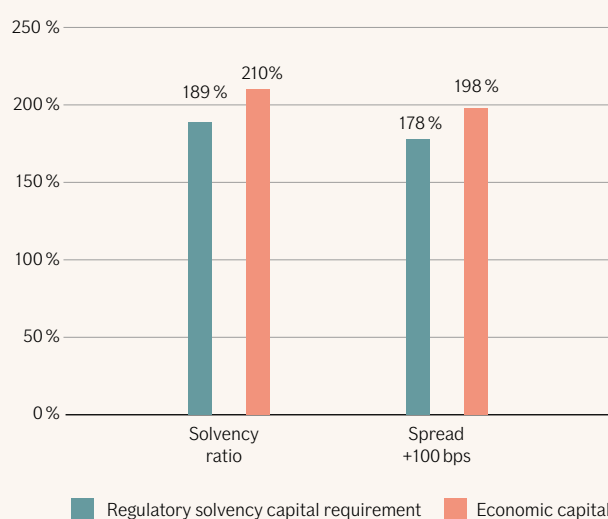
The development of the portfolio with respect to credit risk is monitored and reported to the Investment Control Committee, the Reinsurance Security Committee and the ORSA Committee on a regular basis.

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 ratio for the regulatory solvency capital requirement and economic capital as per 31 December 2023. The spread stress estimates an impact on the solvency ratio of a 100 basis points increase in the spreads. The key assumption in the spread stress is that the stress does not have an impact on technical provisions. It maintains a ratio above 170% after the stress.

Figure 18 – Credit risk sensitivity according to Solvency II, 31 December 2023

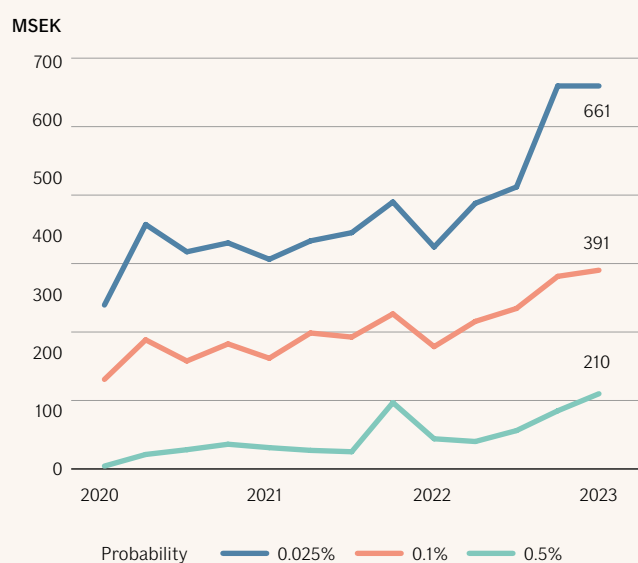


3.3.4.2 Risk sensitivity in reinsurance operations

A credit simulation is performed within the reinsurance operations to quantify the exposure to credit losses due to reinsurance counterparty default. 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 2023. The credit simulation shows the maximum loss with a given probability over a one-year horizon.

As shown in the figure below, the expected credit loss increased during the year. The increase is mainly due to increased reinsurance recoverables. However, the exposure to credit risk towards reinsurance counterparties is limited.

Figure 19 – Expected credit loss, 31 December 2023



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

Liquidity risk is not deemed material since premiums are collected in advance and large claim payments are usually known well in advance. Liquidity risk is identified and managed regularly but solvency needs are not quantified.

3.4.2 Risk concentration

The maturities of cash flows from financial instruments are presented in Table 12. In the table, financial assets and liabilities are divided into contracts with a contractual maturity profile, and other contracts. The table also shows expected future cash flows for the net provision for claims outstanding, which are inherently associated with a degree of uncertainty.

3.4.3 Risk mitigation

The Investment Policy, together with the prudent person principle and the instruction for the Investment Control Committee, 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 Investment Operations and reported to the ORSA Committee.

3.4.4 Risk sensitivity

Expected cash flows from investment assets and technical provisions are analysed regularly to identify liquidity risk exposure. Cash flows from investment assets are measured both from an availability and maturity point of view. When measuring availability, normal market conditions as well as stressed and extreme market 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 amount of the expected profit included in future premiums was 3,220 MSEK (2,975 MSEK) as per 31 December 2023.

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.

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

3.5.1 Risk exposure

The main operational risk is the risk of a successful cyber-attack. A significant risk that is followed up frequently is the dependency on legacy technology that is difficult to scale, maintain, change as well as replace.

The assessment of operational risk is performed through the qualitative Operational and Compliance Risk Assessment (OCRA) process. In this process, operational risks are identified and evaluated through self-assessments. The risks are assessed from a likelihood and impact perspective and evaluated using a traffic light system.

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

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

Table 12 – Maturities of cash flows, 31 December 2023

MSEK	Carrying amount	of which without maturity	of which with contractual maturity	Cash flows						
				2024	2025	2026	2027	2028	2029-2038	2039-
Financial assets	117,958	14,895	103,063	15,632	19,331	22,779	27,439	14,852	15,895	-
Derivative liabilities	-636	-	-636	-640	-	-	-	-	-	-
Other financial liabilities	-3,269	-	-3,269	-3,269	-	-	-	-	-	-
Provision for outstanding claims (net) and other insurance related payables ¹	-80,274	-	-80,274	-23,892	-7,750	-4,974	-3,833	-3,108	-18,238	-18,479

¹⁾ Other insurance and reinsurance related payables are presented within Creditors and amounted to 3,146 MSEK.

3.5.2 Risk concentration

No significant operational risk concentrations have been identified.

