

SOLVENCY AND FINANCIAL CONDITION REPORT 2017

If P&C Insurance Ltd (publ)



Relax, we'll help you.

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

As of 1 October 2017 the former sister company If Insurance Company Ltd (If Finland) was merged with If. Both companies were wholly owned by the parent company If Holding and therefore, no merger consideration has been paid. Assets and liabilities in the Finnish entity have been merged into If's already existing Finnish branch.

If is one of the largest property and casualty insurers in Sweden, Norway and Finland with market shares of 18.5%, 21.1% and 22.6% respectively. In Denmark, where the market is less consolidated, If's share is 5.7%.

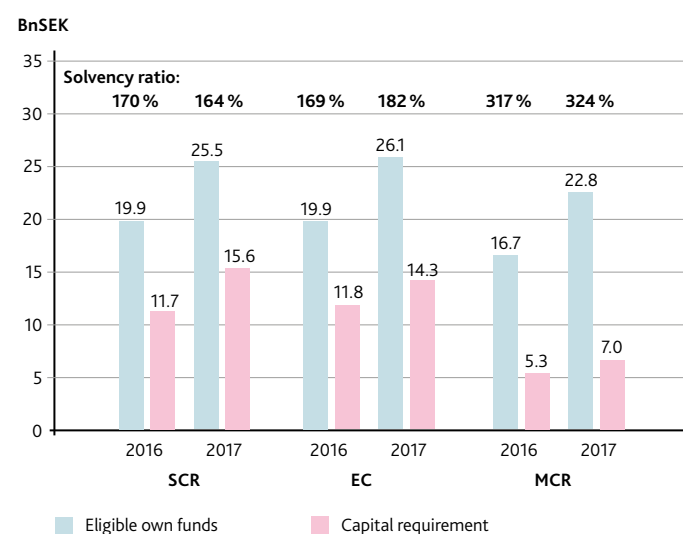
The insurance business within If is organisationally divided by customer segments into the cross-Nordic business areas Private, Commercial (small and medium sized companies) and Industrial (large corporates). Private accounts for more than half of total premium volume.

The technical result amounted to 5,254 MSEK (4,406 MSEK)¹, corresponding to a combined ratio of 84.4% (85.7%). Gross premium income was higher than in the preceding year, with continued good customer loyalty and strong new car sales among the main performance drivers. Most of the increase was however attributable to the merger, which contributed to a growth of 7.1% at constant exchange rate. The corresponding growth excluding merger effects was 3.1%.

At full market value, profit from asset management decreased to 2,388 MSEK (2,473 MSEK) and the total return ratio was 3.1% (3.3%). Interest-bearing securities had a better return than their benchmark indices while equities underperformed their benchmark.

If's strategy for capital management focuses on capital efficiency and sound risk management by keeping its capital resources at an appropriate level in relation to the risks taken over its business planning horizon. The regulatory Solvency Capital Requirement (SCR) sets the level of capital at which If is able to conduct its business without regulatory intervention and is the starting point when the needed level of capital is considered. For internal risk measurement and reporting, as well as for management decisions, the measure economic capital (EC) is used. The economic capital is based on the internal model for underwriting risk and market risk including their diversified aggregation. Operational risk and less material risks are quantified using the standard formula (SF). Furthermore, the regulatory Minimum Capital Requirement (MCR)² is calculated. Available capital is referred to as Eligible Own Funds (EOF). A sufficient capital buffer is further required in order to be solvent at all times.

FIGURE 1 – If capital and solvency overview at 31 December 2016 and 31 December 2017



As a result of the merger with If Finland both EOF and the capital requirements have increased. In total, including other effects, the capital requirements have increased relatively more than own funds. The increase of EOF is also due to an increase in positive Solvency II valuation adjustments and the fact that total comprehensive income for the year exceeds the proposed dividend. The increase in economic capital 2017 is mainly related to the merger with If Finland which has increased the proportion of market risk in comparison to underwriting risk.

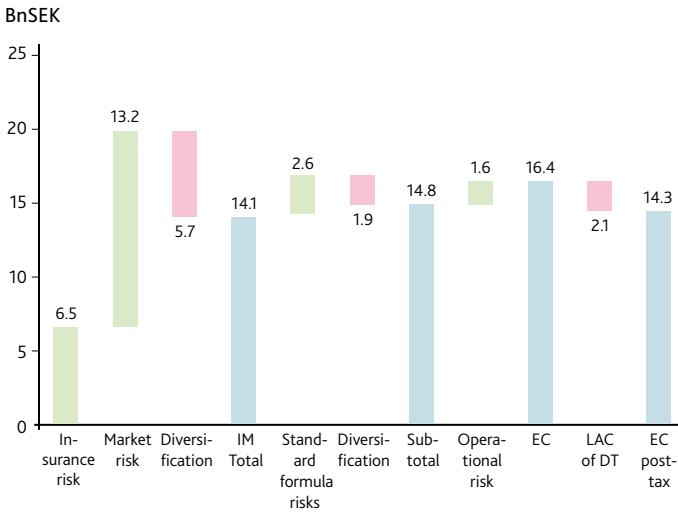
The capital structure and the solvency of If are considered to be strong. The level of If's profitability is good and profit volatility has been low. If is considered to be in a good position to generate further capital and to maintain a capital level needed to support its business objectives and risks going forward.

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

² The level where an insurance company would not be allowed to continue its operation if the amount of eligible own funds is not re-established within a short period of time.

The main risk types for If, measured as contribution to economic capital pre-tax, are underwriting and market risks as shown in Figure 2 below.

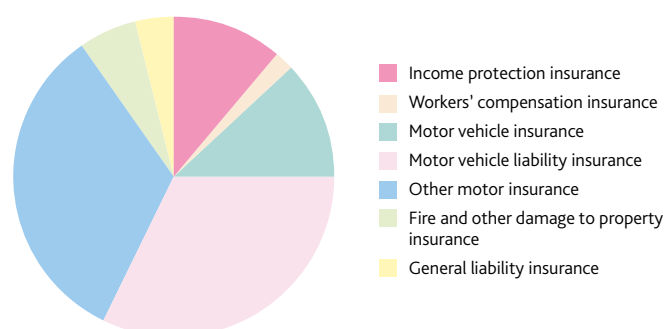
FIGURE 2 – If Economic Capital split by risk category
31 December 2017



To ensure proper capital- and risk management If has established a system of governance framework consisting of several layers. The organisational set-up, including the legal- and operational structures, forms the outermost layer within which the business is run. To govern the business, various corporate bodies or individuals have decided a framework of policies and other internal rules and procedures, which should be followed by the employees to which they apply.

The system of governance contains the strategy process, the financial planning process, and the internal control system, including the risk management system. Within this framework, processes and controls are implemented to ensure that the strategic and business objectives are met and that If complies with applicable internal and external rules. If applies the three lines of defence model to ensure an efficient risk management and a clear division of roles and responsibilities within the organisation.

FIGURE 4 – Premiums written by Solvency II lines of business



1.1.6 Significant events over the reporting period

As of 1 October 2017, the former sister company If P&C Insurance Company Ltd (Finland) was merged with If P&C Insurance Ltd (publ), at which point the assets and liabilities in the Finnish company were allocated to If P&C Insurance's already existing Finnish branch, for more information see 1.5.

Gross premiums earned were higher in all business lines than in the preceding year. The increase was mainly attributable to the merger, especially with regards to Workers' compensation and Motor vehicle liability. The addition of former Finnish company operations also explained most of the underwriting improvements during 2017.

The change in underwriting results for Motor vehicle liability insurance was primarily due to a Swedish Motor third party liability reserve release in 2016, following from updated mortality assumptions, which positively affected the claims outcome.

The overall claims trend was relatively favorable during the year and the risk ratio amounted to 62,1%. Cleared from the effect of the merger, the outcome was slightly higher at 62.9% (63.4%).

Continued efforts to streamline processes and work procedures, together with positive premium growth, contributed to a cost ratio of 22.2% (22.4%). The outcome was the same irrespective of merger effects.

The results of If in terms of gross premiums earned and underwriting performance is set out in the table below. All figures are segmented according to lines of business.

TABLE 1 – Underwriting performance by lines of business, MSEK

Line of Business	Premiums earned (gross)		Underwriting performance (net)	
	2017	2016	2017	2016
Income protection insurance	3,666	3,459	620	356
Workers' compensation insurance	1,015	689	704	565
Motor vehicle liability insurance	4,229	3,838	599	1,105
Other motor insurance	10,722	9,777	1,230	1,268
Fire and other damage to property insurance	11,349	10,486	1,611	1,063
General liability insurance	2,062	1,850	661	355
Other line of business	1,403	1,074	-275	-474
Sum	34,446	31,173	5,150	4,238
Allocated investment return as part of the technical account			179	224
Other technical income and expenses			-75	-56
Technical result from property and casualty insurance, GAAP			5,254	4,406

1.2 Underwriting performance⁵

The technical result amounted to 5,254 MSEK, corresponding to a combined ratio of 84.4%. Cleared from the effect of the merger between the Swedish and the Finnish P&C companies as of October 2017, the technical result and the combined ratio were 4,670 MSEK (4,406 MSEK) and 85.1% (85.7%) respectively.

Gross premium income was higher than in the preceding year, with continued good customer loyalty and strong new car sales among the main performance drivers. Most of the increase was however attributable to the merger, which contributed to a growth of 7.1% at constant exchange rate. The corresponding growth excluding merger effects was 3.1%.

Revenues per geographical area are distributed among the countries in which If has companies or branches, corresponding at large with the customers' geographic domicile. The revenue increase in Finland reflects the effect of the merger. Also customer loyalty, strong new car sales cooperations and partnerships together with mild winter weather, contributed positively to the overall performance development.

⁵ The figures in the underwriting performance section are in accordance with the Financial Statement and the lines of business are in accordance with Solvency II.

TABLE 2 – Underwriting performance and gross premiums earned by geographical area, MSEK

Country	Premiums earned (gross)		Underwriting performance (net)	
	2017	2016	2017	2016
Denmark	3,941	3,808	23	144
Finland	2,409	107	606	14
Norway	12,856	12,640	2,327	1,800
Sweden	14,858	14,225	2,135	2,333
Other	382	393	59	-53
Sum	34,446	31,173	5,150	4,238

1.3 Investment Performance

At full market value, profit from asset management decreased to 2,388 MSEK (2,473 MSEK), corresponding to a total return of 3.1% (3.3%). Interest-bearing securities had a better return than their benchmark indices while equities underperformed their benchmark.

2017 has been characterised by continuous low market interest rates and historically low volatility. This has meant another very strong year for most assets classes and markets. The absolute majority of If's interest-bearing investments are made in Europe and Scandinavia which together with lower credit spreads made the return 2.3% (2.7%) on the interest-bearing securities.

The duration for the interest-bearing assets increased to 1.4 (1.3) at the end of the year.

The total return on equities was 9.2% compared to 8.6% the previous year. Swedish large blue chip stocks was the main contributor to the result increase, although East Asian- and American stocks showed higher relative returns.

Alternative Investments constituted a small part of the portfolio but properties showed a positive return for the year.

TABLE 3 – Investment performance, 31 December 2017

					Interest, dividends etc.	Return 2017			
	Fair value 31 Dec 2017		Fair value 31 Dec 2016			Changes in value, Income statement	Total, Income statement	Changes in equity	Total return
	MSEK	%	MSEK	%		MSEK	MSEK	MSEK	MSEK
Return on investment assets									
Interest-bearing securities	92,675	86	65,897	84	1,291	-63	1,228	465	1,692
Equities	14,450	13	12,354	16	366	538	904	175	1,079
Currency (active positions)	6	0	-1	0	0	-23	-23	-	-23
Currency (other)	150	0	-182	0	0	29	29	-	29
Properties	122	0	2	0	2	2	4	-	4
Other	0	0	0	0	-336	-58	-393	-	-393
Total investment assets	107,401	100	78,070	100	1,323	425	1,748	640	2,388

TABLE 4 – Investment performance, 31 December 2016

Return on investment assets	Fair value		Fair value		Interest, dividends etc.	Return 2016			
	31 Dec 2016		31 Dec 2015			Changes in value, Income statement	Total, Income statement	Changes in equity	Total return
	MSEK	%	MSEK	%		MSEK	MSEK	MSEK	MSEK
Interest-bearing securities	65,897	84	58,887	83	1,302	-160	1,142	502	1,644
Equities	12,354	16	11,750	17	348	182	530	493	1,023
Currency (active positions)	-1	0	15	0	0	48	48	-	48
Currency (other)	-182	0	32	0	0	-47	-47	-	-47
Properties	2	0	2	0	9	0	9	-	9
Other	0	0	0	0	-204	0	-204	-	-204
Total investment assets	78.070	100	70.686	100	1.455	23	1.478	995	2.473

1.4 Performance of other activities

Costs not included in either the underwriting performance or the investment performance relate mainly to amortization of goodwill and amounted to 277 MSEK (273 MSEK).

For leasing agreements, see 4.5.1.

1.5 Any other information

As of 1 October 2017 the former sister company If Insurance Company Ltd (If Finland) was merged with If. Since both companies were wholly owned by the parent company If Holding, no merger consideration was paid. In conjunction with the merger, the assets and liabilities in the Finnish company were allocated to If's existing Finnish branch and are recognized in the amounts they were measured in the consolidated accounts of the parent company If Holding on 30 September 2017, adjusted to follow other accounting principles applied by If. The Finnish company's

operations up until the merger date are not included in the 2017 income statement for If. This means that the difference between assets and liabilities (including untaxed reserved) in the transferor company, 4,672 MSEK, as of the merger date is accounted for as a merger gain in equity in the annual report.

In the Solvency II balance sheet assets and liabilities were transferred to the amounts they were measured in the Solvency balance sheet of the Finnish entity as of the 30 September 2017. The excess of assets over liabilities that was transferred to If and thus added to own funds amounted to 7,126 MSEK. The difference in merger gain compared to the annual report is mainly explained by untaxed reserves, net of tax.

The assumed Finnish untaxed reserves were dissolved in their entirety immediately after the merger and a majority of the investments assets received in the merger have been transferred to If's centralised asset management function.

TABLE 5 – Summarised Balance sheet of If Finland as of 30 September 2017 transferred to If 1 October 2017, MSEK

	Solvency II Value	Statutory accounts value
Assets		
Deferred acquisition cost	0	162
Other intangible assets	0	48
Property, plant & equipment	45	45
Investment assets	29,180	29,092
Reinsurance share of best estimates	173	192
Insurance & intermediaries receivables	541	2,589
Reinsurance receivables	4	4
Receivables trade	224	1,433
Cash & cash equivalents	3,701	3,701
Any other assets	328	328
Total assets	34,195	37,593
Liabilities		
Technical Provisions	25,239	28,032
Other provisions	8	8
Deferred tax liabilities	678	68
Investment liabilities - Derivatives	132	132
Insurance & intermediaries payables	169	169
Reinsurance payables	9	9
Payables trade	543	1,704
Any other liabilities	291	296
Untaxed reserves	0	2,504
Total liabilities	27,069	32,921
Excess of assets over liabilities/merger gain	7,126	4,672

Immediately after the merger, an application was submitted to the Swedish FSA for a so-called major change, which involved to also include the underwriting risk of the former Finnish entity, calculated according to If's internal model, in the Partial Internal Model used to calculate If's SCR. The application was approved by the Swedish FSA in February 2018 and is consequently not reflected in the numbers in this report.

If's Board of Directors and CEO decided in March 2018 to propose that 7,000 MSEK be paid as dividend to its parent company If Holding. The proposed dividend is deducted from eligible own funds.



SYSTEM OF GOVERNANCE

2 System of Governance

2.1 General information on System of Governance

If's system of governance consists of several layers. The organisational set-up, including the legal and operational structures, forms the outermost layer in which the business is run. To govern the business, corporate bodies and decisions makers have decided a framework of policies and other internal rules and procedures, which must be followed by the employees to which they apply. The system of governance contains the strategy process, the financial planning process, and the internal control system, including the risk management system.