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 grandfather principles, clear roles and division of responsibilities, employee training as well as other automated and manual controls in key business processes.

There is a number of steering documents that are relevant for the management of operational risk. These include, but are not limited to, the Operational Risk Policy, Business Continuity and Security Policy and Information Security Policy. There are also processes and instructions in place to manage the risk of external and internal fraud. Internal training on ethical rules and guidelines is provided to employees annually. Policies and other internal steering documents are reviewed and updated annually. Steering documents regulate the work on information security and vulnerabilities are continuously monitored and addressed to improve the security.

To manage the main operational risks the development of a scenario-based IT recovery plan continues. Active monitoring of the threat landscape and implementation of both new and improved existing security controls, is ongoing. Examples of further initiatives to become more resilient and to adequately prepare for potential cyber-attacks include the Digital Resilience program on IT Security & Continuity, update of Denial of Service protection and Identify and Access Management program addressing system accounts with high privileges. Additionally, a transformation program is ongoing to replace the legacy applications.

Business continuity planning includes risk-based business continuity plans and regular crisis management exercises. The purpose is to protect If's assets and ensure that the organisation can deliver even when something unpredictable happens.

An operational risk coordinator network in the line organisation supports the risk owners in the OCRA process. The results are challenged and aggregated by the Risk Management function. The most significant risks are reported quarterly to the ORSA Committee and the BoD.

3.5.4 Risk sensitivity

Operational risk is included in 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 they affect the own funds to the extent they impact the financial result.

3.6 Other material risks

3.6.1 Strategic risk

Strategic risk is defined as the risk of losses 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 the Corporate Strategy unit twice a year. The risks are aggregated and assessed based on likelihood and impact. External changes that could impact If are also considered in the assessment.

If's strategic risk 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 macroeconomic factors as well as in relevant legislation and case law. Another important strategic risk for If is changes in the car insurance market. The development of new ways of owning and using car related services continued during the reporting period which may change the need of insurance in the long-term.

3.6.1.2 Risk concentration

No significant strategic risk concentrations have been identified.

3.6.1.3 Risk mitigation

The development of identified material strategic risks is continuously monitored by both the line organisation and the Corporate Strategy unit. 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.

The consequences of the downward economic trend such as increased inflation, increased energy prices and interest rates are closely monitored and proactive risk and consequence analyses are continuously evaluated.

3.6.2 Compliance risk

Compliance risk refers to the risk of legal or 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 (for more information about 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 and Counter Terrorist Financing (AML/CTF) legislation.

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

3.6.2.2 Risk concentration

No significant compliance risk concentrations 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 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 quality follow-ups of the business.

3.6.3 Reputational risk

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

3.6.3.1 Risk exposure

When assessing the operational and compliance risks in the line organisation, a deteriorated reputation as a consequence of a materialised risk, is taken into account. Reputational risk is assessed from an impact and likelihood perspective. Identified reputational risks are managed by the organisation and in some cases also by the Communication department. An aggregated reputational risk assessment is reported to the ORSA Committee.

Some processes are especially sensitive to reputational risk, such

as marketing and claims handling. Individual incidents can also receive high attention in media.

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

3.6.3.2 Risk concentration

No significant reputational risk concentrations risk have been identified.

3.6.3.3 Risk mitigation

Professionalism, clear communication, correct and clear insurance terms and conditions, as well as transparent and fair claims handling are key to manage reputational risk. There are established procedures for customer complaints and incident reporting. If provides training for employees in ethical guidelines and how potential reputational risks should be handled. If continuously monitors what is written about If in media. Additional examples of mitigating techniques are clear and implemented steering documents, e.g. the Ethics Policy and the Social media Instruction, incident handling procedures and the whistleblowing process.

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

Emerging risks are by definition new or unfamiliar risks and that are challenging to foresee. The risks that are under extra observation are lack of adaptation to climate changes, Internet of Things (IoT), terrorism and infrastructure blackouts.

The lack of climate change adaptation increases the likelihood of both acute and chronic physical risks, as well as the likelihood of so-called transitional risk. Transitional risk is the risk of not being able to adapt quickly enough to rapidly changing legal, technological or market factors that take place when climate change adaptation 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 general 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

When emerging risks materialise or change, they are to be identified, assessed and mitigated by the underwriting and claims teams in the different business areas as part of the regular risk assessment processes. Emerging risk is not managed as a stand-alone risk category but rather 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, measured, mitigated 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, an Emerging Risk Core Team has been established, consisting of key persons from various business areas. The team meets twice a year to follow up and analyse

important emerging risks factors and to suggest possible actions.

The most serious risks are reported at least twice a year to the ORSA Committee by the Emerging Risk Coordinator.

The awareness of new risks from internal and external sources, in combination with constant review of insurance 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 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 effect own funds but will not have a 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 consequential decreased premium volumes and profitability.

A significant materialised compliance risk can result in sanctions or interventions from the Financial Supervisory Authority.

A significant materialised reputational risk 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 the other risk categories. The sensitivity and concentration of these qualitative risks are, due to their nature, 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, 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.

Since 1 January 2023, If applies the accounting standard IFRS 9 Financial Instruments. This has had a very limited impact on the valuation in If's balance sheet. The comparative year 2022 has not been restated in accordance with these principles. 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 6,531 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.

The table below provides an overview of the balance sheet adjustments for Solvency II.

Table 13 – Balance sheet adjustments for Solvency II, 31 December 2023

MSEK	Statutory accounts value	Solvency II adjustments	Solvency II value	Category
Assets				
Deferred acquisition costs	1,291	-1,291	-	A
Deferred tax assets	-	-	-	E
Pension benefit surplus	-	355	355	D
Property, plant and equipment held for own use	220	1,478	1,698	B
Investments (other than assets held for index-linked and unit-linked contracts)	112,973	-	112,973	
<i>Property (other than for own use)</i>	5	-	5	
<i>Equities</i>	8,971	-	8,971	
<i>Bonds</i>	98,839	-	98,839	
<i>Collective Investments Undertakings</i>	4,927	-	4,927	
<i>Derivatives</i>	230	-	230	
Loans and mortgages	2,126	-	2,126	
Reinsurance recoverables from:	7,170	-920	6,251	A
<i>Non-life and health similar to non-life</i>	7,170	-920	6,251	
<i>Life and health similar to life, excluding health and index-linked and unit-linked</i>	-	-	-	
Insurance and intermediaries receivables	17,602	-13,891	3,711	A
Reinsurance receivables	1,022	-	1,022	
Receivables (trade, not insurance)	1,934	-706	1,228	C
Cash and cash equivalents	627	-	627	
Any other assets, not elsewhere shown	475	-40	435	B,D
Total assets	145,440	-15,015	130,425	
Liabilities				
Total Technical provisions	98,652	-24,012	74,639	A
<i>Technical provisions – non-life (excluding health)</i>	60,123	-19,802	40,321	
<i>Technical provisions - health (similar to non-life)</i>	19,077	-4,464	14,613	
<i>Technical provisions - life (excluding index-linked and unit-linked)</i>	19,451	254	19,705	
Provisions other than technical provisions	53	-	53	
Pension benefit obligations	214	14	227	D
Deferred tax liabilities	994	1,857	2,851	E
Derivatives	636	-	636	
Financial liabilities other than debts owed to credit institutions	-	1,481	1,481	B
Insurance and intermediaries payables	1,808	-	1,808	
Reinsurance payables	1,338	-98	1,240	A
Payables (trade, not insurance)	3,630	-706	2,924	C
Any other liabilities, not elsewhere shown	2,255	-81	2,174	A
Total liabilities	109,580	-21,546	88,034	
Excess of assets over liabilities	35,860	6,531	42,391	

The adjustments can be divided into the following categories:

- A. 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;
- B. Leasing arrangements valued according to IFRS 16 in Solvency II;
- C. The Finnish Medical Malpractice Pool public sector contracts, which are not insurance contracts in Swedish accounting regulation, are reclassified from payables (trade, not insurance) to technical provisions and netted against receivables related to the pool;
- D. Pension benefit obligations are valued according to IAS 19 which involves some reclassifications and nettings, and;
- E. 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 Solvency II regulations. 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

As of December 31, 2023, there were no goodwill pertaining to acquisition of companies and portfolios in the annual report or the Solvency II balance sheet.

4.1.2 Intangible assets

As of December 31, 2023, 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 measured at fair value 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

Derivates are financial instruments 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 amortized cost pursuant to application of IFRS 9. 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 based on the expected value to be received in both the statutory accounts and in Solvency II. This is considered to be a reasonable approximation of the fair value. No expected credit losses have been recognised for intercompany receivables as they are deemed significant.

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 703 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 petty cash amounts, cash and cash equivalents consist of bank balances in insurance operations and uninvested funds transferred to asset management.

4.1.8 Any other assets, not elsewhere shown

Any other assets not elsewhere shown include 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 described in section 4.3.2 Pension benefit obligation, and reversal of prepaid expenses related to leasing agreements described in section 4.5.1 Lease arrangements, the balances are treated consistently in the statutory accounts

and Solvency II. 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 with a clear connection to the writing of insurance contracts. Selling costs include operating expenses such as commissions, marketing costs, salaries and overheads for sales personnel, 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 receivable 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 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 calculation of the risk margin 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 reinsurer's share of technical provisions.

The total effect of revaluation of net technical provisions for Solvency II purposes as per 31 December 2023 was 8,089 MSEK (9,361 MSEK). This includes the effects of netting the premium receivables described in section 4.1 Assets, as well as the 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	2023	2022
Solvency II adjustments		
Gross deferred acquisition costs	-1,291	-1,268
Ceded technical provisions	-920	-633
Premium receivable asset	-13,891	-13,259
Total adjustment of assets	-16,102	-15,160
Technical provisions gross (excl. risk margin)	-26,317	-26,610
Reinsurance payable liability	-98	-81
Ceded deferred acquisition costs	-81	-63
Introduction of risk margin	2,305	2,233
Total adjustment of liabilities	-24,191	-24,521
Net of valuation adjustment related to technical provision	-8,089	-9,361

4.2.1.1 Main quantitative differences explained

One of the main differences in the 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. They are instead a part of the premium receivables in the statutory accounts. Another difference is related to discounting, where 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 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	Statutory accounts	Solvency II adjustment	Solvency II	Best estimate	Risk margin
Total	7,170	-920	6,251	98,652	-24,012	74,639	72,334	2,305
Health similar to life	-	-	-	9,691	145	9,836	9,606	229
Income protection insurance (annuities)	-	-	-	728	33	761	726	35
Medical expense insurance (annuities)	-	-	-	18	0	18	18	0
Workers' compensation insurance (annuities)	-	-	-	8,944	112	9,057	8,862	194
Health similar to non-life	287	-28	259	19,077	-4,464	14,613	13,879	734
Income protection insurance	3	-1	3	9,565	-2,732	6,833	6,495	338
Medical expense insurance	14	-2	12	3,795	-1,304	2,492	2,371	121
Workers' compensation insurance	269	-26	243	5,716	-428	5,288	5,013	275
Life excluding health	-	-	-	9,761	109	9,869	9,667	202
Fire and other damage to property insurance (annuities)	-	-	-	48	1	48	47	1
Motor vehicle liability insurance (annuities)	-	-	-	9,508	99	9,608	9,417	191
General liability insurance (annuities)	-	-	-	205	9	213	203	11
Non-life excluding health	6,883	-891	5,992	60,123	-19,802	40,321	39,182	1,139
Fire and other damage to property insurance	5,251	-508	4,743	24,945	-7,351	17,594	17,216	378
Marine, aviation and transport insurance	211	-42	169	1,311	-267	1,043	1,003	41
Other motor insurance	59	-8	51	11,045	-7,129	3,916	3,829	87
Motor vehicle liability insurance	9	-2	7	13,238	-3,356	9,881	9,577	305
General liability insurance	1,353	-331	1,022	9,585	-1,699	7,886	7,557	329