Within this framework, processes and controls are implemented to ensure that the strategic and business objectives are met and that If complies with applicable internal and external rules. If applies the three lines of defence model to ensure an efficient risk management and a clear division of roles and responsibilities within the organisation.

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

2.1.1 Legal and operational structure

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

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

2.1.2 Decision making bodies

2.1.2.1 General Meeting

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

2.1.2.2 Board of Directors

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

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

2.1.2.3 CEO

The CEO holds the overall responsibility for the daily business activities of If, including aligning strategy, processes, reporting and technology in order to reach the company's goals. The CEO has the possibility to delegate decision authority concerning the daily business activities to other persons within If, but retain the ultimate responsibility for such decisions. The CEO is the deciding body for a number of instructions within If's policy framework.

The CEO shall also, after consultation with the key functions and the external auditors, supervise that the internal control within the organisation is effective and efficient.

2.1.3 Key functions

2.1.3.1 Risk Management function

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

2.1.3.2 Compliance function

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

2.1.3.3 Internal Audit function

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

2.1.3.4 Actuarial function

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

2.1.4 The remuneration system in If

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

The Remuneration policy is based, inter alia, on the principles that the remuneration structure should not encourage excessive risk taking and that the remuneration of individual employees should not be in conflict with If's long-term interests. The long-term financial stability and value creation of Sampo Group guide the remuneration design.

2.1.4.1 Principles for the remuneration

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

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

If an employee's remuneration includes a variable component, there shall be an appropriate balance between the fixed and

variable components so that the fixed compensation represents a sufficiently high proportion and If is allowed the possibility of paying no variable compensation. Employees in key functions are not entitled to variable compensation.

The Remuneration policy contains specific arrangements applicable to identified staff⁶. Based on the Remuneration policy, part of the payment of the variable compensation to identified staff shall be deferred for a defined period of time. After the deferral period, a retrospective risk adjustment review shall be carried out and the Board of Directors decides whether the deferred variable compensation shall be paid out/released in full, partly or cancelled in whole.

2.1.4.2 Individual and collective performance criteria related to variable compensation

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

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

2.1.4.3 Supplementary pension or early retirement schemes for AMSB and key function holders

The information below relates only to persons employed in the company. The Swedish members of the AMSB and the Swedish key function holders are entitled to pension according to FTP1⁷ or individually agreed defined-contribution pension. The Norwegian members are covered by a defined contribution or a defined benefit pension. The Finnish members are not covered by any supplementary pension or early retirement schemes.⁸

2.1.5 Material transactions during the reporting period with shareholders, with persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body.

The following material transactions have taken place:

- If Holding is the primary account holder in a Group account structure that covers all transaction accounts in If's insurance operations. In such a structure, material transactions have, on a regular basis, taken place during the year;
- If and Sampo have an asset management agreement according to which all investment decisions, within the framework of the Investment policy, have been outsourced to Sampo. Compensation for these services is based on a fixed commission calculated in accordance with market value of the managed investment asset;
- If has paid dividends 4.2 BnSEK to its mother company If Holding; and
- If P&C Insurance Ltd (publ) merged with its sister company If P&C Insurance Company Ltd (Finland) in a cross-border merger. If P&C Insurance Ltd (publ) was the acquiring company.

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

No material changes in the system of governance have taken place during the reporting period.

2.2 Fit and Proper assessments

2.2.1 If's Fit and Proper policy

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

2.2.2 Fit and Proper requirements

2.2.2.1 Fitness requirements

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

In relation to the AMSB, the fitness assessment takes into account the respective duties allocated to individual persons to ensure appropriate diversity of qualifications, knowledge and relevant experience so that the company is managed and overseen in a professional manner.

2.2.2.2 Propriety requirements

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

As a general rule, assessed persons shall be considered to be of good repute if there is no evidence to suggest otherwise.

2.2.3 Description of the Fit and Proper process

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

The fit and proper assessment is presented to the function or leader responsible for the appointment, who decides whether the assessed person shall be considered fit and proper for the position or not. The required notification is made to the supervisory authority.

⁶ Identified staff comprises persons who effectively run the company (members of the Administrative, Management or Supervisory Body and staff with management roles which are essential to the operations of If) and risk takers (employee whose professional activities may have a material impact on the company's risk profile).

⁷ Insurance industry's occupational pension plan

⁸ For more information about pensions, see the Annual Report

2.3 Risk Management System including own risk and solvency assessment

2.3.1 Description of If's Risk Management System

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

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

The main risk categories in If are: underwriting risk, market risk, credit risk, operational risks and other risks.

FIGURE 5 – Risks encompassed in the Risk Management System

Under-writing risk	Market risk	Credit risk	Operational risk	Other risks
Premium risk	Interest Rate risk	Counterparty Default risk	Operational risk	Strategic risk
Catastrophe risk	Equity risk	Spread risk	Legal risk	Reputational risk
Reserve risk	Currency risk			Compliance risk
				Emerging risk
Liquidity risk				
Asset and Liability Management risk				
Concentration risk				

2.3.2 Objectives of the Risk Management System

The objectives of the Risk Management System are to create value for If's stakeholders by securing its long-term solvency, minimising the risk of unexpected financial loss and giving input to business decisions by taking into account the effect on risk and capital.

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

2.3.3 If's Risk Management Strategy

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

- Ensuring a sound and well established risk culture;
- Ensuring that risks affecting the profit and loss account and the balance sheet are identified, assessed, managed, monitored and reported;
- Ensuring that the riskiness of the insurance business is reflected in the pricing;

- Ensuring adequate long term investment returns within set risk levels;
- Ensuring that risk buffers – in the form of capital and foreseeable profitability – are adequate in relation to the current risks in business activities and external risks;
- Limiting fluctuations in the economic values of group companies; and
- Ensuring the overall efficiency, security and continuity of operations.

2.3.4 The Risk Appetite Framework

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

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

2.3.5 If's Risk Management Process

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

FIGURE 6 – If's Risk Management Process



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

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

Risk management. The line organisation is responsible for assessing their risks and for deciding how the risks should be managed. Where applicable, suitable and efficient control activities shall be implemented to mitigate the risks.

Monitoring. The line organisation is responsible for monitoring that all risks are identified, managed and reported. The Risk Management function monitors both the risk management processes within the line organisation as well as the overall aggregated risk profile for If.

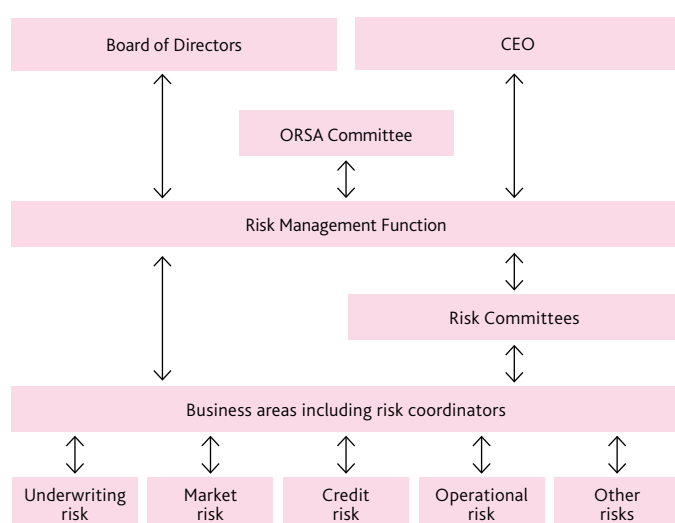
Reporting. Risk status is reported by the line organisation to the Risk Management function and to applicable risk committees on a regular basis (monthly, quarterly or bi-annually). The Risk Management function coordinates the risk reporting to the CEO and Board of Directors. This includes the following reports:

- The compilation of the annual summary of the risk and solvency assessment;
- The quarterly ORSA Committee report; and
- The annual risk management report of performed activities and next year's risk management plan.

2.3.6 Reporting structure in the Risk Management System

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

FIGURE 7 – Risk Management reporting structure



2.3.7 Responsibilities within, and the implementation of, the Risk Management System

2.3.7.1 Responsibilities within the Risk Management System

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

2.3.7.2 The Board of Directors

The Board of Directors is the corporate body with an overall responsibility for internal control, risk control and that If has appropriate risk management systems and processes. The Board of Directors approves the Risk Management Policy and other risk

related policies, is the receiver of risk reporting from the Risk Management function as well as from the CEO and has an active role in the forward looking ORSA process.

2.3.7.3 CEO

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

2.3.7.4 Risk committees

Own Risk and Solvency Assessment Committee (ORSA⁹ committee)

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

Other committees in the Risk Management System

There are separate committees in place for key risk areas. These committees have the responsibility to monitor that risks are managed and controlled as decided by the Board of Directors. The chairmen of the committees are responsible for the reporting intended for the ORSA committee. None of If's committees have any decision making mandate.

2.3.7.5 Risk Management function

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

- Assist the Board of Directors and CEO in the implementation and operation of the Risk Management System by setting requirements on data and processes and coordinating reporting from the line organisation;
- Review 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 and follow up on If's aggregated risk exposure, position and risk profile;
- Regularly assess If's own funds position in accordance with both internal and external measurements;
- Manage and develop If's internal model, including validation of the model and forecasting risk and capital under normal and stressed circumstances; and
- Give advice to Management on risk management matters in strategic decisions, including the possible effect of such decisions on risk and capital.

The function is headed by the CRO. The units within the function are operationally independent, and not part of the governance of, or the decision making process in, the operations of If's licensed activities.

⁹ The business areas and the support functions, i.e. the first line of defense, are responsible for assessing, monitoring and mitigating risks.

2.3.7.6 Line organisation

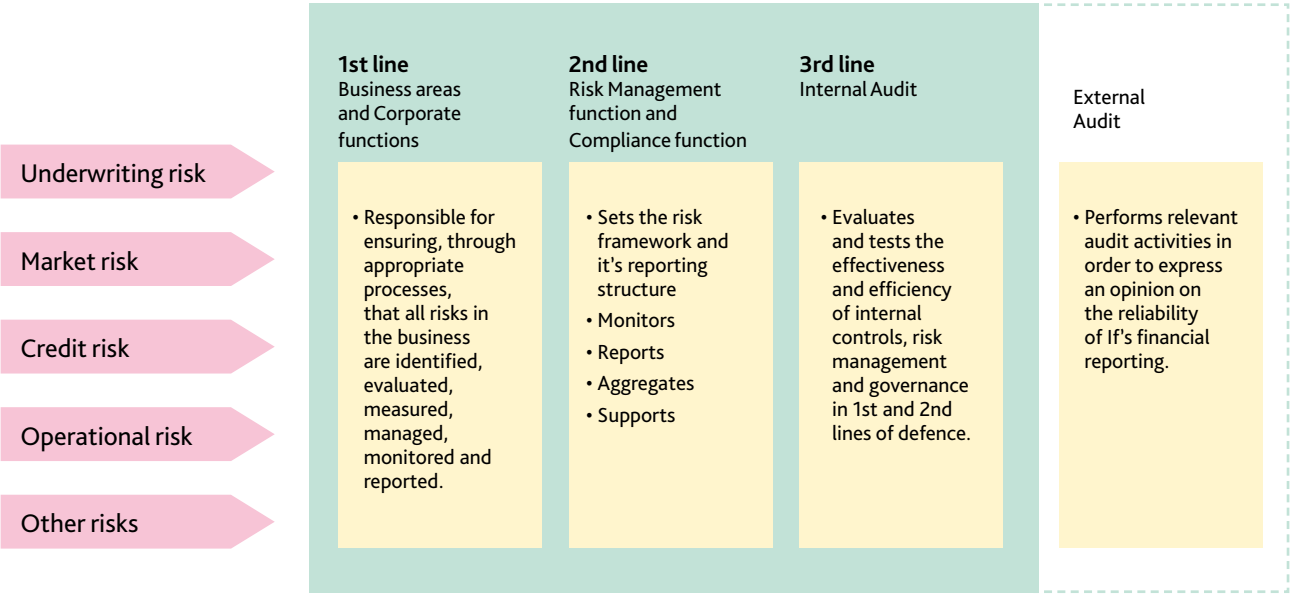
The line organisation (business areas and corporate functions) has the day-to-day responsibility to manage risks within the limits and restrictions set by the risk policies, guidelines and instructions and shall ensure that it has resources and tools in place. On behalf of the Heads of the business areas/corporate functions, a risk coordinator structure is established within the first line of defence. The Head of Risk Control and Reporting issue instructions describing the responsibility of the risk coordinators.

The line organisation has an obligation to inform the Risk Management function of material risks relevant for the performance of their duties.

2.3.7.7 Implementation of the Risk Management System

For effective implementation of the Risk Management System within If, the three lines of defence concept is used. The concept ensures that the responsibility and the different roles of the risk management system are clearly established and defined; see below for a description for each lines responsibilities.

FIGURE 8 – Three lines of defence



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

Risks identified within the Risk Management System, especially those measured through the internal model, are observed in important business decisions such as the yearly financial plan, investment allocation, reinsurance programs and possible new business opportunities.

2.3.8 If's own risk and solvency assessment process

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

If's comprehensive own risk and solvency assessment (ORSA) is normally run at least annually in order to ensure that If's own funds are and will remain sufficient to cover the risks resulting from the proposed business plan. The annual ORSA is performed

based on Q3 data as it is carried out in parallel with, and supports, the business plan presented to If's Board of Directors. The ORSA consists of a quantitative and qualitative assessment of If's material risks resulting in an assessment on the company's overall solvency position.

The solvency position is assessed partly in relation to If's own view of risk, quantified by the internal model, and partly in relation to the regulatory capital requirement. A support tool in the ORSA process is If's capital planning model, which forecasts the own funds and capital requirements over a three year planning period. The model covers the If group with separate projections for its operating insurance companies. The assessment includes a number of scenario analyses, stress tests, sensitivity analyses and reverse stress tests. The stress tests cover the main risk types and simultaneous adverse effects from different risk types. The scenarios are developed in cooperation with risk owners and management.

In addition to a quantification of If's main risk types, a qualitative assessment of If's key risks is conducted. Consequently, the risk owners' views and assessments of current risks over the forward-looking planning horizon are also captured. The risks are assessed on an impact and likelihood basis, that is what impact a materialised risk would have on the financial plan and the likelihood that the risk will occur. The assessment is

conducted according to a common grading scale. The concluding assessment for the group is performed by the Risk Management function and is based on the risk owners' views.

The outcome of the annual ORSA is documented in the ORSA report. The ORSA report 2018-2020 was approved by the Board of Directors at the board meeting in December 2017 and by approving the report, the Board accepted it as the basis for deciding on the financial plan. Following approval, the supervisory ORSA report was submitted to Finansinspektionen.

2.3.9 Governance of If's internal model

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

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

In November 2016 If received an approval from the Swedish FSA to use the internal model for calculation of the main underwriting risks, while other risks are calculated according to the Solvency II standard formula with the transitional equity measure. In connection with the merger of the Finnish company in the beginning of October 2017 an application was submitted to the Swedish FSA to extend the scope of the partial internal model, to also include the underwriting risks related to the Finnish exposures calculated according to If's internal model. The application was approved in February 2018. Since the application process was not approved as per last of December 2017 the standard formula is applied on the Finnish insurance operations merged into the company.

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

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

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

2.3.9.1 Roles, responsibilities and committees

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

Board of Directors

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

Chief Risk Officer

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

- Design and develop the internal model and maintain a feedback loop of the model performance with the relevant Boards of Directors; and.
- Organise an independent validation of the internal model.

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

As chairman of the Internal Model Committee, the CRO decides on minor changes according to the Internal Model change policy. An absolute limit to this delegation is when a combination of minor changes can be considered a major change, in which case BoD and regulatory approval is required.

Capital Management

The Capital Management unit is responsible for:

- The design and development of the internal model, and that output for model use including reporting to committees is appropriately documented and presented;
- That documentation for the internal model is kept up to date;
- Maintaining and updating quantitative validation tools and to contribute to any qualitative and quantitative analysis as specified in the yearly validation plan;
- Defining data requirements and quality features for the Internal model as outlined in the Accounting and Risk Data Instruction, to assess appropriateness of the data and if needed take appropriate action regarding data quality;
- The Head of Capital Management is given the mandate to decide upon updates as outlined in the internal model change policy; and
- The Head of Capital Management should assure that the internal model is updated at least quarterly and that these updates are quality assured.