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. It is instead treated as a financial instrument with its components recognised in other assets and 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 If's Solvency II technical provisions

There have been no material changes in the assumptions underlying the calculation of technical provisions since the last reporting period.

4.2.2.1 General Provisions

All material assumptions underlying the calculation of If's technical provisions are reviewed quarterly and material changes are reviewed along with the actuarial opinion of each business area actuary. Assumptions are documented and reviewed on the basis of adequate data. The methodology is documented in the Guiding Technical Principles Policy and the General Reserving Policy.

The best estimate is calculated gross, without deduction of the amounts recoverable from reinsurance contracts, see section 4.2.2.15 Recoverables from reinsurance contracts and special purpose vehicles. The calculation of the technical provisions considers 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.

The risk margin is in practice calculated by a cost of capital method where the liabilities are assumed to be run off in an empty insurance undertaking.

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. Data used in the calculation of technical provisions is primarily If's own historical claims data. This includes payments, reserves and number of claims. Since the products and risks are similar from year to year within the defined homogenous risk groups, 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.

Accounting, reserve, and risk data quality process should be well defined and have clear roles to continuously ensure and improve data quality.

The assessment of the data quality implies the verification of the features that data must possess in order to produce credible results. Each type of data should have defined quality criteria, against which the assessment is made.

4.2.2.3 Risk-free interest rate term structures

The risk-free interest rate term structures 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.

4.2.2.4 Basic risk-free interest rate term structures

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

4.2.2.5 Volatility adjustment and matching adjustment

No volatility adjustment or matching adjustment is applied.

4.2.2.6 Other long-term guaranties and transitional measures

No long-term guaranties or transitional measures are applied.

4.2.2.7 Segmentation and setting up homogenous risk groups

If segments its insurance 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. Unbundling of package products is done when required or whenever practicable. Lines of business as defined by Solvency II differ from the presentation of lines of business in the statutory accounts.

4.2.2.8 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, such as consumer price index and various industry indices, is based on official sources, which are publicly available and considered reliable and transparent.

4.2.2.9 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, the costs of future reinsurance are included in calculating the net best estimate.

4.2.2.10 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.

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. There have been no material changes in the assumptions regarding lapse rates since the last reporting period.

4.2.2.11 On proportionality and the use of simplifications

If employs standard actuarial methods that are considered 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 to assess whether the assumptions underlying the relevant method need to be adjusted.

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

4.2.2.12 Boundary of contract

In Solvency II, 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. If adopts a proportionate approach regarding the boundary of insurance contracts used for solvency purposes.

In certain cases, an insurance contract cannot be cancelled even though the risk coverage period has not incepted. Thereby If's approach might not lead to the exact same definition of the boundaries of contract as the Solvency II definition. Contracts that cannot be cancelled are currently not accounted for in the valuation of technical provisions, leading to a negligible underestimation of own funds.

All insurance contracts are subsequently derecognised at expiry date after which If has the right to adjust the premium for a new period to fully reflect the risk.

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

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

Cash-flow projections used in the calculation of the best estimate include all claim payments that will be paid to policyholders and beneficiaries (including third parties for liability and motor vehicle 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 considered. In line with section 4.2.2.12 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 cash flow projection used in the calculation of the best estimate implicitly considers relevant uncertainties and dependencies in the cash flow.

Expenses in claim provisions are implicitly taken into account since

they are part of the historical claims data and allocated to each claim. Claims handling expenses for incurred claims are considered when estimating the claims adjustment reserve. Expenses for non-incurred claims are taken into account when estimating the premium provision. The allocation of claim handling expenses to homogeneous risk groups is performed using keys maintained by the controller departments and is regarded as being realistic and consistent over time.

4.2.2.14 Derivation of the risk margin

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

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.

4.2.2.15 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 claims provisions. 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 considers 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 doubling the assets and liabilities relating to the deposit. If has no special purpose vehicles.

4.2.2.16 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 the 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 respective plans, is to be recognised as a net pension liability or a net pension asset in the balance sheet. Moving from legal entity to IAS 19 recognition of pension obligations results in two main effects when comparing Solvency II and statutory information in the balance sheet.

As a result of IAS 19 revaluation of pension obligations, the pension asset increased by 355 MSEK and the liability increased by 14 MSEK when compared with the statutory accounts, leading to a revalued net positive position of 127 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. Table 16 presents the tax rates used when calculating deferred tax assets and liabilities. The changed rate in Denmark do not have a material impact on the deferred taxes.

Table 16 – Tax rates

Country	2023	2022
Sweden	20.6%	20.6%
Norway	25.0%	25.0%
Denmark	26.0%	25.2%
Finland	20.6%	20.6%
United Kingdom	25.0%	25.0%
Germany	27.4%	27.4%
France	25.8%	25.8%
Netherlands	20.6%	20.6%

For the year-end 2023, a net deferred tax liability of 994 MSEK was recognised in the statutory accounts. As an effect of Solvency II valuation adjustments, the deferred tax liability was increased by 1,857 MSEK to a deferred tax liability position of 2,851 MSEK.

Table 17 – Reconciliation of net deferred tax position in Solvency II, 31 December 2023

MSEK	Statutory accounts value	Solvency II adjustments	Solvency II value
Reconciliation of net deferred tax position			
Provisions, including pension obligations, reported in line with IAS 19 in Solvency II	55	-73	-18
Investment assets at fair value	-1,012	-	-1,012
Deferred tax relating to untaxed reserves	-125	-	-125
Technical provisions recalculated according to Solvency II	-	-1,610	-1,610
Leasing according to IFRS 16	-	9	9
Other temporary differences	88	-183	-94
Deferred tax liabilities, net	-994	-1,857	-2,851

The main drivers for this change are technical provisions (including re-insurance recoverables). Deferred taxes related to untaxed reserves (refers to the Swedish security reserve¹) are not recognised in Solvency II. Hence untaxed reserves have the same value in the statutory accounts as 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, which are not recognised as a part of the technical provisions. These balances are recognised as the amounts expected to be paid both 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 payable 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 81 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.

4.3.8 Payables (trade not insurance)

Payables are disclosed at the amount anticipated to be paid (tax liabilities and premium tax) or at amortised cost. The amortised amount is considered a reasonable estimation of the fair value.

4.3.9 Any other liabilities not elsewhere shown

In line with Solvency II classification, any other liabilities not elsewhere shown mainly include 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 63 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 between independent parties. If quoted market prices in active markets for assets or liabilities are unavailable, the Solvency II valuation method is to use quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences (QMPS). If that option is also unavailable, alternative methods for valuation (AVM) should be applied.

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: Valuation based on observable market data; and
- Level 3: Valuation based on non-observable market data.

The table below provides information on how the assets are split between categories AVM and QMP/QMPS. Technical provisions and classes of assets and liabilities are excluded in the table where the carrying amount is considered a reasonable approximation for the fair value. The level of uncertainty is immaterial since only a minor part of the investment assets are classified as AVM.

Table 18 – Solvency II assets split between AVM and QMP/QMPS, 31 December 2023

MSEK	AVM	QMP/QMPS	Total
Government bonds	-	13,389	13,389
Corporate bonds	38	85,412	85,450
Derivatives	-	230	230
Equities	9	8,963	8,971
Collective investment undertakings	16	4,912	4,927
Property (other than own use)	5	-	5
Total	68	112,905	112,973

Corporate bonds valued with AVM are illiquid assets that are rarely traded. The values are based on the 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 fund administrators. These quotations are founded 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 2023

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	299	952	610	1,860	319

Table 21 - Analysis of the employee benefit obligations

MSEK	2023			2022		
	Funded plans	Unfunded plans	Total	Funded plans	Unfunded plans	Total
Defined benefit pension obligations, including social costs	2,063	227	2,290	2,045	248	2,293
Fair value of plan assets	2,418	-	2,418	2,427	-	2,427
Net liability / net asset recognised in the Solvency II balance sheet	-355	227	-127	-382	248	-134
of which recognised as Pension benefit surplus			355			382
of which recognised as Pension benefit obligations			227			248

2022 comparatives are restated as previously reported figures included all group companies.

In accordance with RFR 2 Accounting for legal entities, IFRS 16 Leases 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 with 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. On 31 December 2023 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 2023

IFRS 16 Lease Agreements MSEK	Solvency II
Right-of-use assets and reversal of prepaid lease expenses	1,438
Lease liabilities	-1,481
Net effect on excess of assets over liabilities in Solvency II	-43

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 their next of kin 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 pension before the anticipated retirement age.

The pension obligations in Norway are unfunded pension benefits where If is responsible for ongoing payments. The pension obligations in Sweden are primarily funded through insurance whereby the insurer establishes the premiums and disburses the benefits (funded plans). If's pension obligation in Sweden is insured with Skandia and the obligation is primarily fulfilled through the payment of premiums. To cover the funded pension benefits, the related capital is managed as part of Skandia's management portfolio. The insurer and If are jointly responsible for monitoring the pension plan, including investment decisions and contributions. All pension plans are essentially exposed to similar material risks regarding the final amount of the benefits, longevity of the employees and the choice of discount interest rate, affecting the valuation in the statutory accounts. The pension obligations in Sweden are also subject to investment risk associated with the plan assets.

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 rate takes into account the duration of the company's pension obligations in each country. After a deduction for the plan assets, a net asset or net liability is recognised in the balance sheet.

The following table contains several material assumptions, specifications of pension assets and liabilities and a sensitivity analysis showing the potential effect on the obligations of reasonable changes in those assumptions as per 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 (14.1%-19.1%).

Table 22 – Specification of employee benefit obligations by country, 31 December 2023

MSEK	Sweden	Norway
Balance sheet		
Defined benefit pension obligations, including social costs etc.	2,063	227
Fair value of plan assets	2,418	-
Net liability / net asset recognised in the Solvency II balance sheet	-355	227
Distribution by asset class		
Bonds	42%	-
Equities	20%	-
Properties	10%	-
Other	28%	-
Significant actuarial assumptions, etc.		
Discount rate	3.5%	3.8%
Future salary increases	3.0%	3.3%
Price inflation	2.0%	2.3%
Mortality table	DUS23	K2013
Average duration of pension liabilities	17 years	11 years
Expected contributions to the defined benefit plans during 2024	64	-
Sensitivity analysis effect of reasonably possible changes		
Discount rate, +0.50%	-162	-10
Discount rate, -0.50%	180	11
Future salary increases, +0.25%	39	1
Future salary increases, -0.25%	-37	-1
Expected longevity, +1 year	64	6

5 Capital Management

5.1 Own funds

5.1.1 Capital management framework

If focuses on both capital efficiency and sound risk management whilst keeping capital resources at an appropriate level in relation to the risks. This involves ensuring that the available capital exceeds the internal economic capital and regulatory capital requirements.