Risk Control

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

Internal Audit

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

Internal Model Committee

The Internal Model Committee is the advisory and preparatory body to the Board of Directors and the CEO, in respect of the tasks listed in the "Instruction for the Internal Model Committee"¹. The Internal Model Committee has not a collective decision mandate.

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

Other functions relating to the internal model

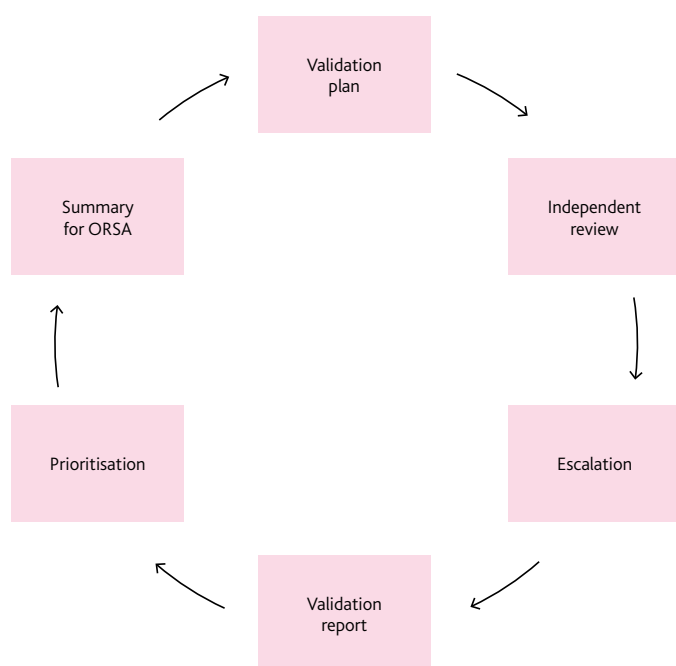
In the Accounting and Risk Data Instruction responsibilities regarding data are outlined. The instructions include the responsibilities of the Chief Actuary to define data requirements and quality features for technical provisions and to assess the quality of the data and if needed take appropriate action. Furthermore the Head of Risk Systems have a responsibility to periodically assess completeness and accuracy of data and to maintain a comprehensive list of any data deficiencies and an action plan for improving data quality over time.

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

2.3.9.2 Description of the validation process

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

FIGURE 9 – Annual validation process



Risks within the scope of the model are covered in the process as well as the methods to aggregate the risks, and the methods to integrate the internal model with the standard formula.

The validation also covers model governance and is performed independently from the model maintenance and development.

The purpose of escalation of validation findings is to assure that the users of the model output have appropriate awareness of any issue that would make the model less reliable. Escalation of findings may take place at any point in the validation process.

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

2.4 Internal control

2.4.1 If's internal control system

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

The internal control system is based on the three lines of defence model which clarifies who is responsible for what with regards to risk management and internal control, please refer to section 2.3.7.7 for more information. Reporting lines have been established within the three lines of defence to ensure that the Board of Directors and the Management are able to fulfil their responsibility in monitoring the effectiveness of the internal control system.

If's Internal Control policy sets the framework for an effective internal control system within If and is approved on a yearly basis by the Board of Directors. The purpose of the policy is to describe how internal control activities are carried out appropriately with regards to If's nature, size and complexity. The internal control framework in If is based on the COSO¹⁰ framework. The framework provides for three objectives related to operations, reporting, and compliance. Furthermore, the framework consists of five components, all of which need to be in place and functioning as intended to ensure an effective framework; control environment, risk assessment, control activities, information and communication, as well as monitoring.

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

Risk assessment forms the basis for determining how identified and evaluated risks should be managed.

Control activities consist of governing documents, approval procedures, routine descriptions and controls to ensure that Management's objectives are achieved and risk mitigation strategies are carried out. Authorisation rules and referrals have been implemented according to appropriate roles and according to the four-eye principle and the so called grandfather principle.

Information and communication support the other components by providing information in a form and timeframe that facilitates the employee's duties.

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

¹⁰ The Committee of Sponsoring Organizations of the Treadway Commission.

2.4.2 Compliance function

2.4.2.1 Responsibilities

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

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

FIGURE 10 – Recurring activities within the Compliance function



2.4.2.2 Organisation

The Compliance function is separated from the business organisation, operationally independent and part of the second line of defence in the internal control system. The Chief Compliance Officer (CCO) is the Head of the Compliance function and is appointed by the CEO. The Board of Directors has issued an Instruction for the CCO, describing the responsibilities more in detail. The CCO appoints Compliance Officers to perform compliance activities.

2.5 Internal Audit function

2.5.1 The Internal Audit function, implementation, independence and objectivity

If's Internal Audit is a function, independent of business operations, which evaluates the sufficiency and effectiveness of the internal control system. The function is organised under the Board of Directors of If and is managed by the Chief Audit Executive (CAE) appointed by the Board of Directors of Sampo.

2.5.1.1 The Internal Audit policy

The work is carried out in accordance with If's Internal Audit Policy, approved by the Board of Directors. According to the Policy, Internal Audit is obliged to comply with the guidelines set out in the International Professional Practices Framework by the Institute of Internal Auditors.

2.5.1.2 The Internal Audit Plan

The internal audit activity plan is made for the coming three years and annually approved by If's Board of Directors and the Sampo Audit Committee (the Audit Committee). The approach is risk based considering all main areas of the operations. Any changes to the activity plan must be approved by the Board of Directors and the Audit Committee. The external auditors are informed about the internal audit activity plan.

2.5.1.3 Reporting

Internal Audit reports on the audits performed to If's CEO and Board of Directors. Before any audit reports are distributed, audit observations and recommendations are discussed with the audit client. The final audit reports are always approved by the CAE before being distributed. Follow-up audits are performed to assure that appropriate actions are taken on the reported audit issues.

The CAE submits activity reports at least twice per year to the Board of Directors. These reports include all severe deficiencies detected, including any follow-up issues which have not been mitigated or remedied according to the agreed action plans.

2.5.1.4 Internal Auditor Independence

In all audit work, the objectivity of the auditor is assessed. The internal auditors are chosen based on their knowledge, skills and integrity essential to the performance of the internal audits.

2.6 Actuarial function

2.6.1 The implementation of the Actuarial function

The Actuarial function consists of the Chief Actuary. The Chief Actuary performs the tasks of the Actuarial function for If, reports to the CEO and is the CEO's 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, and participates in, the work of the Underwriting committee and of the Reinsurance committee, and in the latter, work is centred on renewals.

2.6.1.1 Responsibilities and tasks

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

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

- Coordinating the calculation of technical provisions including their reliability and adequacy;
- Presenting an opinion on the underwriting policy of the company;
- Presenting an opinion on the adequacy of the reinsurance arrangements;
- Presenting an opinion on the solvency position of the company; and
- Contributing, within the framework, to the risk management system and the ORSA reporting.

The coordination of the calculation of technical provisions is the most important part of the work for the actuarial function. Calculation of the IFRS technical provisions are the responsibility of the business areas' actuaries. The Solvency II adjustments to the premium and claims provisions (including risk margin) are based on input parameters from the business areas' actuaries and the Actuarial function. The Actuarial function supervises the calculations and assesses the uncertainty associated with the estimates by benchmarking fluctuations in reserve ratio by country, line of business and business area (where relevant) over an extended time horizon to detect movements and natural variability. Data quality is regularly assessed by reconciling base system information with information in actuarial systems. The reconciling procedure is performed monthly and is a formal procedure. If's auditors receive detailed reconciliation sheets with all potential accounted differences.

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

2.6.1.2 Reporting

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

After each quarterly book closing, the Actuarial function further ensures that a report is submitted to the Board of Directors and to the CEO giving an opinion on the adequacy

and appropriateness of the technical provisions as well as other relevant matters.

The Actuarial function is responsible for reporting all relevant matters arising in the Actuarial committee to the ORSA committee and for coordinating the reporting of reserve and premium risk to the ORSA committee on a quarterly basis.

2.7 Outsourcing

2.7.1 If's Outsourcing Policy

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

In order to ensure effective control of the outsourcing of critical or important functions or activities and manage risks associated with such outsourcing, the policy sets out a specific outsourcing process. The outsourcing process consists, inter alia, of risk analysis, counterparty evaluation, agreement drafting, decision making, follow-up, reporting and information.

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

2.7.2 Outsourcing of critical or important operational functions or activities

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

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

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

2.8 Any other information

2.8.1 Adequacy of system of governance

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

2.8.2 Any other material information

There is no other material information regarding the system of governance.



RISK PROFILE

3 Risk profile

If's overall risk strategy is to focus on both capital efficiency and a sound risk management. Available capital shall exceed both the regulatory solvency capital requirement (SCR) and the economic capital (EC) requirements as well as maintaining an A-rating by both Standard & Poor's and Moody's. This means that the risk exposure for If is quantified using different measures¹¹ for different purposes.

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

3.1 If's measurement of risk

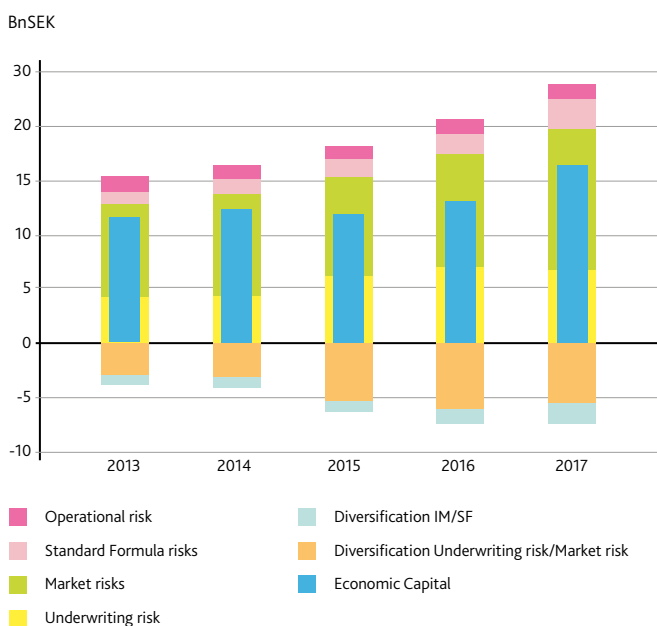
For internal risk measurement and reporting, as well as for management decisions, the measure economical capital is used. The economic capital is based on the internal model for underwriting risk and market risk including their diversified aggregation. Operational risk and less material risks are quantified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

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

3.2 If's risk profile

The figure below shows economic capital as per 31 December 2013 to 31 December 2017.

FIGURE 11 – Development of EC (pre-tax)



¹¹ Measures based on regulatory requirements, i.e. the solvency requirements for the partial internal model (PIM SCR), internal economic measures (economic capital (EC)) and rating agency measures. Rating agency measures are not specifically handled in the report.

The main risk types for If are underwriting and market risks. The allocation of economic capital to different risk categories has been relatively stable over the past five years except for 2015 when the inflation risk was reclassified from market risk to underwriting risk. The merger with If Finland 2017 has however increased economic capital by 3.3 BnSEK as well as increased the proportion of market risk in comparison to underwriting risk. The decrease in underwriting risk from 7.0 BnSEK to 6.5 BnSEK is due to decreased inflation risk, partly offset by the merger increasing the exposure.

3.3 Underwriting risk

Underwriting risk is the risk of loss, or of adverse change, in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.

In accordance with the economic capital calculation, premium risk, catastrophe (CAT) risk, reserve risk and inflation risk are included in the underwriting risk.

3.3.1 Risk exposure

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

If's economic capital for underwriting risk reflects the exposure to underwriting risk over a one-year horizon and decreased by 0.5 BnSEK to 6.5 BnSEK during 2017. The underwriting risk with the largest effect on economic capital is inflation risk and the decrease in underwriting risk was caused by a lower inflation risk calibration, partly offset by an increased exposure from the merger with If Finland.

The merger with If Finland resulted in a change of the underwriting risk profile for If Sweden through a yearly premium volume of 9 BnSEK and a long-tailed claims provisions portfolio increasing the exposure towards underwriting risks.

3.3.1.1 Premium risk and catastrophe risk

Premium risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events that have not occurred at the balance date. Catastrophe risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events. Risk factors underlying premium risk are reviewed twice a year by each business area on an impact and likelihood basis. The main premium risks are claims volatility, risk assessment in pricing and claims inflation. Premium risk has increased in 2017 due to the increase in premium volume related to the merger with If Finland.

3.3.1.2 Reserve risk and inflation risk

Reserve risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing and amount of claim settlements for events that have occurred at, or prior to, the balance date.

Risk factors underlying reserve risk are reviewed twice a year by the Chief Actuary on an impact and likelihood basis. The main risk factors affecting reserve risk are emerging risk, claims inflation, development in medical practice and increase in life expectancy. During 2017, reserve risk has increased due to the merger with If Finland.

The reserves in If are dominated by long tailed business which amplifies If's exposure to inflation. Future claims inflation, related to both premium and reserve risk, is quantified separately. While the qualitative assessment of long-term inflation expectations is stable, the quantitative inflation measure has decreased due the calibration to short-term expectations.

The provisions for MTPL and Workers Compensation (WC) include annuities that are sensitive to changes in mortality assumptions, inflation and discount rates. The Swedish Motor Third Party Liability (MTPL) portfolio represents 25% of the Solvency II claims reserve as well as approximately one fourth of the undiversified EC for reserve risk, being the largest reserve risk. The inflation risk is limited in Finland, as index increments for annuities are handled through a national pay-as-you-go system, where the yearly increases are included in the insurance premium. The effect on provisions from a decrease in discount rates is damped for provisions with long duration due to convergence towards the ultimate forward rate. Reserve risk includes revision risk resulting from fluctuations in the level, trend, or volatility of revision rates applied to annuities, due to changes in the legal environment or in the state of health of the persons insured.

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

3.3.2 Risk concentration

The insurance portfolio is well diversified, given the fact that If has a large customer base and the business is underwritten in different geographical areas and across several lines of business. The geographical distribution of gross written premium for 2017 is shown in the table below. Compared to 2016, If's insurance portfolio is even more diversified due to the merger with If Finland.

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

3.3.3 Risk mitigation

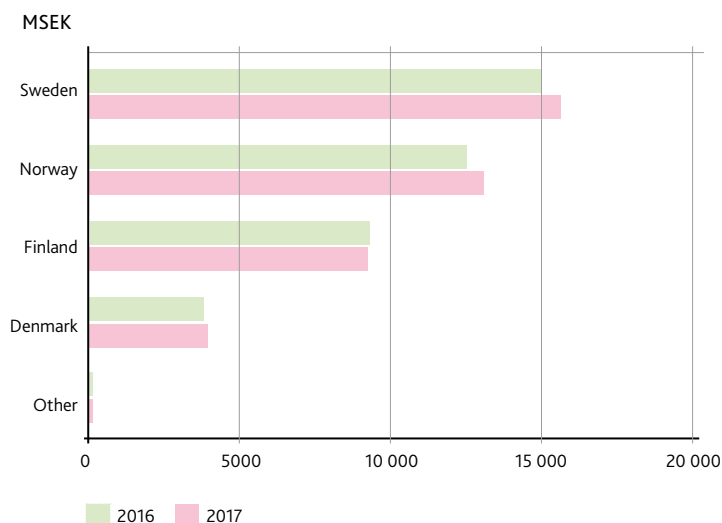
The principal methods for mitigating premium risks are by reinsurance, diversification, prudent underwriting and follow-ups on regular basis linked to the strategy and financial planning process. The Underwriting policy sets general principles, restrictions and directions for the underwriting activities. 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. When setting provisions, established actuarial methods are used, combined with projections of the number of claims and average claims costs.

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

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

FIGURE 12 – Gross Written Premium per country, MSEK

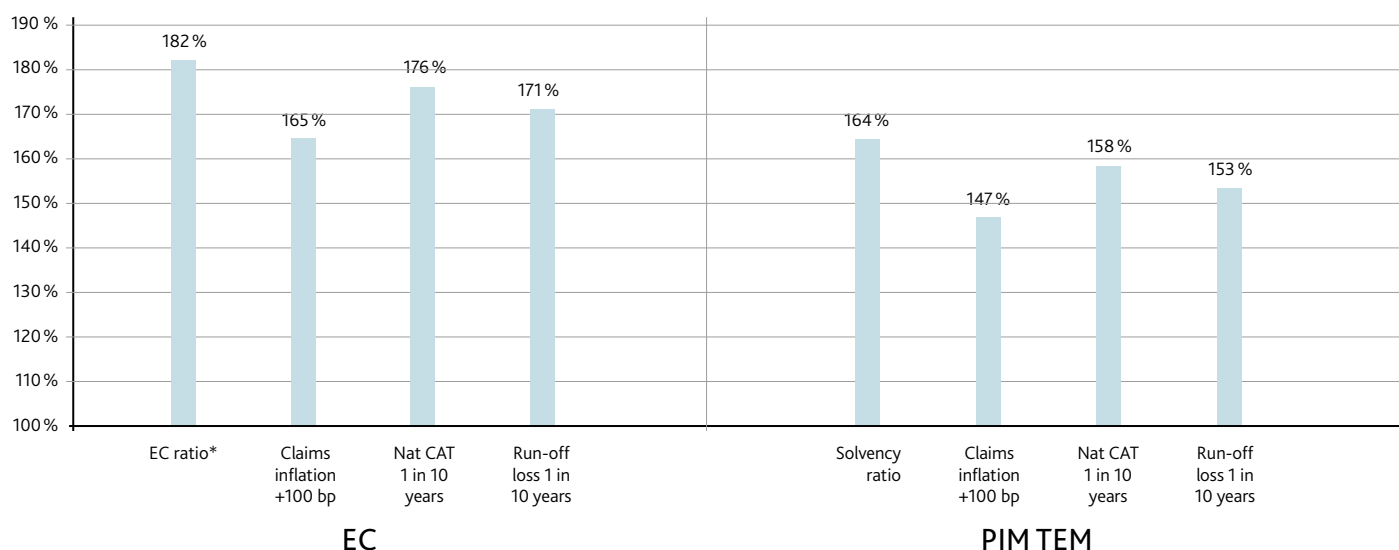


3.3.4 Risk sensitivity

Stress tests have been performed to assess If's sensitivity against major risk factors. The effect on the economic capital and the regulatory solvency capital requirements (PIM TEM)¹², at 31 December 2017, is displayed in the table below. The EC solvency ratio is based on the internal model for underwriting risk and market risk, while the PIM solvency ratio is based on the internal model for underwriting risk¹³. Risks not covered by the internal model are calculated using the standard formula.

The purpose of the stress is to estimate the impact on the capital position of a higher claims inflation than expected, a 1 in 10 year natural catastrophe, a 1 in 10 year run-off loss. In each sensitivity test, If maintains a solvency ratio above 100%.

FIGURE 13 – Solvency II Sensitivity underwriting risk



*Eligible own funds in proportion to economic capital.

In the inflation stress an increase corresponding to 100 basis points to inflation is assumed. The increase of claims inflation is assumed to increase the technical provisions. In the natural catastrophe stress, it is assumed that claims payments are immediate and hence this would not affect the technical provisions, leaving underwriting and market risk unaffected but the eligible own funds reduced. In the run-off stress, a 1 in 10 year run-off loss is assumed to increase technical provisions, and lead to an increase in reserve risk and inflation risk.

3.4 Market Risk

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

Market risk, in accordance with the calculation of economic capital, consists of currency-, equity-, interest rate- and spread risk. Spread risk is included when calculating market risk but its exposure, concentration, mitigation and sensitivity are described in 3.5, since If views spread risk as being part of credit risk together with the counterparty default risk. Asset and Liability Management (ALM) risk is not calculated separately but is comprised in the interest rate and currency risk figures. The main risk component is the equity risk.

3.4.1 Risk exposure

If benefits from diversification effects through its well-diversified portfolio. The market risk has increased 2017, mainly due to the merger between If and If Finland.

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

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

Main factors that could affect market risk are geopolitical uncertainty, lower house prices in Sweden and Norway, distress in equity markets and concentration towards Nordic financials. Low interest rate over long time may affect market risk since it is affecting the investment return.

¹² Partial Internal Model with Transitional Equity Measures.

¹³ Excluding If Finland, see 1.5 Any other material information.

3.4.1.1 Currency risk

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

If's corporate structure with branches in different countries generates currency exposures since the base currency for If is Swedish kronor. In addition, If's business activities and investment decisions create currency exposure. Compared to 31 December 2016, the currency risk has increased mainly due to increased exposure from the merger between If and If Finland.

3.4.1.2 Equity risk

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

The equity portfolio consists of Nordic shares and a diversified global funds portfolio, at year-end 2017, If's exposure amounted to 14,264 MSEK. Compared to 31 December 2016, the equity risk has increased mainly due to an increased exposure from the merger between If and If Finland.

3.4.1.3 Interest rate risk

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

The duration of fixed income investments was 1.4 years at year-end 2017. Compared to 31 December 2016, the interest rate risk has increased mainly due to the merger between If and If Finland.

3.4.1.4 Spread risk

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

The spread risk in If has increased mainly due to increased credit exposure in the portfolio. For information on spread risk exposure, concentration, mitigation and sensitivity, see 3.5, credit risk.

3.4.1.5 Asset and Liability Management (ALM) risk

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

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

3.4.2 Risk concentration

The figures below show the market risk concentration of the investment portfolio in If. Figure 14 shows the market values per type of asset whereas Figure 15 shows how much EC they contribute with to the total undiversified market risk.

FIGURE 14 – Market values per type of asset, 31 December 2017

Investment portfolio concentration

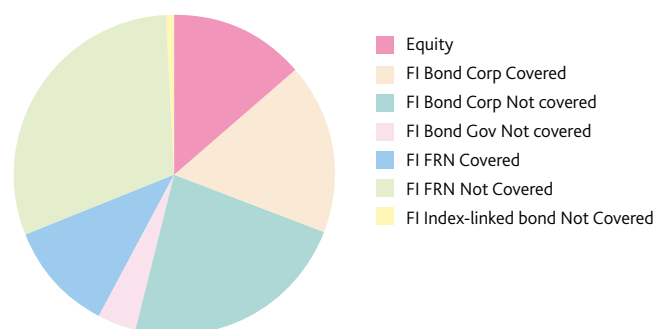
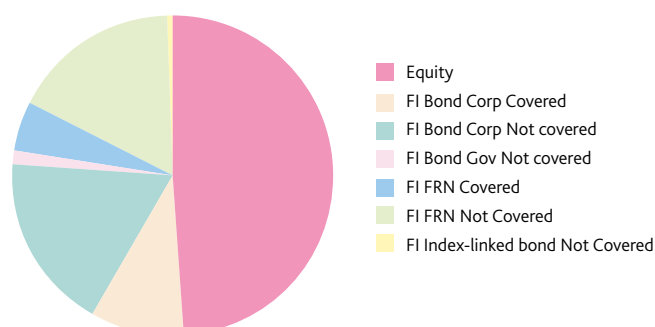


FIGURE 15 – Economic Capital per type of asset, 31 December 2017

Market risk concentration



RISK PROFILE

If's currency positions against the base currency are shown in the table below. The currency exposure that arises when consolidating the financial statements of branches that have a different base currency than If is not hedged, since those investments are regarded as being of long-term nature and the currency effects related to them will not affect the profit and loss accounts.

TABLE 6 – Currency risk 31 December 2017

MSEK Currency	EUR	NOK	DKK	GBP	USD	JPY	OTHER
Open position (SEK), 2017	-1,029	773	70	13	19	-2	-40

Above IFRS values give a fair picture of currency risk concentrations and do not materially differ from Solvency II values.

The investment portfolio consists mainly of fixed income 86.3% and equities 13.3%.

TABLE 7 – Breakdown of equity investments by industry sectors

MSEK	2017		2016	
	Carrying amount	%	Carrying amount	%
Industrials	5,056	49.1	5,130	47.6
Consumer Discretionary	2,810	27.3	3,390	31.5
Materials	661	6.4	624	5.8
Telecommunication Services	654	6.3	591	5.5
Health Care	588	5.7	541	5.0
Financials	287	2.8	338	3.1
Consumer Staples	132	1.3	-	-
Energy	62	0.6	94	0.9
Information Technology	46	0.4	64	0.6
Total	10,296	100	10,771	100

The sector allocation of equity excludes investments made through mutual equity funds of 4,154 MSEK (1,583 MSEK).

Above IFRS values give a fair view of risk concentrations and do not materially differ from Solvency II values.

TABLE 8 – Breakdown of equity investments by geographical regions

MSEK	2017		2016	
	Carrying amount	%	Carrying amount	%
Scandinavia	10,295	72.2	10,771	87.2
Western Europe	1,483	10.4	0	0.0
Far East	1,347	9.4	499	4.0
North America	860	6.0	845	6.9
Latin America	277	1.9	239	1.9
Total	14,264	100	12,354	100

The geographical allocation of equity excludes investments made through private equity funds of 186 MSEK (- MSEK)..

The IFRS values above give a reasonable picture of risk concentrations and do not materially differ from Solvency II values.

The duration of fixed income investments was 1.4 years at year-end 2017. The duration of fixed income investments is shown in the table below.

TABLE 9 – Breakdown of equity investments by geographical regions

MSEK	2017			2016		
	Carrying amount	%	Duration	Carrying amount	%	Duration
Scandinavian government securities/credits	67,247	72.6	1.3	57,558	87.3	1.3
Euro government securities/credits	13,994	15.1	1.9	4,707	7.1	0.7
Swedish index-linked bonds	679	0.7	2.9	697	1.1	3.8
Short-term fixed income	2,433	2.6	0.0	2,680	4.1	0.2
US government securities/credits	6,099	6.6	2.3	255	0.4	1.3
Global securities/credits	2,222	2.4	2.9	0	0.0	0.0
Total	92,675	100	1.4	65,897	100	1.3

IR Derivatives are included

For information on spread risk exposure, concentration, mitigation and sensitivity, see section 3.5 credit risk.

3.4.3 Risk mitigation

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

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

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

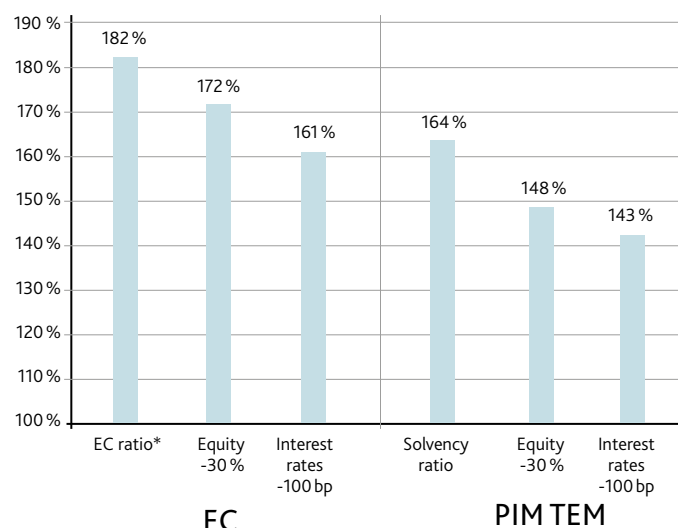
If's equity portfolio is actively managed with a long-term investment horizon. The equity risk is reduced by diversifying the investments across industry sectors and geographical regions. According to If's Investment policy, equity investments in relation to the total investment portfolio and the exposure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

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

3.4.4 Risk sensitivity

To test sensitivity for major risk factors, equity and interest rate stresses have been performed showing the effect both on the internal economic capital as well as on the solvency capital requirement as per 31 December 2017. In both stresses, If maintains a solvency ratio above 100%. The purpose of the stress tests is to estimate the impact on the economic capital as well as on the solvency ratio for a 30% decrease in the market value for equities and for a 100 basis point decrease in the interest rates.

FIGURE 16 – Market risk sensitivity



*Eligible own funds in proportion to economic capital.

The key assumption in the equity stress is that the equity risk decrease with the same proportion as the market value. In the interest rate stress the decreased interest rates increase the investment assets as well as technical provisions. The increase of technical provision is larger than the increase of investment assets due to the longer duration of technical provisions. The interest rate stress is based on a parallel shift of the market rates used as input to the calculation of the Solvency II yield curves. The effect is dampened for the highest maturities due to convergence to the unstressed forward rate used in the long end.

3.5 Credit risk

Credit risk means 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.

3.5.1 Risk exposure

Credit risk, or spread risk as it is referred to within If, is measured as economic capital calculated by If's internal model as seen under 3.4. The standard formula is used for the calculation of concentration risk and counterparty default risk. Credit risk refers to the sensitivity of the values 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. Credit risk exposure towards policyholders is very limited, since non-payment of premiums generally results in the cancellation of insurance policies.

3.5.1.1 Credit risk in Investment Operations

Credit risk in the investment operations can be measured as counterparty default risk and spread risk. In most cases part of the credit risk is already reflected by higher spread and thereby the asset has a lower market value, even in the case of no default. Therefore, the spread is in essence the market price of credit risk.

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

3.5.1.2 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.

3.5.2 Risk concentration

3.5.2.1 Concentration in Reinsurance Operations

The distribution of reinsurance recoverables excluding expected loss is presented in Table 10.

TABLE 10 – Reinsurance recoverables

MSEK Rating (S&P)	2017	%	2016	%
AAA	-	-	-	-
AA	294	15.3	702	34.8
A	155	8.1	148	7.3
BBB	5	0.3	7	0.4
BB - CCC	-	-	-	-
Not rated	3	0.1	17	0.8
Captives and statutory pool solutions	1,462	76.2	1,145	56.7
Total	1,919	100	2,019	100

The distribution of ceded treaty and facultative premiums per rating category is presented in Table 11.

TABLE 11 – Ceded treaty and facultative premiums per rating category

MSEK Rating (S&P)	2017	%	2016	%
AAA	-	-	-	-
AA	302	58.9	236	52.2
A	210	41.1	216	47.8
BBB	-	-	-	-
BB - CCC	-	-	-	-
Not rated	-	-	-	-
Total	512	100	452	100

3.5.2.2 Concentration in Investment Operations

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

TABLE 12 – Fixed income exposure by sector, assets and rating 2017

MSEK	AAA	AA+ - AA-	A+ - A-	BBB+ - BBB-	BB+ - C	D	Not rated	Total ¹⁾	Equities	Proper- ties	Derivatives (Counter- party Risk)	Total ²⁾	Change compared to Dec 31, 2016
Basic Industry	0	0	258	457	0	0	341	1,057	395	0	0	1,452	265
Capital Goods	0	0	729	392	0	0	77	1,198	5,131	0	0	6,329	880
Consumer Products	0	1,017	1,482	2,856	0	0	592	5,946	3,065	0	0	9,011	4,114
Energy	0	402	296	0	522	0	1,474	2,694	59	0	0	2,754	-145
Financial Institutions	0	7,260	11,300	4,194	219	0	98	23,072	279	0	58	23,409	12,801
Governments	904	0	0	0	0	0	0	904	0	0	0	904	92
Government Guaranteed	426	731	0	0	0	0	0	1,158	0	0	0	1,158	-84
Health Care	69	102	319	353	0	0	26	870	654	0	0	1,523	983
Insurance	0	0	394	585	169	0	213	1,361	0	0	0	1,361	475
Media	0	0	0	0	0	0	213	213	0	0	0	213	62
Packaging	0	0	0	0	0	0	51	51	0	0	0	51	51
Public Sector, Other	6,610	1,526	0	0	0	0	0	8,136	0	0	0	8,136	-772
Real Estate	0	56	832	630	78	0	4,459	6,054	0	122	0	6,176	1,769
Services	0	0	0	553	215	0	833	1,601	0	0	0	1,601	478
Technology and Electronics	83	0	353	0	0	0	334	770	46	0	0	816	390
Tele- communications	0	0	0	1,121	0	0	459	1,580	588	0	0	2,169	553
Transportation	0	667	42	495	0	0	1,639	2,843	66	0	0	2,910	-69
Utilities	0	0	302	2,073	450	0	429	3,254	0	0	0	3,254	-139
Others	0	239	0	0	0	0	122	361	8	0	0	369	361
Covered Bonds	29,256	432	0	0	0	0	0	29,688	0	0	0	29,688	4,500
Funds	0	0	0	0	0	0	0	0	4,154	0	0	4,154	2,571
Clearing House	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	37,349	12,432	16,308	13,709	1,652	0	11,362	92,813	14,446	122	58	107,439	29,137
Change compared to Dec 31, 2016	4,151	4,797	9,007	7,221	-668	-	2,376	26,883	2,104	120	30	29,137	

¹⁾ Total fixed income exposure differs by MSEK 138 compared with the corresponding financial assets and liabilities in Table 6 because other derivatives and collateral are excluded.