If's capital management is based on a risk-appetite statement decided by the BoD, providing further details on risk preferences and risk tolerances as described in the Risk Management Policy. The risk profile, capital requirements and available capital are measured, analysed and reported to the ORSA Committee and the BoD 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 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, see Appendix 1 Explanation of measures used to monitor If's capital position.

Risks are regularly measured, aggregated, analysed and reported with the purpose of performing an overall assessment of risk and solvency needs. The solvency position is reported quarterly to the Swedish Financial Supervisory Authority. The annual ORSA process, 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. The outcome of the yearly ORSA process is documented in a report. Follow-ups are performed regularly and documented as part of the quarterly ORSA process. A quarterly report is prepared to the ORSA Committee, and a summary is sent to the BoD.

The ORSA process, along with regular monitoring, provide input to the medium-term capital management plan. The capital management plan covers the three-year planning period and considers any planned capital issuances, redemptions or repayments of own fund items. It also 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 BoD is provided with relevant input to their strategic management process and decision-making. The risk and solvency assessment considers risks over the 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.

5.1.2 Regulatory 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 regulations, an insurance company must have own funds amounting to at least the solvency capital requirement.

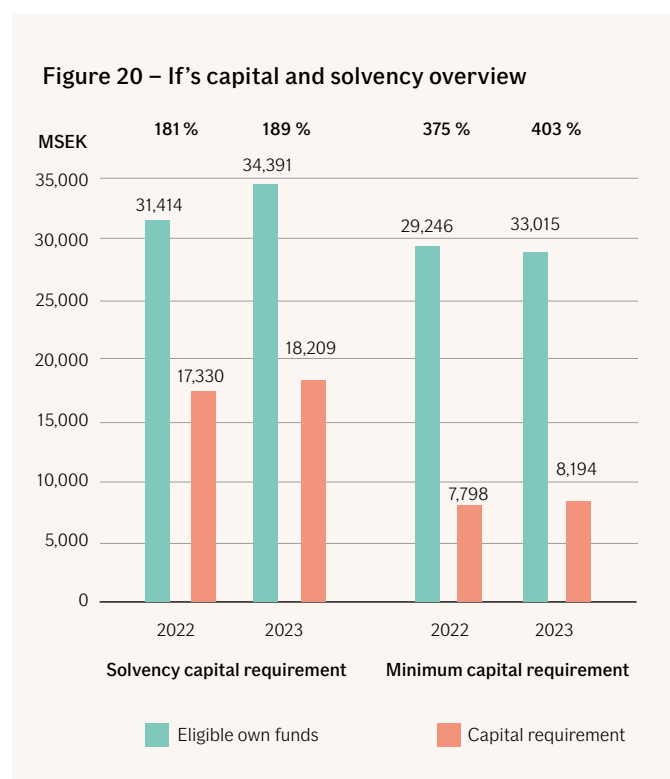
The solvency capital requirement reflects a level of own funds that enables an undertaking to absorb unforeseen losses and that gives reasonable assurance to policyholders and beneficiaries. The confidence level for the solvency capital requirement is 99.5% which

corresponds to an event occurring once in every 200 years. A breach of the solvency capital requirement triggers an intervention by the supervising authorities.

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. If the own funds drop below the minimum capital requirement, policyholders and beneficiaries would be exposed to an unacceptable level of risk if the insurance undertaking is allowed to continue its operations.

5.1.3 Own funds and solvency position

If's regulatory solvency capital requirement is calculated using the partial internal model. On 31 December 2023, the solvency capital requirement ratio amounted to 189% (181%) and the minimum capital requirement ratio to 403% (375%).



Eligible own funds have increased more than the solvency and minimum capital requirement during the year, which explains the increased solvency ratios. The capital requirements have increased mainly due to increased underwriting risk.

Based on the financial plan,¹⁷ 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.

¹⁷ Decided by the BoD in December 2023.

5.1.3.1 Changes in own funds over the reporting period

Total eligible own funds for the solvency capital requirement coverage increased by 2,977 MSEK (507 MSEK) over the reporting period. No own fund items have been issued or redeemed during the year.

Table 23 – 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 2023	31,414	27,686	-	3,728	-
Opening adjustment due to transition to IFRS 9	-5	-5	-	-	-
Net result, statutory accounts	12,525	12,525	-	-	-
Other comprehensive income, statutory accounts	-310	-310	-	-	-
Change in own funds items not included in equity in the statutory accounts	-180	0	-	-180	-
Change in Solvency II valuation adjustments in excess of assets over liabilities	-1,053	-1,021	-	-32	-
Transfer between tiers	-	501	-	-501	-
Proposed dividend	-8,000	-8,000	-	-	-
Eligible own funds for solvency capital requirement coverage at 31 December 2023	34,391	31,376	-	3,015	-

5.1.3.2 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 2023, there were no own funds items qualifying for ancillary own funds treatment, subordinated debts, or deferred tax assets.

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.