²⁾ Total exposure differs by MSEK 193 compared with the corresponding financial assets and liabilities in Table 6 because derivatives are excluded except for OTC derivatives netted with collateral, for which only the counterparty risk is taken into account.

3.5.3 Risk mitigation

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

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

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

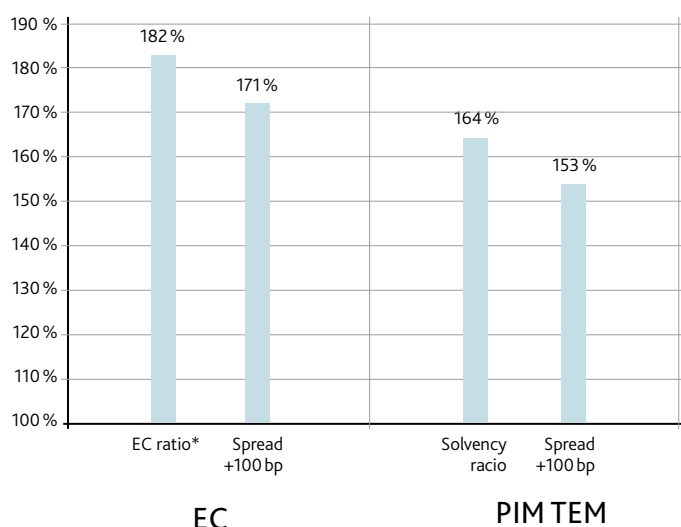
The development of the portfolio with respect to credit risk is monitored and reported to the Investment Control Committee and Reinsurance Security Committee on a regular basis and on quarterly basis to the ORSA Committee.

3.5.4 Risk sensitivity

3.5.4.1 Risk sensitivity in Investment Operations

To test sensitivity for major risk factors, a credit spread stress has been performed showing the effect on the Solvency II ratios as per 31 December 2017. If maintains a solvency ratio above 100% after the stress. The spread stress estimates an impact on the solvency ratio for a 100 basis points increase in the spreads. The key assumption for the spread stress is that the stress does not have an impact on technical provisions.

FIGURE 17 – Solvency II Sensitivity credit risk in Investment Operations, EC and PIM TEM, 31 December 2017



*Eligible own funds in proportion to economic capital.

3.5.4.2 Risk sensitivity in Reinsurance Operations

The simulated credit loss due to counterparty default gives a view of the risk profile. Non-rated captives and pools are treated as BBB rated. Based on an assumption that the recovery rate in case of a counterparty default can be approximated with a probability distribution with a 50% mean, the estimated credit loss is simulated using 50,000 simulations, with a one year horizon. The calculations are based on discounted values in line with Solvency II (from 31 December 2017).

FIGURE 18 – Risk sensitivity

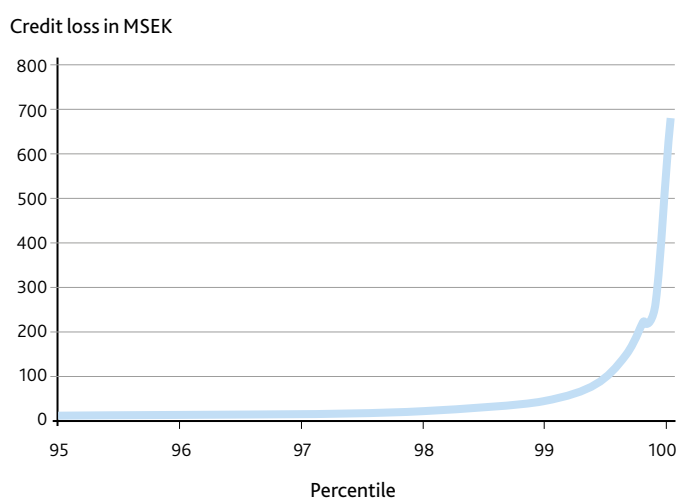


TABLE 13 – Risk sensitivity

Probability	Q4 2017
5.0%	1
2.5%	9
1.0%	40
0.5%	123
0.03%	394

3.6 Liquidity Risk

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

3.6.1 Risk exposure

The liquidity risk is deemed not to be material, since premiums are collected in advance and large claims payments are usually known well in advance before they fall due, thus limiting the liquidity risk. Liquidity risk is identified and managed but no solvency needs are quantified.

3.6.2 Risk concentration

The maturities of cash flows for technical provisions, financial assets and liabilities are presented in Table 14. In the table, financial assets and liabilities are divided into contracts with a contractual maturity profile, and other contracts. Only the carrying amount is shown for the other contracts. The table also shows expected cash flows for net technical provisions, which are inherently associated with a degree of uncertainty.

TABLE 14 – Maturities of cash flows for financial assets and liabilities and net technical provisions 31 December 2017

MSEK	Carrying amount			Cash flows						
	Carrying amount	Without maturity	With contractual maturity	2018	2019	2020	2021	2022	2023-2032	2033-
Financial assets	122,764	16,807	105,957	27,663	19,987	21,737	22,163	12,644	5,598	-
Financial liabilities	7,212	147	7,065	-5,950	-72	-70	-1,151	-	-	-
Net technical provisions	86,038			28,870	10,087	6,041	4,869	2,990	19,877	18,441

3.6.3 Risk mitigation

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

3.6.4 Risk sensitivity

To identify the liquidity risk exposure, expected cash flows from investments assets and technical provisions are analysed regularly. Cash flows from investment assets are measured both from availability and maturity point of view. When measuring availability, normal market conditions as well as stressed and extreme conditions are taken into consideration. When deemed necessary, the analysis cover 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.

3.6.5 Expected profit included in future premiums

The total amount of the expected profit included in future premiums (EPIFP) was 1,749 MSEK at 31 December 2017.

3.7 Operational risk including legal risks

Operational risk is the risk of loss arising from inadequate or failed processes or systems, from personnel or from external events (expected or unexpected).

The definition includes legal risk that is described as the risk of loss due to (i) disputes not related to insurance claims, (ii) breach of contract or entry into illegal contracts or (iii) breach of intellectual property rights.

3.7.1 Risk exposure

Assessment of operational risk is performed through the qualitative Operational and Compliance Risk Assessment (OCRA) process. In this process, operational risk is identified, assessed, managed and reported regularly through self-assessment. The OCRA process is supported by an operational risk coordinator network.

Operational risks are assessed from a likelihood and impact perspective and evaluated using a traffic light system. Risks identified by the business are aggregated and reported into five different categories: process execution failure; business disruption and system failures; customer, products and business practices; employment practices; and internal and external fraud. The most significant risks are reported to the Operational Risk Committee (ORC).

Risk indicators are used to identify and follow the development of various risks, where incident reporting and quality assurance reviews are two important examples.

Possible external and internal cases of fraud are identified and reported via dedicated processes. Through the processes for identification of strategic risks and emerging risks, see section 3.8.1 and 3.8.4, external factors with a possible effect on operational risk are identified.

Operational risks as per 31 December 2017 include insufficient IT and data quality. During the reporting period, there have been no material changes in the risk exposure.

3.7.2 Risk concentration

No significant risk concentrations have been identified for operational risk.

3.7.3 Risk mitigation

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

Steering documents relevant for operational risk include guidelines for management of internal and external fraud. Analysis of fraud trends are performed and control activities are carried out to mitigate the risk. In addition, internal training on ethical rules and guidelines is provided to employees on a regular basis.

The company's processes for business continuity planning (BCP) include preparation of risk based BCP plans, set up of crisis management teams and performing of regular crisis exercises. The purpose of this work is to protect the company's assets and ensure that the organization is able to deliver even when something unpredictable happens. The processes would also assist the company to ensure stability after such an event.

Quality and risk coordinators are appointed within the line organisation and quality controls are carried out within significant processes. Further, in the OCRA process risk reducing activities are defined for significant risks and followed up on a regular basis.

3.7.4 Risk sensitivity

The sensitivity of operational risks is equal to the loss of a possible risk event. Such a risk event would therefore result in a one-off effect on own funds but would not have any impact on the EC or the solvency capital requirement.

3.8 Other material risks

3.8.1 Strategic risk

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

3.8.1.1 Risk exposure

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

Strategic risk relates to changes in the operational environment and the capability to pro-actively adjust to the changes. For If strategic risk is related to actions of competitors, mainly market share acquisitions through price reductions or distribution capacity increases. Furthermore, recessionary economic conditions and distress in financial markets may have a negative effect on If. In addition, regulative environment evolves constantly and often has direct impact on If's business. During the reporting period there have been no significant changes to the risk exposure for strategic risk.

3.8.1.2 Risk concentration

No significant risk concentrations for strategic risks have been identified.

3.8.1.3 Risk mitigation

The development of the identified material risks are continuously followed up by both the line organisation and the Corporate Control and Strategy unit. The risks are evaluated at least annually in the yearly financial plan process where activities to manage significant risks and adjust to changes in the market and economic climate are considered.

3.8.2 Compliance risks

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

3.8.2.1 Risk exposure

The compliance risks are measured by assessing impact and likelihood of breaching applicable rules. The main compliance risk is the risk of breaching the personal data legislation. As a result of activities within the General Data Protection Regulation (GDPR) project, aimed at further improving the handling of personal data, the risk has decreased during the reporting period.

3.8.2.2 Risk mitigation

The internal control system encompasses a range of both proactive and reactive mitigating techniques, e.g. clear and implemented policies and instructions, employee training, segregation of duties, access rights and four eyes principle. The processes for monitoring the continued effectiveness of these risk mitigation techniques includes quality assuring activities such as file reviews and referrals.

3.8.3 Reputational risk

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

3.8.3.1 Risk exposure

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

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

3.8.3.2 Risk concentration

No significant risk concentrations for reputational risk have been identified.

3.8.3.3 Risk mitigation

Reputational risk is often an effect of a materialised operational or compliance risk. When assessing the possible consequences of these two types of risks, reputation impairment is taken into consideration. Some processes are especially sensitive to reputational risk, such as marketing and claims handling. Individual incidents can also receive high media attention. Professional handling and communication are key to mitigate the risk. Additional mitigating techniques are clear and implemented steering documents, e.g. Ethics policy and Social media

instructions, as well as incident handling procedures and internal whistleblowing process. Close monitoring of all types of media is also performed in order to identify possible negative trends at an early stage.

3.8.4 Emerging risks

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

3.8.4.1 Risk exposure

When new risks materialise or old risks change, this is primarily identified, assessed and managed by the underwriting and claims teams in the different business areas as part of the regular risk assessment processes. However, in order to capture cross business area risks and in order to additionally proactively identify emerging risks, If has established an Emerging Risks Core Team (ERCT) with expert members from all business areas. The team meets on a regular basis and discusses emerging risks. The aim with the Core Team is to facilitate work in If's underwriting units in identifying risks, collecting and sharing information about the risks in order to evaluate the severity of the risks, to arrange further studies or workshops and to suggest actions if necessary. The risks are assessed by impact and likelihood. The actions needed to control the exposures and accumulations are carried out in the underwriting units. Some of the key emerging risks that have been under observations during 2017 are cyber risks and the potential lack of climate change adaption. During 2017, there have not been any material changes regarding emerging risks.

3.8.4.2 Risk concentration

No significant risk concentrations for emerging risks have been identified.

3.8.4.3 Risk mitigation

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

3.8.5 Risk sensitivity other material risks

Strategic, compliance, reputational and emerging risks are not included in the quantitative risk measures. If a severe risk event occurs that is a result of any of these risks, it may have an effect on own funds but would not have any direct impact on the economic capital or the solvency capital requirement. A material strategic risk event would most likely have a negative effect on the ability to compete, with decreased premium volumes and profitability as a consequence. A significant compliance risk that materialises would most likely result in a fine from the FSA. A significant materialised reputational risk event may lead to a combination of decreased premium volumes due to customers leaving If and a one-time cost effect on own funds to manage the risk. Emerging risks can affect all of the other existing risk categories. The sensitivity of these qualitative risks is due to their nature, very difficult to quantify.

3.9 Any other Information

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



VALUATION FOR SOLVENCY PURPOSES

4 Valuation for Solvency Purposes

If's Solvency II balance sheet is derived from If's statutory accounts (prepared according to Swedish GAAP), which are adjusted in accordance with rules in Solvency II. For purposes of comparison values derived from If's statutory accounts are used, but classified in accordance with the Solvency II balance sheet presentation. Both the qualitative and quantitative reports are presented in If's reporting currency, which is SEK.

The accounting standards under Swedish GAAP used for If's statutory accounts have not been subject to any significant amendments in 2017 causing new divergences to occur between Solvency II and Swedish GAAP.

Overall, as an effect of the Solvency II revaluations per the year ended 31 December 2017, the excess of assets over liabilities is 2,205 MSEK higher in the Solvency II balance sheet compared to the statutory accounts.

Table 15 below provides an overview of adjustments from the statutory accounts to the Solvency II balance sheet.

TABLE 15 – Balance sheet adjustment for Solvency II purpose

Classification	Statutory accounts value	Adjustment (MSEK)	Solvency II value	
Assets				
Goodwill	312	-312	0	A
Deferred acquisition costs	1,137	-1,137	0	B
Intangible assets	177	-177	0	A
Property, plant & equipment held for own use	167	0	167	
Investments (other than assets held for index-linked and unit-linked contracts)	104,451	0	104,451	
<i>Property (other than for own use)</i>	122	0	122	
<i>Holdings in related undertakings, including participations</i>	11	0	11	
<i>Equities</i>	10,276	0	10,276	
<i>Bonds</i>	89,650	0	89,650	
<i>Collective Investments Undertakings</i>	4,151	0	4,151	
<i>Derivatives</i>	242	0	242	
Loans and mortgages	816	0	816	
Reinsurance recoverables from:	2,112	-290	1,821	B
<i>Non-life and health similar to non-life</i>	2,112	-290	1,821	
Insurance and intermediaries receivables	12,092	-8,921	3,172	B
Reinsurance receivables	86	0	86	
Receivables (trade, not insurance)	2,835	-1,103	1,731	C
Cash and cash equivalents	2,347	0	2,347	
Any other assets, not elsewhere shown	594	-123	470	D
Total assets	127,125	-12,063	115,062	
Liabilities				
Total TP	88,150	-14,097	74,053	B
<i>Technical provisions – non-life (excluding health)</i>	51,431	-12,199	39,232	
<i>Technical provisions - health (similar to non-life)</i>	15,198	-1,234	13,964	
<i>Technical provisions - life (excluding index-linked and unit-linked)</i>	21,521	-664	20,857	
Provisions other than technical provisions	344	-18	326	D
Pension benefit obligations	260	297	558	D
Deferred tax liabilities	847	629	1,476	F
Derivatives	108	0	108	
Insurance & intermediaries payables	1,795	0	1,795	
Reinsurance payables	232	-36	195	B
Payables (trade, not insurance)	3,455	-1,103	2,352	C
Subordinated liabilities	1,082	88	1,170	E
<i>Subordinated liabilities in Basic Own Funds</i>	1,082	88	1,170	
Any other liabilities, not elsewhere shown	1,715	-29	1,686	B
Total liabilities	97,988	-14,268	83,719	
Excess of assets over liabilities	29,137	2,205	31,342	

The adjustments can be divided into six categories:

- A. Assets which have no carrying amount recognised in Solvency II, e.g. Goodwill and Intangibles;
- B. Technical provisions and items related to these which are affected as a result of Solvency II valuation, i.e. technical provisions, DAC, premium receivables and equivalent items related to ceded reinsurance;
- C. The Finnish Medical Malpractice Pool "MMP" public sector contracts, which are not insurance contracts under IFRS 4, are reclassified from trade payables to technical provisions and netted against receivables related to the pool;
- D. If's pensions benefit obligation valued according to IAS 19 which involves some reclassifications and nettings but above all an increased valuation of the liability;
- E. Subordinated liabilities are revalued from being measured at amortised cost in the financial reporting to being measured using a method taking into account changes in market conditions; and
- F. Movements in the carrying amount of deferred tax assets and liabilities.

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

4.1 Assets

4.1.1 Goodwill

In If's statutory accounts, goodwill is recognized pertaining to acquisition of companies and portfolios, as well as goodwill arising from the merger of Skandia's and Storebrand's property and casualty insurance portfolios in 1999. The total carrying value for the year ended 2017 was 312 MSEK. Goodwill is valued at zero value for solvency purposes.

4.1.2 Intangible assets other than goodwill

In If's statutory accounts, If recognises other intangible assets of 177 MSEK, mainly relating to capitalised costs for the development of various insurance systems (including patents, licenses and other contractual rights in relation to computer software).

As the intangible assets in the statutory accounts don't have a listed market value they do not fulfil the requirements for recognition in the solvency balance sheet.

4.1.3 Property, plant and equipment (PPE)

Property Plant and Equipment consist of machinery and equipment and are valued at acquisition value. Acquisition value includes not only the purchase price but also expenses directly attributable to the acquisition. Machinery and equipment are reported at historical acquisition value, less depreciation according to plan. These deductions are based on the historical acquisition value and the estimated economic useful life.

The current treatment in the statutory accounts is applicable also for solvency valuation purposes.

Disclosure in relation to If's leased assets and leasing liabilities is included in section 4.5.1.

4.1.4 Property (other than for own use)

In If's annual report all properties are reported as investment assets (investment properties), normally fair valued pursuant to IAS 40. The classification as investment properties complies with the company's basic approach to these assets. The fair value consists of the net realizable value and is set annually by external surveyors using acknowledged and accepted valuation methods. Accepted methods consist of 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. The measurement in the annual report is applicable also for solvency valuation.

4.1.5 Financial investment assets

In its financial statements, If has elected to apply a classification that means that almost all financial investment assets, apart from associated companies and loans and mortgages, are fair valued. Since the valuation of the assets is essentially based on observable market listings, this accounting method offers a good presentation of the company's holdings of investments assets. The main part of the financial assets that are not derivatives has been classified as available-for-sale financial assets.

Financial investment assets are reported in the original currency and at fair value with, as a main principle, changes in value recognised in other comprehensive income until being realised. The purchase and sale of money market and capital market instruments on the spot market as well as derivative transactions are reported in the balance sheet on the transaction date. In the statutory accounts, the counterparty's receivable/liability is reported between the transaction date and payment date in gross form under the item "Other assets" or "Other creditors".

4.1.5.1 Equities

Equities (shares) are fair valued, calculated as a sales value without deduction for sales costs. For shares listed on an authorised stock exchange or marketplace, the sales value normally refers to the latest trade price on the closing date. Unlisted securities included in private equity investments are valued using established valuation models.

The treatment of shares in the statutory accounts, mainly consisting of equities and shares in investment funds, is also applicable for solvency valuation. Investment funds which mainly consist of investment in equity instruments are split out from the equities and shown separately in the solvency balance sheet.

4.1.5.2 Bonds

Interest-bearing securities are fair valued and accounted for separating the accrued acquisition value from change in fair value. The accrued acquisition value is the discounted present value of future payments, for which the discount rate consists of the effective rate of interest on the acquisition date. This means that acquired surplus and deficit values on coupon instruments are distributed over the period as interest during the bond's remaining time to maturity, in the case of loans with adjustable interest rates, to the next rate-adjustment occasion. For discount instruments, the reported interest income pertains only to distribution of deficit values in conjunction with the acquisition. The return on interest-bearing securities is divided up as interest income and changes in value. The change in value is calculated as the difference between the fair value (market value) of the securities holding and its accrued acquisition value. When valuing at fair value, the listed bid price or yield-curve models, based on listed bid prices, are used.

The treatment of interest-bearing securities in the statutory accounts, consisting mainly of Government and Corporate Bonds, is applicable also for solvency valuation. Investment funds which mainly invest in interest-bearing instruments are split out from the bonds and shown separately in the solvency balance sheet.

4.1.5.3 Investment Funds

The treatment of Investment Funds in the statutory accounts is commensurate with the treatment of Equities and Interest bearing securities above. Investment Funds relate to undertakings of which the sole purpose is the collective investment in transferrable securities and/or in other financial assets.

The valuation of investment funds in the statutory accounts is applicable also for solvency valuation.

4.1.5.4 Derivatives (assets and liabilities)

Derivates are financial instruments which have values, based on the expected future price movements of the underlying assets to which they are linked. All derivative instruments are fair valued and are valued individually.

The treatment of derivatives in the statutory accounts is also applicable for solvency valuation.

4.1.5.5 Loans and mortgages

In If's statutory accounts, loans are initially recognised at acquisition value, including transaction costs that are directly attributable to the acquisition of the asset. Loans are subsequently measured at accrued acquisition value decreased with any impairment.

The treatment in the statutory accounts is applicable also for solvency valuation.

4.1.5.6 Other receivables (excluding loans)

Receivables from customers, reinsurance receivables and other receivables are recognised at nominal value when incurred (on the transaction date), and, subsequent to initial recognition, in the amounts expected to be received. Provisions for doubtful receivables are normally posted on the basis of individual valuation of the receivables.

The treatment of other receivables in the statutory accounts is applicable also in the Solvency II balance sheet as the carrying value is considered to be a reasonable approximation of the fair value. The exception to this is those assets specifically listed below as being affected by technical provision valuation in the Solvency II framework.

The adjustment of receivables (trade, not insurance) relates to netting of receivable amounts in relation to the Finnish medical malpractice pool ("MMP"), public sector, which are treated as part of the SII best estimate technical provisions, whereas in the statutory accounts the MMP provision public sector is recognised as other assets/liabilities. Receivables of 1,103 MSEK are reclassified from trade receivables to the technical provision.

4.1.5.7 Cash and cash equivalents

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

Cash and cash equivalents are treated consistently between the statutory accounts and for Solvency II purposes.

4.1.6 Assets in the IFRS balance sheet which are linked to the calculation of If's Solvency II technical provisions

4.1.6.1 Deferred acquisition costs

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

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

4.1.6.2 Insurance and intermediaries receivables

In line with Solvency II classification, this balance relates to receivables amounts due by policyholders, other insurers, and those linked to insurance business. Under a full Solvency II classification, the technical provisions should fully take account of all cash in- and outflows. Therefore, rather than recognise a receivables amount in relation to future premiums expected on policies in force but not yet due, as is done in the statutory accounts treatment of premium receivables, the future premiums are instead fully considered within the Solvency II 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, insurers, and other receivables linked to If's insurance business. These are treated consistently with the equivalent receivables as recognised in the statutory accounts, as other receivables (refer above comments).

4.1.6.3 Reinsurance recoverables

The movements in the Reinsurers' share of technical provisions is covered in more detail under section 4.2 for Technical Provisions, refer below section.

Changes to the valuation of technical provisions gross similarly affect the ceded part of the technical provisions, which are referred to as "reinsurance recoverables" for solvency purposes.

4.1.7 Other assets not shown separately

If's assessment is that all remaining assets not listed separately above either are not material on an individual basis or in aggregation, and therefore constituent balances are not afforded separate disclosure or dis-aggregation into individual material asset classes.

Except for the treatment of pension assets and liabilities, as discussed above and in further detail in section 4.4, no differences arise in the treatment of these balances between the statutory accounts and for solvency purposes, as such assets are considered to be valued in a consistent manner.

4.1.8 Treatment of deferred tax liabilities and assets (DTL, DTA)

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

Deferred tax assets and 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 the can be used to off-set taxable profits in the future.

Deferred tax assets and liabilities are not discounted and are measured at the tax rates expected to apply when the asset is realised or the liability is settled. The following tax rates were used during the year when calculating deferred tax assets and liabilities at 31 December 2017;

TABLE 16 – Tax rates

Country	Tax rate
Sweden	22 %
Norway	25 %
Denmark	22 %
Finland	20 %
UK	22 %
Germany	28 %
France	35 %
Netherlands	0 %

For the year ended 2017, If recognised a net DTL position of 847 MSEK in its statutory accounts. As an effect of Solvency II valuation adjustments, the DTL liability amount was increased by 629 MSEK to a net DTL position of 1,476 MSEK.

TABLE 17 – Reconciliation of net DTA position in Solvency II balance sheet

Reconciliation of net DT position (MSEK)	2017	2016
Financial statement accounts, If Sweden (DTL)	847	707
1. Goodwill eliminated in Solvency II accounts	-69	-134
2. Other intangible assets eliminated in Solvency II accounts	-31	-27
3. DAC (net of ceded DAC) eliminated in Solvency II accounts	-254	-225
4. Ceded technical provisions (reinsurers' share) recalculated according to Solvency II	-66	-52
5. Technical provisions recalculated according to Solvency II	1,163	1,022
6. Pension obligations recognised in line with IAS 19 in Solvency II	-95	-134
7. Subordinated liabilities	-19	-25
Solvency II accounts, If Sweden (DTL)	1,476	1,132

The main drivers for this change, as shown in the table above, are the differing treatments of certain assets (goodwill, DAC and intangible assets), technical provisions liabilities (including reinsurance recoverables), as well as the impact of IAS 19 recognition of pension obligations.

For solvency purposes, If does not recognise deferred taxes in relation to allocations made to its untaxed reserves (this refers to the Swedish Security Reserve or "säkerhetsreserv"). As a result of this, there is no quantitative difference arising from the solvency treatment when comparing to the treatment of these reserves in the statutory accounts.

4.2 Technical Provisions

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

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

- Recognition of the premium provisions in Solvency II compared with the Unearned Premium Reserve of the statutory accounts;
- Application of discounting;
- Recognition of an explicit risk margin in Solvency II; and
- 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, including the effects of netting the premium receivable discussed in section 4.1 above as well as removal of Deferred Acquisition Costs, add up to a reduced liability by 3,814 MSEK, which is explained by the following movements.

TABLE 18 – Revaluation of technical provision for Solvency II purposes

	2017	2016
Change in gross DAC	-1,137	-985
Change in ceded technical provisions	-290	-233
Change in premium receivable asset	-8,921	-6,605
Total change in assets	-10,348	-7,823
Change in technical provisions gross (excl. RM)	-17,233	-12,502
Change in reinsurance payable liability	-36	-5
Change in ceded DAC	-29	-29
Introduction of risk margin	3,136	1,430
Total change in liabilities	-14,162	-11,106
Overall movement, technical provisions	-3,814	-3,283

4.2.1.1 Main quantitative differences explained

Table 19 displays differences in valuation of technical provisions between Solvency II and statutory accounts. The comparison is between best estimates according to Solvency II and technical provisions according to IFRS 4 in the statutory accounts. The risk margin, which only exist in Solvency II, is presented separately.

TABLE 19 – Split of technical provisions by Solvency II lines of business

Type of technical provisions	Reinsurance share of Technical Provisions			Technical Provisions, gross			Risk Margin
	Solvency II	IFRS		Solvency II	IFRS		Solvency II
Total MSEK	1,821	2,112	-291	70,917	88,150	-17,233	3,137
Health similar to life	-	-	-	10,203	10,633	-430	312
Income protection insurance (annuities)	-	-	-	179	188	-9	7
Medical expense insurance (annuities)	-	-	-	23	23	-	0
Workers' compensation insurance (annuities)	-	-	-	10,001	10,422	-421	305
Health similar to non-life	289	320	-31	13,060	15,199	-2,139	907
Income protection insurance	7	10	-3	5,748	7,369	-1,621	287
Medical expense insurance	0	0	0	1,129	1,515	-386	56
Workers' compensation insurance	282	310	-28	6,183	6,315	-132	564
Life excluding health	-	0	-	10,103	10,887	-784	237
Fire and other damage to property insurance (annuities)	-	-	-	47	49	-2	1
Life insurance	-	0	-	-	-	-	-
Motor vehicle liability insurance (annuities)	-	0	-	9,883	10,652	-769	227
General liability insurance (annuities)	-	-	-	173	186	-13	9
Other motor insurance (annuities)	-	-	-	0	0	0	-
Non-life excluding health	1,532	1,792	-260	37,551	51,431	-13,880	1,681
Fire and other damage to property insurance	540	640	-100	8,804	12,416	-3,612	460
Marine, aviation and transport insurance	155	181	-26	979	1,173	-194	84
Other motor insurance	13	22	-9	3,958	9,149	-5,191	119
Motor vehicle liability insurance	9	11	-2	17,766	22,017	-4,251	737
General liability insurance	815	938	-123	6,006	6,621	-615	279
Assistance	-	-	-	38	55	-17	2

The largest revaluation effect is due to the inclusion of future cash-inflows for payments not yet due by policyholders that are instead part of premium receivables in the statutory accounts. Discounting also has an effect on the size of technical provisions. The majority of technical provisions (with the exception of vested annuities in the Claims Provision Reserves) are undiscounted in the statutory accounts whereas in Solvency II all reserves are subject to discounting. Offsetting the positive difference above is the introduction of a risk margin.

4.2.2 Assumptions underlying the calculation of If's technical provisions

4.2.2.1 Adherence with solvency requirements

In line with the best estimate and risk margin definitions, If's technical provisions correspond to the current amount undertakings would have to pay if they were to transfer their (re)insurance obligations immediately to another undertaking. The value of technical provisions is equal to the sum of a best estimate and a risk margin.

4.2.2.2 General Provisions

If's technical provisions are calculated within clearly defined homogeneous risk groups and lines of business, and all material assumptions are reviewed quarterly. Assumptions are recorded and reviewed in light of data. The methodology is documented in "Guiding Technical Principles Policy" and "General Reserving Policy".

The best estimate is calculated gross, without deduction of the amounts recoverable from reinsurance contracts (these are calculated separately, refer separate disclosure in relation to reinsurance recoverables below). The calculation of the technical provisions takes into account the time value of money by using the relevant risk-free interest rate term structure.

The risk margin is calculated by determining the cost of providing an amount of EOF equal to the SCR necessary to support the insurance and reinsurance obligations over the lifetime thereof. The rate used in the determination of the cost of providing that amount of EOF is called Cost-of-Capital rate. The SCR used in the risk margin calculation is the partial internal model SCR.

4.2.2.3 Data quality

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

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

4.2.2.4 Risk-free interest rate term structure

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

4.2.2.5 Basic risk-free interest rate term structure

The basic risk-free rates are derived for the following currencies: DKK, EUR, GBP, NOK, SEK and USD and these currencies cover

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

4.2.2.6 Segmentation and setting up of homogenous risk group

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

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

4.2.2.7 Methods and assumptions

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

4.2.2.8 Assumptions on future management actions

If applies 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 reserve since the horizon of the premium reserve is beyond the expiry date of present reinsurance contracts in force. Therefore, in calculating the net best estimate, the costs of future reinsurance is included.

4.2.2.9 Assumptions on policyholder behaviour

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

If takes into account future policyholder behavior through a policy lapse assumption which is based on an analysis of past policyholder behavior for the relevant line of business and business area.