5.1.3.3 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 2023, the reconciliation reserve amounted to 31,272 MSEK (27,582 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 (7,500 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 3,015 MSEK (3,728 MSEK) was included as Tier 2 own funds and presented as other items approved by the Swedish Financial Supervisory Authority. The item includes an untaxed part of 2,954 MSEK (3,166 MSEK) and a taxed part of 61 MSEK (562 MSEK).

Table 24 – The tiering of own funds, 31 December 2023

MSEK	Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
Ordinary share capital	104	104	-	-	-
Reconciliation reserve	31,272	31,272	-	-	-
Deffered taxes	-	-	-	-	-
Other own fund items approved by the Swedish Financial Supervisory Authority	3,015	-	-	3,015	-
Total eligible own funds, in QRT* template S.23.01.01	34,391	31,376	-	3,015	-

* Quantitative Reporting Templates (QRT)

5.1.3.4 Minimum duration requirements criteria for basic own funds items

All items included in Tier 1 own funds are undated and thus fulfil the permanence requirements.

5.1.3.5 Application of general eligibility limit

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

Table 25 – Assessment of eligible own funds, 31 December 2023

MSEK	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Total eligible own funds to meet the solvency capital requirement	34,391	31,376	-	3,015	-
Total eligible own funds to meet the minimum capital requirement	33,015	31,376	-	1,639	-
Solvency capital requirement	18,209	-	-	-	-
Solvency capital requirement, ratio	189%	-	-	-	-
Minimum capital requirement	8,194	-	-	-	-
Minimum capital requirement, ratio	403%	-	-	-	-

5.1.3.6 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.

Table 26 – Shareholders' equity and untaxed reserves, excess of assets over liabilities and available basic own funds

MSEK	2023	2022
Ordinary share capital	104	104
Statutory reserve	388	388
Fair value reserve	-	1,321
Retained earnings and net income for the year	28,429	22,397
Untaxed reserves	6,939	7,119
Total equity and untaxed reserves statutory accounts	35,860	31,330
Solvency II valuation adjustments		
Changes in deferred taxes	-1,857	-2,096
Changes in net technical provisions	8,089	9,361
Changes in net pension benefit asset	341	363
Changes in valuation of leasing agreements	-43	-44
Sum of all reconciling movements, due to differences in valuation	6,531	7,584
Excess of assets over liabilities, Solvency II balance sheet template	42,391	38,914
Proposed dividend	-8,000	-7,500
Total available basic own funds, reported in the own funds QRT	34,391	31,414

5.2 Solvency capital requirement and minimum capital requirement

If applies the partial internal model for its regulatory solvency capital requirement calculation. The modelling of underwriting risk in the partial internal model is combined with the other risk modules calculated using the standard formula. The solvency capital requirement is a combination of the major underwriting risks calculated using the internal model and 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 standard formula risk modules (or sub-modules).

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's tax computation is adjusted to primarily consider the loss absorption of these reserves on a pre-tax basis. This in turn affects the tax computation, since If's calculation of the loss-absorbing capacity of deferred taxes only takes into account 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 decrease 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, net of reinsurance, over the last 12-months, subject to a minimum value 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 computation of the minimum capital requirement, the minimum capital requirement must be in the range between 25% and 45% of the solvency capital requirement and never below 3,7 MEUR.

The linear minimum capital requirement on 31 December 2023 corresponds to the upper limit of the minimum capital requirement (8,194 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.25.05.21 and S.28.01.01 respectively.

Table 27 – Description of the loss-absorbing capacity of deferred taxes, 31 December 2023

MSEK	
LAC DT	2,924
- whereof justified by reversion of deferred tax liability	2,726
- whereof justified by reference to probable future taxable economic profit	198
- whereof justified by carry back	-

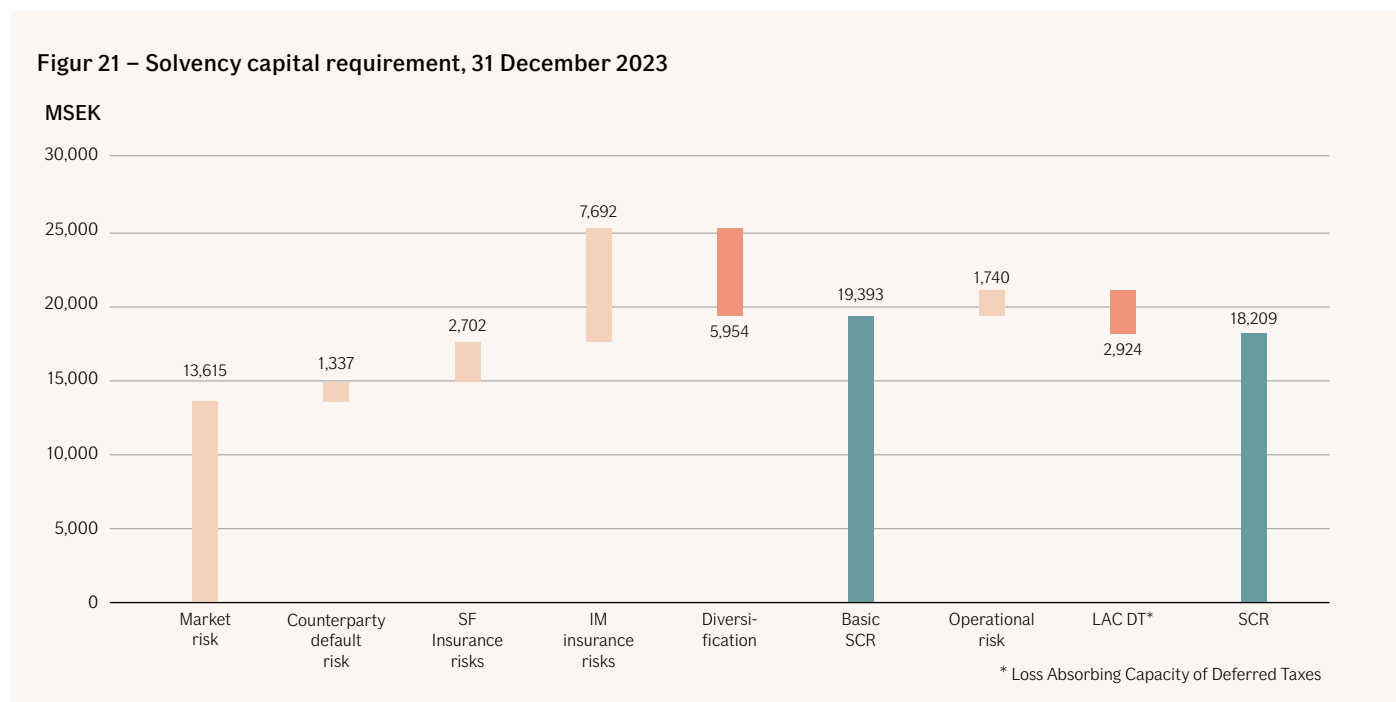
To demonstrate the probability of future available taxable profit after the SCR shock, the following assumptions are made:

- If's financial plan is adjusted for the increased lapse rates following the SCR shock and the effect is kept constant throughout the financial planning period;
- If explicitly considers the effects of the SCR shock on the balance sheet and future available taxable profits;
- A capital injection is assumed post SCR shock to restore the solvency ratio to 100%;
- No new business sales beyond the financial planning period are assumed and appropriate haircuts are applied to profits that materialise after the financial planning period; and
- The investment forecast is adjusted in line with the risk-free rate of return following the SCR shock. It is assumed that risk premiums continue 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 is applied to technical provisions net of reinsurance (not including the risk margin), subject to a minimum value of zero. The second 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. The largest components of market risk are spread risk, equity risk and currency risk. More detailed figures are shown in QRT S.25.05.21.

During the year, the solvency capital requirement has increased from 17,330 MSEK to 18,209 MSEK. The main driver being increased underwriting risk due to business growth as well as increased market risk, in particular with respect to equity and spread risk, partially offset by a decrease in interest rate risk. The minimum capital requirement has increased from 7,798 MSEK to 8,194 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 based on parameters from internal data, it gives a more accurate view of the capital related to underwriting risk compared to that of 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.

In the partial internal model, the insurance business is modelled by country, business area and insurance class, divided into homogenous 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 the modelling of underwriting risk applied to If's historical data. Risks not covered by the internal model's regulatory scope are market risk, operational risk, counterparty default risk, lapse risk, 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.

Correlation matrices are used to model dependencies within underwriting risk. They are combined with dependency assumptions within the external models used for inflation risk and catastrophe risk. The setting of correlations for underwriting risk is based on quantitative analysis and qualitative reasoning from business experts. Catastrophe risk is modelled using third party catastrophe models that explicitly model events and their impact across the whole portfolio. The inflation scenarios are considered independent of the outcome of claims, as the uninflated attritional claims, large claims, reserve risk and catastrophe claims are considered independent of inflation. 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 within, and between, countries.

On a 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 correlation parameters in the standard formula. Operational risk is added to the resulting capital requirement without any diversification benefits.

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

The main differences between the results of the standard formula and the partial internal model are due to the measurement of diversification effects in relation to underwriting risk. It underwrites policies that cover individual and corporate risks on a diverse geographical scale. The majority of risks exist in Sweden, Norway, Finland and Denmark, but it also underwrites policies for the operations of Nordic corporate clients' outside of 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, although they are key drivers in It's business model.

The specification of the data needed for the different stages of the internal model is the responsibility of the Financial Risk and Capital Management unit. Risk data, including 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 setting of risk parameters, exposures such as reserves and the financial plan. All data specifications and quality requirements 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

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

5.6 Any other information

In October 2023, Sampo filed an application for a Sampo group partial internal model to the Swedish Financial Supervisory Authority. The model will, when approved, be applied to It and replace the current partial internal model used for the calculation of the solvency capital requirement. It's partial internal model solvency capital requirement and solvency position will remain largely unaffected by the model change.

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 the quantification of the own solvency needs, risk reporting and decision-making.</p> <p>Economic capital is calculated by aggregating the underwriting risk and the market risk from the internal model. The remaining risks are calculated using the Solvency II standard formula. The loss coverage capacity for deferred tax is considered. Economic capital is defined as the difference between the expected result and the simulated result at a 99.5% percentile over a one-year horizon (1-in-200 years).</p>	<p>The eligible own funds for the 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 underwriting 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 solvency capital requirement reflects a level of eligible own funds that enables insurance and reinsurance undertakings to absorb significant losses. It also gives reasonable assurance to policyholders and beneficiaries that payments will be made as they fall due.</p> <p>The underwriting risk from the internal model is defined as the difference between the expected result and the simulated result at a 99.5% percentile over a one-year horizon (1-in-200 years).</p>	<p>The eligible own funds for the 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 should constitute 25-45% of the solvency capital requirement. The minimum capital requirement must be at least 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 the coverage of the minimum capital requirement are based on the Solvency II balance sheet along with own funds for the 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 QRT are included as attachments to the report. The files can be found on www.if.se/solvens-och-verksamhetsrapporter.

S.02.01.02 Balance sheet

S.04.05.21 Premiums, claims and expenses by country

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

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

S.23.01.01 Own funds

S.25.05.21 Solvency Capital Requirement - internal model (partial or full)

S.28.01.01 Minimum capital requirement

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