4.2.2.10 On proportionality and the use of simplifications

If employs standard actuarial methods that are considered to be proportionate to the nature, scale and complexity of the insurance obligations. The deviation between estimates of the outstanding liabilities at different points in time is continually monitored and the source of material deviations between projected and actual outcome is investigated in order to assess whether the assumptions underlying the relevant method needs to be adjusted.

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

4.2.2.11 Boundary of contract

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

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

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

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

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

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

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

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

Actuarial and statistical methods used for calculating best estimates of technical provisions are based on recognised actuarial and statistical techniques. Reserves are calculated in a transparent manner and would be possible to review by a qualified expert.

In the statutory accounts, recognition of a liability as an insurance contract would according to IFRS 4 be dependent on the existence of significant underwriting risk. Based on If's assessment that there is no material degree of underwriting risk prevalent, the Medical Malpractice Pool (MMP) public sector in Finland is not recognized as an insurance contract in the statutory accounts, but is treated as a service contract with its components recognized in other assets and other liabilities. Accordingly, a difference occurs with the Solvency II treatment

where the liability should be recognized within the insurance obligations. Therefore, under Solvency II treatment, all receivables and liabilities related to the MMP public sector are reclassified as forming a part of the Solvency II best estimate technical provisions. Under this treatment the receivables balances are netted against the liabilities in the technical provisions, as they are considered to be premium cash in-flows and thus included in the best estimate.

4.2.2.13 Derivation of the risk margin

The risk margin is calculated at a legal entity level and is based on partial internal model SCR for If, with the exception of the Finnish business merged into the legal entity during 2017 where the standard formula is applied.

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

When calculating the risk margin it is assumed that the assets are selected in such a way that the SCR for market risk for 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 SCR. The Basic SCR for the relevant risks together with operational risk are discounted and a Cost-of-Capital is introduced to arrive at the final risk margin. The risk margin for the legal entity is then distributed over its corresponding lines of business, reflecting their contribution to the SCR, to arrive at the LOB allocated risk margin.

4.2.2.14 Recoverables from reinsurance contracts and special purpose vehicles

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

If has no special purpose vehicles.

4.2.2.15 Uncertainties connected to the calculations

The nature of technical provisions means that there is always uncertainty associated with the calculations since it inevitably involves assumptions about future events. If's main risk factors affecting reserve risk is described further in 3.3.

4.3 Liabilities (other than technical provisions)

4.3.1 Financial liabilities

Financial liabilities (including payables) are initially accounted for at their acquisition cost consisting of the fair value of the consideration given.

Thereafter, financial liabilities are measured at their amortised cost by using the effective interest rate method. Transaction costs are taken into consideration upon calculating the effective interest rate, and charged to expenses over the term of the financial liability.

Aside from subordinated liabilities included in Basic Own Funds and derivatives, there are currently no other material financial liabilities recognised in If's Solvency II balance sheet.

4.3.1.1 Subordinated liabilities

In the statutory accounts, subordinated liabilities are recognised at accrued acquisition value (in their original currency). The acquisition value includes surplus/deficit prices arising on the issue date and other external expenses attributable to borrowing. During the term of the loan, the subordinated loans are reported using the accrued acquisition value, whereby surplus/deficit prices and capitalized borrowing expenses are distributed over the term of the loan; however, no later than the interest-adjustment date in the case of loans with adjustable interest rates. Outstanding loans are translated to the reporting currency (SEK) using the closing exchange rate.

For purposes of classification in the Solvency II Balance Sheet, the subordinated liabilities fully meet the requirements for inclusion in BOF, and therefore, the whole balance is recognised under the caption "Subordinated liabilities in BOF".

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

By year end, the valuation difference between Solvency II and statutory accounts gives rise to an increase in liabilities of 88 MSEK (this also gives rise to a change in deferred tax).

4.3.1.2 Derivatives

Refer to treatment of Derivatives as discussed in 4.1 above (covering both assets and liabilities).

4.3.1.3 Insurance & Intermediaries payables

In line with Solvency classification, this balance includes amounts due to policyholders, other insurers, and business linked to the insurance business, but which is not recognised as forming part of the technical provisions.

The treatment of these items in the statutory accounts is applicable also in the Solvency II balance sheet as the carrying value is considered to be a reasonable approximation of the fair value.

4.3.1.4 Payables (trade not insurance)

The treatment of other payables in the statutory accounts is applicable also in the Solvency II balance sheet as the carrying value is considered to be a reasonable approximation of the fair value. The exception to this is those payables specifically listed below as being affected by technical provisions valuation in the Solvency II framework.

4.3.2 If's pension benefit obligation

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

The reporting of pension costs and obligations in the statutory accounts mainly complies with the policies applied locally in each particular country. The reporting policies for pensions in Sweden, Denmark and Finland resemble each other, in that the pension cost consists of the premiums paid. In Norway, however, other policies apply, which essentially entail that the booked cost of defined benefit pensions is calculated on the basis of

assumptions regarding pensionable income at the retirement age and also taking into account the financial consequences arising from the pension plan's assets and obligations.

In terms of the Solvency II balance sheet, this liability relates to any existing net obligation in relation to staff pension schemes.

The reporting of funded and unfunded defined benefit pension plans in the Solvency II accounts is consistent with the IFRS standard IAS 19 Employee benefits. According to this standard, the present value of future pension obligations less the market value of the plan assets covered by the plan is to be recognized as a pension liability in the balance sheet.

Differences exist in treatment of pension obligations in the accounts of the legal entity level (applying non-IFRS policies) and Solvency II, which applies IFRS-consistent recognition of pension obligations.

Moving from legal entity recognition of pension obligations to IAS 19 recognition of the liabilities has mainly two effects on If when comparing between Solvency II and statutory information in the balance sheet:

- An undertaking's pension benefit obligations are presented net. As a result, prepaid expenses of 123 MSEK (assets) and provisions other than technical provisions of 18 MSEK (liabilities) are netted with pension obligations in the accounts of 260 MSEK, leading to net position of 155 MSEK; and
- As a result of revaluation of Pension Obligations using IAS 19 the net liability increase by 403 MSEK when compared with the statutory accounts, leading to a revalued net position of 558 MSEK.

Further information in relation to pension liabilities is found in 4.5.

4.3.3 Provisions other than technical provisions

According to the classification in Solvency II balance sheet, this item relates to liabilities of uncertain timing or amount. Provisions other than technical provisions for If relate mainly to funds reserved for restructuring measures and provisions in relation to law suits and other uncertain obligations.

This item is recognised consistently in the Solvency II balance sheet with treatment in the statutory accounts, with the exception of the recognition of pension obligations under IAS 19 resulting in an adjustment of 18 MSEK occurring between the financial statement and Solvency II accounts. In the Solvency II accounts the amount, which relates to If's DB "62 year" reserve, is recognised netted with other pension obligations (refer comments above).

4.3.4 Contingent liabilities

No material contingent liabilities exist that should be recognised on balance sheet for solvency purposes.

4.3.5 Liabilities in the statutory accounts which are linked to the calculation of If's Solvency II technical provisions

4.3.5.1 Reinsurance payables

In line with Solvency classification, this balance includes amounts due to reinsurers and business linked to reinsurance (however, excluding deposits, which are disclosed separately).

Under Solvency II classification, the technical provisions should fully take account of all cash in- and outflows. Therefore, rather than recognising a payables amount in relation to future ceded premiums expected on policies in force but not yet due, the future premiums are instead fully considered within the ceded part of the Solvency II best estimate premium provisions (in the reinsurance recoverables) in the Solvency II balance sheet. Payables of 5 MSEK are reclassified from reinsurance payables to the ceded part of the insurance obligation. The remaining balance consists of amounts payable, due to reinsurance. These are treated consistently with other payables (refer above comments).

4.3.5.2 Ceded deferred acquisition cost (DAC)

Refer comments to DAC in 4.1 and 4.2. An amount of 29 MSEK of reinsurers' share of DAC (ceded DAC) is eliminated in the Solvency II balance sheet.

4.3.6 Other liabilities not shown separately

Similarly to "Any other assets not elsewhere shown" on the assets side of the balance sheet, this caption includes any liabilities not elsewhere included in the Solvency II balance sheet. These liabilities are not material on an individual basis or in aggregation, and therefore not presented separately. No differences arise in the treatment of these balances between the statutory accounts and for solvency purposes, with the exception of the adjustment relating to the elimination of reinsurers' share of DAC (ceded DAC) described separately above.

4.4 Alternative Methods for Valuation (AVM)

The default valuation method for solvency purposes is to value assets and liabilities using quoted market prices for the same assets or liabilities (QMP). If quoted market prices in active markets for the same assets or liabilities are not available companies should, as a second option, use quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences (QMPS). When that option is also not available companies should turn to alternative methods for valuation (AVM). This section describes If's use of AVMs.

No major adjustments to the statutory accounts are necessary for investment assets or liabilities (with the exception of subordinated liabilities). If's recognition of financial assets and liabilities for Solvency II purposes remains close to the methodology also used in the statutory accounts. In these accounts, as a main principle, financial investment assets are reported in the original currency and at fair value with changes in value recognised in other comprehensive income until being realised.

As is evident, the Solvency II framework bears many affinities and similarities to the identification, measurement and classification of financial assets and liabilities in the IFRS framework, including how the fair value hierarchy applies to an undertaking's holdings in financial instruments which are measured at fair value, consisting of:

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

Against this background, If has chosen to base its classification for reporting purposes on the foundation already in place for disclosure on financial instruments in the financial reporting, to ensure a level of consistency is applied between the two frameworks.

Table 20 provides information on how the assets are split between categories QMP/QMPS and AVM for the purposes of the Solvency II valuation. Technical provisions and those classes of assets and liabilities where the carrying value is considered to be a reasonable approximation for the fair value are not included in the table. If assess the level of uncertainty as immaterial since only a minor part of the investment asset is classified as AVM.

TABLE 20 – Solvency II assets split between QMP and AVM

Type of assets	AVM	QMP/QMPS	Total (MSEK)
Government bonds	0	10,500	10,500
Corporate Bonds	0	79,150	79,150
Derivatives	0	242	242
Equities	18	10,268	10,287
Investment Funds	186	3,965	4,151
Mortgages and Loans	816	0	816
Property	122	0	122
Total	1,142	104,126	105,268

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

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

Mortgages and Loans. Mortgages and loans are valued at accrued acquisition value (amortised cost).

Property Valuation of property is described in 4.1.4 above.

4.5 Any other information

4.5.1 Lease arrangements

Leases where a company has substantially all the risks and rewards of ownership are classified as finance leases whereas leases in which a significant portion of the risks and rewards of ownership are not transferred to the company as lessee are classified as operating leases.

If only have significant operating lease arrangements in the capacity of lessee. Leasing arrangements pertain to leasing of premises and vehicles as described below. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease. No assets or liabilities are recognised in the balance sheet.

TABLE 21 – Operating leases MSEK

Asset class	Total future minimum lease payments			Total	Total lease payments during the period
	<1 year	1-5 years	>5 years		
Property, plant & equipment (PPE)	252	863	481	1,596	302

4.5.2 Employee Benefits

This section includes a breakdown of If's Employee Benefits - defined benefit plans, as required in the guidelines on reporting and public disclosure. For further information see Ifs annual report.

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

TABLE 22 – Employee benefit obligations at 31 December 2017

MSEK	2017	2016
Present value of estimated pension obligation, including social costs	2,639	2,804
Fair value of plan assets	2,082	2,048
Net pension obligation recognised in the Solvency II balance sheet	558	756

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

The pension obligations are calculated, as is the pension cost attributable to the fiscal period, using actuarial methods. Pension rights are considered to have been vested straight line during the service period. The calculation of pension obligations is based on future anticipated pension payments and includes assumptions regarding mortality, employee turnover and salary growth. The nominally calculated obligation is discounted to the present value. After a deduction for the plan assets, a net asset or net liability is recognized in the balance sheet.

The following tables contain a number of material assumptions, specifications of pension costs, assets and liabilities and a sensitivity analysis showing the potential effect on the obligations of reasonable changes in those assumptions as at the end of the fiscal year. The carrying amounts have been stated including special payroll tax in Sweden (24.26%) and a corresponding fee in Norway (14.1%-19.1%).

TABLE 23 – Specification of employee benefit obligations by geographical area

MSEK	Sweden	Norway
Recognised in income statement and other comprehensive income		
Current service cost	-53	-21
Past service cost	-	-
Interest expense on net pension liability	-9	-9
Total in income statement	-62	-29
Remeasurement of the net pension liability	90	-43
Total in comprehensive income statement	28	-72
Recognised in balance sheet		
Present value of estimated pension liability, including social costs	1,955	684
Fair value of plan assets	1,740	342
Net liability recognised in balance sheet	215	342
Distribution by asset class		
Debt instruments, level 1	39 %	52 %
Debt instruments, level 2	0 %	13 %
Equity instruments, level 1	27 %	11 %
Equity instruments, level 3	10 %	2 %
Property, level 3	11 %	14 %
Other, level 1	0 %	6 %
Other, level 2	7 %	2 %
Other, level 3	5 %	0 %

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

2017	Sweden	Norway
Discount rate	2.75%	2.50%
Future salary increases	2.75%	3.00%
Price inflation	1.75%	2.00%
Mortality table	FFFS 2007:31 +1 year	K2013
Average duration of pension liabilities	21 years	13 years
Expected contributions to the defined benefit plans during 2018	90	32

TABLE 25 – Sensitivity analysis of effect of reasonably possible changes

MSEK	2017			2016		
	Sweden	Norway	Total	Sweden	Norway	Total
Discount rate, +0,50%	-233	-45	-278	-236	-56	-292
Discount rate, -0,50%	268	51	319	270	62	332
Future salary increases, +0,25%	73	5	79	79	7	86
Future salary increases, -0,25%	-68	-5	-73	-73	-7	-80
Expected longevity, +1 year	77	17	95	76	21	97

TABLE 26 – Analysis of the employee benefit obligation

MSEK	2017			2016		
	Funded plans	Unfunded plans	Total	Funded plans	Unfunded plans	Total
Present value of estimated pension liability, including social costs	2,357	283	2,639	2,484	320	2,804
Fair value of plan assets	2,082	-	2,082	2,048	-	2,048



CAPITAL MANAGEMENT

5 Capital Management

5.1 Own funds

5.1.1 Objectives, policies and procedures for managing own funds

5.1.1.1 Capital management framework

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

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

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

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

If's risks are measured, reported and aggregated in order to perform an overall assessment of risk and capital. The outcome of these procedures and the follow up of them are duly documented as part of the quarterly ORSA process. An ORSA report is prepared to the ORSA committee, and a summary is sent to the Board of Directors. The solvency position is reported quarterly to the supervisory authority.

The annual ORSA process, which is described in 2.3.8, is a key tool in assessing whether own funds are sufficient at present as well as over If's medium term time horizon (three years).

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

The combination of the above procedures enables If to effectively monitor and project its capital needs over its business planning period, ensuring that the Board of Directors is provided with relevant input to their strategic management process and decision-making framework. The process takes into account both medium and long term risks, and given the regular updates, accounts for any likely or foreseeable changes to the risk profile and business strategy that could alter previous analysis made over the projection period and/or the sensitivity of the assumptions used.

5.1.1.2 Capital adequacy measures

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

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

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

5.1.2 If's own funds and solvency position at 31 December 2017

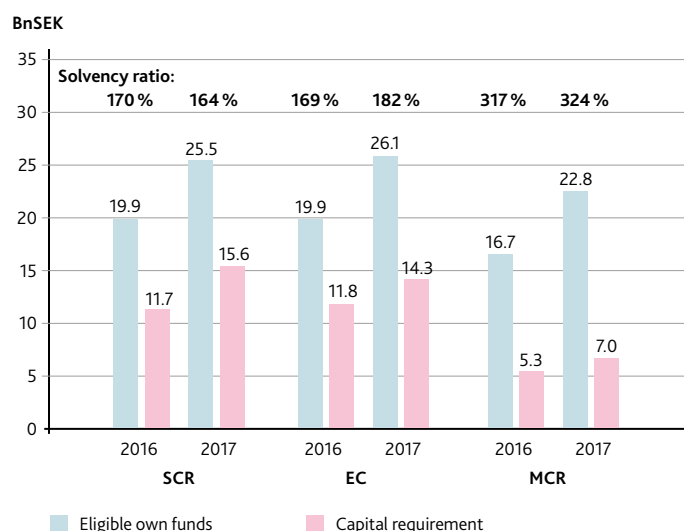
At 31 December 2017, If had a solvency ratio to meet the SCR of 164% (170%) and a solvency ratio to meet the MCR of 324% (317%). Transitional equity measures are applied.

As a result of the merger with If Finland both own funds and the capital requirements have increased. In total, including other effects, the capital requirements have increased relatively more than own funds.

At 31 December 2017, the ratio of eligible own funds to economic capital was 182%, compared to 169% at 31 December 2016.

The capital structure and the solvency of If are considered to be strong. The level of If's profitability is good and profit is stable. If is considered to be in a good position to generate further capital and to maintain a capital level needed to support its risks and business objectives going forward.

FIGURE 19 – If capital and solvency overview 31 December 2016 and 31 December 2017



5.1.2.1 Change in own funds position over the reporting period

Total eligible own funds for SCR coverage have increased by 5,631 MSEK over the reporting period. This change is mainly explained by the merger of former If Finland, an increase in positive Solvency II valuation adjustments and the fact that total comprehensive income for the year exceeds the proposed dividend. There have been no own funds items issued or redeemed over the reporting period.

TABLE 27 – Changes in If's own funds position in 2017

MSEK	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Eligible own funds for SCR coverage at 1 January 2017	19,881	15,642	0	4,238	0
Merger gain, statutory accounts	4,672	4,672			
Total comprehensive income, statutory accounts	7,325	7,325			
Change in own funds items not included in equity in the statutory accounts	-100	-3		-96	
Change in Solvency II valuation adjustments in excess of assets over liabilities	760	713		46	
Change in adjustment for subordinated liabilities	-25			-25	
Proposed dividend	-7,000	-7,000			
Eligible own funds for SCR coverage at 31 December 2017	25,512	21,349	0	4,163	0

5.1.2.2 Composition of eligible own funds for SCR and MCR coverage

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

If's available own funds are tiered based on their eligibility to cover SCR and MCR. The tiers reflect the degree of loss absorbency of an undertaking's own funds in the event of a winding up.

5.1.2.3 Tiering of basic own funds items

TABLE 28 – The tiering of If's own funds

MSEK	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Ordinary share capital	104	104	-	-	-
Reconciliation reserve	21,244	21,244	-	-	-
Subordinated liabilities	1,170	-	-	1,170	-
Other own fund items approved by the supervisory authority	2,994	-	-	2,994	-
Total own funds, in own funds QRT template S.23.01.01	25,512	21,349	-	4,163	-

At 31 December 2017 If's ordinary share capital of 104 MSEK (104 MSEK) meets the requirement for inclusion in Tier 1 unrestricted items.

The reconciliation reserve in If amounts to 21,244 MSEK (15,538 MSEK) at 31 December 2017. The reconciliation reserve consists of shareholders' equity and untaxed reserves (excluding ordinary share capital and Norwegian natural perils capital) according to the statutory accounts, as well as Solvency II valuation adjustments. A proposed dividend of 7,000 MSEK (4,200 MSEK) has been deducted from the reconciliation reserve. The reconciliation reserve meets the requirements for treatment as unrestricted Tier 1 Own Funds.

Through the Norwegian branch, If provides property insurance that also provides protection against damage caused by natural events. As a consequence, the branch is a member of the Norwegian Natural Peril's Pool and is obliged to make equity provisions in the form of natural perils capital. If's Norwegian natural perils capital of 2,994 MSEK (3,077 MSEK) is included as Tier 2 own funds and presented as other items approved by the supervisory authority.

Other items included as Tier 2 own funds consist of If's subordinated debt of 1,170 MSEK (1,161 MSEK), nominal amount 110 MEUR. The 110 MEUR subordinated debt is dated, with a final maturity in 2041. The subordinated debt has limited

incentives to repay with a first call option at 8 December 2021 (10 years from the date of issuance). The subordinated debt qualifies for Tier 2 own funds inclusion through the transitional arrangements. If may, subject to regulatory approval and a sufficient solvency situation, choose to redeem the subordinated debt on the first call option date or on any quarterly interest payment date falling after 8 December 2021.

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

All items included in Tier 1 own funds items are undated and thus fulfill the permanence requirements. The 110 MEUR (nominal amount) subordinated liability in Tier 2 own funds is not undated, but given its final maturity in 2041, it is considered to be of sufficiently long duration. This could be compared to the weighted average duration of If's technical provisions of 6.5 (4.4) years.

5.1.2.5 General eligibility limit application

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

TABLE 29 – If's assessment of eligible own funds at 31 December 2017 (including tiering)

MSEK	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Total eligible own funds to meet the SCR	25,512	21,349	0	4,163	0
Total eligible own funds to meet the MCR	22,752	21,349	0	1,403	0
SCR	15,593				
EOF/SCR ratio	164%				
MCR	7,017				
EOF/MCR ratio	324%				

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

The excess of assets over liabilities is derived as a residual equity component when all assets and liabilities are revalued in accordance with the Solvency II regulations, as reported in QRTs S.02.01.01 and S.23.01.01.

Subordinated liabilities that meet requirements for inclusion in own funds are subsequently recognized as part of the basic own funds, together with the excess of assets over liabilities. The subordinated liabilities are recognised in Basic Own Funds using a Solvency II consistent method for valuation.

Table 30 reconciles shareholders' equity and untaxed reserves according to Swedish GAAP, the excess of assets over liabilities in the Solvency II balance sheet and total available basic own funds.

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

MSEK	2017	2016
Ordinary share capital	104	104
Statutory reserve	388	388
Fund for costs of development	104	14
Fair value reserve	5,070	3,980
Retained earnings and net income for the year	16,514	9,897
Untaxed reserves	6,957	7,090
Total equity and untaxed reserves statutory accounts	29,137	21,473
Adjustments for Solvency II valuation		
a Eliminations for goodwill and intangible assets	-489	-721
b Changes in deferred taxes	-629	-425
c Changes in net technical provisions	3,814	3,283
d Pension benefit obligations	-297	-468
e Changes in other assets and liabilities	-106	-112
f Change in valuation, subordinated liabilities	-88	-113
Sum of all reconciling movements a-f, due to differences in valuation	2,205	1,446
Excess of assets over liabilities, Solvency II balance sheet template	31,342	22,917
Subordinated liabilities in basic own funds	1,170	1,161
Proposed dividend	-7,000	-4,200
Total available basic own funds, reported in the own funds template	25,512	19,878

5.2 Solvency Capital Requirement and Minimum Capital Requirement

According to Solvency II the capital requirements for If are the SCR and the MCR. The SCR is calculated by combining a number of separate risk charges and allowing for diversification credits by means of correlation matrices or other methodologies. The SCR is calibrated to the Value-at-Risk of the basic own funds subject to a confidence level of approximately 99.5% over a one-year time horizon.

If applies the partial internal model for its regulatory SCR calculation. The modelling of underwriting risk in the partial internal model is combined with the other risk modules calculated using the standard formula. The SCR is a combination of the major underwriting risks calculated using the partial internal model and the other risks, including market risks, calculated using the standard formula with the transitional measure for equity risk. However, one exception is the underwriting risks related to the Finnish operations merged into If Sweden in October 2017, for which the Standard Formula is used. If does not apply any undertaking-specific parameters in the life, non-life and health underwriting risk modules based on the standard formula. Also, If does not apply simplified calculations for any of the risk modules (or sub-modules) of the standard formula.

To arrive at If's SCR, a tax adjustment is subtracted from the pre-tax SCR figure representing the loss absorbing capacity of deferred taxes (LaC of DT). If's assumption is that the company can fully utilise the tax adjustment using either existing deferred tax liabilities in the Solvency II balance sheet or against future profits after the occurrence of the 200 years stress event. As the untaxed reserves are fully included in the own funds the SCR tax computation is adjusted to take account of these reserves absorbing losses firstly on a pre-tax bases. This affects the tax computation as it means that If's calculation of the loss absorbing capacity of deferred taxes only takes account of the SCR pre-tax which exceeds the untaxed reserves.

The MCR is calculated for each If's individual line of business by adding:

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

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

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

The minimum capital requirement at 31 December 2017 equates to the minimum capital requirement (7.0 BnSEK, or 45% of the SCR).

Further disclosure of If's SCR and MCR are included in QRTs S.25.01.01 and S.28.01.01, respectively.

5.2.1 Overview of If's regulatory capital adequacy requirements

The figure below summarizes If's SCR, which is based on the partial internal model.

At 31 December 2017, If has based on the partial internal model a solvency ratio of 164% for the solvency capital requirement and 324% for the minimum capital requirement, the two capital levels at which If is assessed in the Solvency II framework.

FIGURE 20 – Solvency Capital Requirement at 31 December 2017

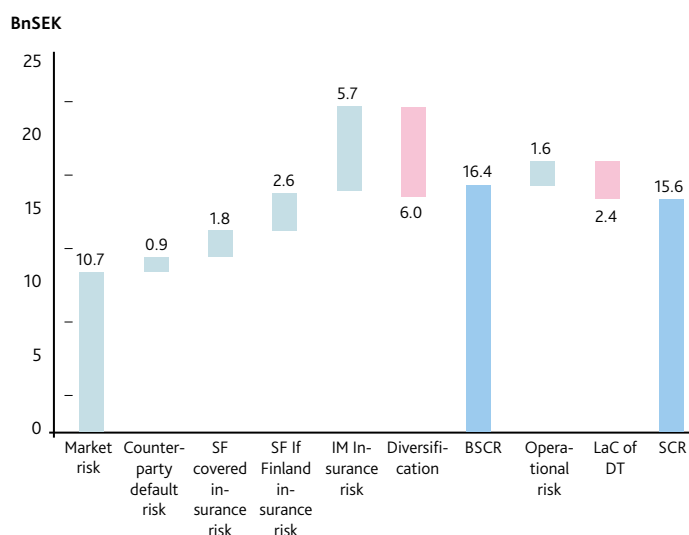


Figure 20 above shows that, aside from underwriting risk, market risk is predominant in If's calculation of the Basic Solvency Capital Requirement (BSCR). The largest components of the market risk relevant to If are spread risk, equity risk and currency risk. More detailed figures are shown in QRT S.25.02.21.

During the year the solvency capital requirement has increased from 11.7 BnSEK to 15.6 BnSEK, mainly driven by the merger of the Finnish operations into the company during the year, increasing the size of the company and the exposure to the various risk types materially. The minimum capital requirement has increased from 5.3 BnSEK to 7.0 BnSEK during the year, also driven by the merger of the Finnish operations into the company.

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

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

5.4 Differences between the standard formula and the internal model

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

In the partial internal model, the insurance business is modelled by countries, business areas and insurance classes 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 statistical methods for modelling of underwriting risk, applied on If's historical data. Risks not covered by the internal model regulatory scope are market risk, operational risk, counterparty default risk, lapse risks, revision risk of annuities, and the underwriting risks related to the Finnish operations merged into If Sweden during October 2017. These are instead calculated with the Solvency II standard formula and the internal model results are aggregated with them to arrive at the final SCR.

In terms of underwriting risk, the use of correlation matrices is mainly relevant for underwriting risk excluding catastrophe risk, but also inflation is a significant driver. The setting of correlations for underwriting risk is based on a process where quantitative analysis and qualitative reasoning from business experts is combined. Catastrophe risk is modelled using third party catastrophe models explicitly modelling events and their impact across the whole portfolio. The inflation scenarios as such are considered to be independent of the claims outcome, as the uninflated attritional claims, large claims, reserve risk or catastrophe claims are not considered to be dependent on the development of Consumer Price Index – rather, by adding inflation to the uninflated claims outcome, the effect of inflation is captured as a risk driver throughout the modelling of underwriting risk, capturing dependencies both within countries and between countries from this variable.

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

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

The main driver of the differences between the results of the standard formula and the partial internal model is due to differences in the measurement of diversification effects in relation to underwriting risk. If underwrites policies that cover risks of individuals and corporations on a geographically diverse area covering mainly Sweden, Norway, Finland and Denmark but it underwrites also policies for Nordic clients' activities outside the Nordic countries. In addition to the geographical diversification, the business is well-diversified over lines of business. The standard formula does not recognize geographical diversification benefits between countries in the Nordic area that is a key driver for the business model. Note that for the Finnish underwriting risks merged into If in October 2017, the standard formula is applied.

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

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

If has at no point in time during the year been in non-compliance with neither the Minimum Capital Requirement nor the Solvency Capital Requirement.

5.6 Any other information

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

APPENDIX

APPENDIX 1 – Explanation of measures used to monitor If's capitalisation

Measure	Capital Base
<p>EC (Economic Capital): The economic capital is based on If's internal model and is a risk measure used in internal and external risk reporting as well as for supporting decision-making. The economic capital is a method to measure risk and includes the risks calculated in If's internal model and risks captured by the Solvency II standard formula. The economic capital arrived at by aggregating the underwriting risk and the market risk from the internal model with the remaining risks calculated with the standard formula. The internal model part of the economic capital is defined as the difference between the expected result and the simulated result at the 99.5% percentile over a one year horizon ("the 1 in 200 year event").</p> <p>Note that If's partial internal model (PIM SCR) and the economic capital risk measure differ as while the economic capital models market risks, in PIM SCR the scope is smaller, and instead calculated using the standard formula market risk SCR module. Also, in the PIM SCR, the underwriting risk relating to the Finnish operations merged into If Sweden is calculated using the standard formula instead of using the internal model.</p>	<p>The economic capital should be seen mainly as a risk measure and not a capital requirement.</p> <p>The capital base is mainly based on a Solvency II compliant balance sheet, where EOF including the risk margin are based on the economic capital internal model SCR and not the regulatory SCR (refer also what is said for SCR below).</p>
<p>Solvency capital requirement (SCR) (Solvency II): The SCR is defined as the change in own funds over a one-year horizon, the loss at the 99.5% percentile ("the 1 in 200 year event").</p>	<p>Solvency II own funds based on a Solvency II valuation of the balance sheet and tiering of balance sheet items.</p> <p>The valuation adjustments applied in deriving the Solvency II economic balance sheets for solvency purposes is further detailed in chapter 4 of the report.</p>
<p>PIM SCR: The SCR arrived at by aggregating the underwriting risk from the internal model with the remaining risks calculated with the standard formula and taking the loss absorbing capacity of deferred tax into account.</p> <p>One exception is however the underwriting risk for the Finnish operations merged into If Sweden during 2017, for which the standard formula is used. This represents the regulatory scope of the internal model application for If. The internal model part of the PIM SCR is defined as the difference between the expected result and the simulated result at the 99.5% percentile over a one year horizon ("the 1 in 200 year event"). The internal model is used in internal and external risk reporting as well as for supporting decision-making.</p>	<p>PIM EOF: The own funds are mainly based on a Solvency II compliant balance sheet, where EOF with risk margin calculated is based on the PIM SCR.</p>
<p>MCR: The level of the minimum capital requirement is linked to the SCR, as it should normally be equivalent to 25-45% of the SCR.</p>	<p>EOF MCR: The EOF to cover the minimum capital requirement are derived from the same available own fund items as the EOF to cover the SCR, but with the difference that additional limits apply as to the eligibility of those own funds items to also cover the minimum capital requirement.</p>

APPENDIX 2 – Quantitative reporting templates (QRT)

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

S.02.01.02 Balance sheet

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

S.05.02.01 Premiums, claims and expenses by country

S.12.01.02 Life and Health SLT technical provisions

S.17.01.02 Non-life Technical Provisions

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

S.23.01.01 Own funds

S.25.02.21 Solvency capital requirement

S.28.01.01 Minimum capital requirement



CONTACT:

Sweden	+46 771 430 000	if.se
Norway	+47 980 024 00	if.no
Denmark	+45 77 01 21212	if.dk
Finland	+358 10 19 15 15	if.fi