

SOLVENCY AND FINANCIAL CONDITION REPORT 2018

If P&C Insurance Ltd (publ)



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Business and Performance

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

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

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 for 2018 amounted to 6,115 MSEK (5,254 MSEK)¹, corresponding to a combined ratio of 85.7% (84.4%). Gross premiums earned increased during the year, mainly due to the merger with the former sister company If P&C Insurance Company Ltd (If Finland), which took place in early October 2017.

At full market value, the return from asset management decreased to -823 MSEK (2,388 MSEK) and the total return ratio was -0.8% (3.1%).

On 7 February 2019 Ricard Wennerklint resigned as CEO and Torbjörn Magnusson resigned as Chairman of the Board. Måns Edsman was appointed new CEO and Morten Thorsrud was elected as new Chairman of the Board.

System of Governance

To ensure proper capital and risk management If has established a system of governance framework consisting of several layers. The organisational set-up, including the legal and operational structures, forms the outermost layer within which the business is run. 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 efficient risk management and a clear division of roles and responsibilities within the organisation.

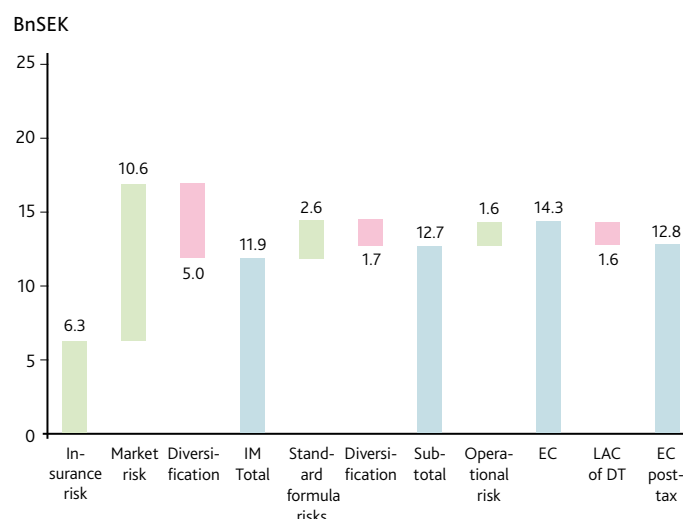
Risk Profile

For internal quantitative risk measurement and reporting, as well as for management decisions the measure economic capital 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.

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, legal risk, strategic risk, compliance risk, reputational risks, emerging risks and other concentration risks.

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

FIGURE 1 – Overview of If's economic capital, 31 December 2018



Valuation for Solvency Purposes

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

The accounting standards under Swedish GAAP have not been subject to any significant amendments in 2018 causing new divergences to occur between Solvency II and Swedish GAAP. Overall, as an effect of the Solvency II adjustments per the year-end 31 December 2018, the excess of assets over liabilities is 3,282 MSEK (2,205 MSEK) higher in the Solvency II balance sheet compared to the statutory accounts.

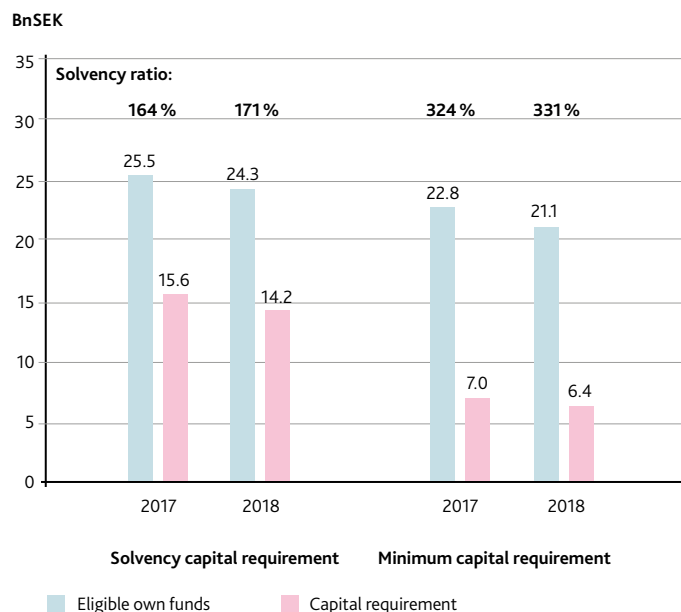
Capital Management

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 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. Furthermore, the regulatory minimum capital requirement² is calculated. Available capital is referred to as eligible own funds. A sufficient capital buffer is further required in order to be solvent at all times.

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.

FIGURE 2 – If's capital and solvency overview



As shown above the solvency capital requirement has decreased relatively more than own funds which explains the improved solvency ratio. The capital requirement has decreased as a result of the insurance risk in former If Finland being included in If's partial internal model from Q1 2018 and due to lower market 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 Business and Performance

1.1 Business

1.1.1 Legal structure and the group

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

The number of employees amounted to 6,006 at year-end. The average number of employees in 2018 was 5,932.

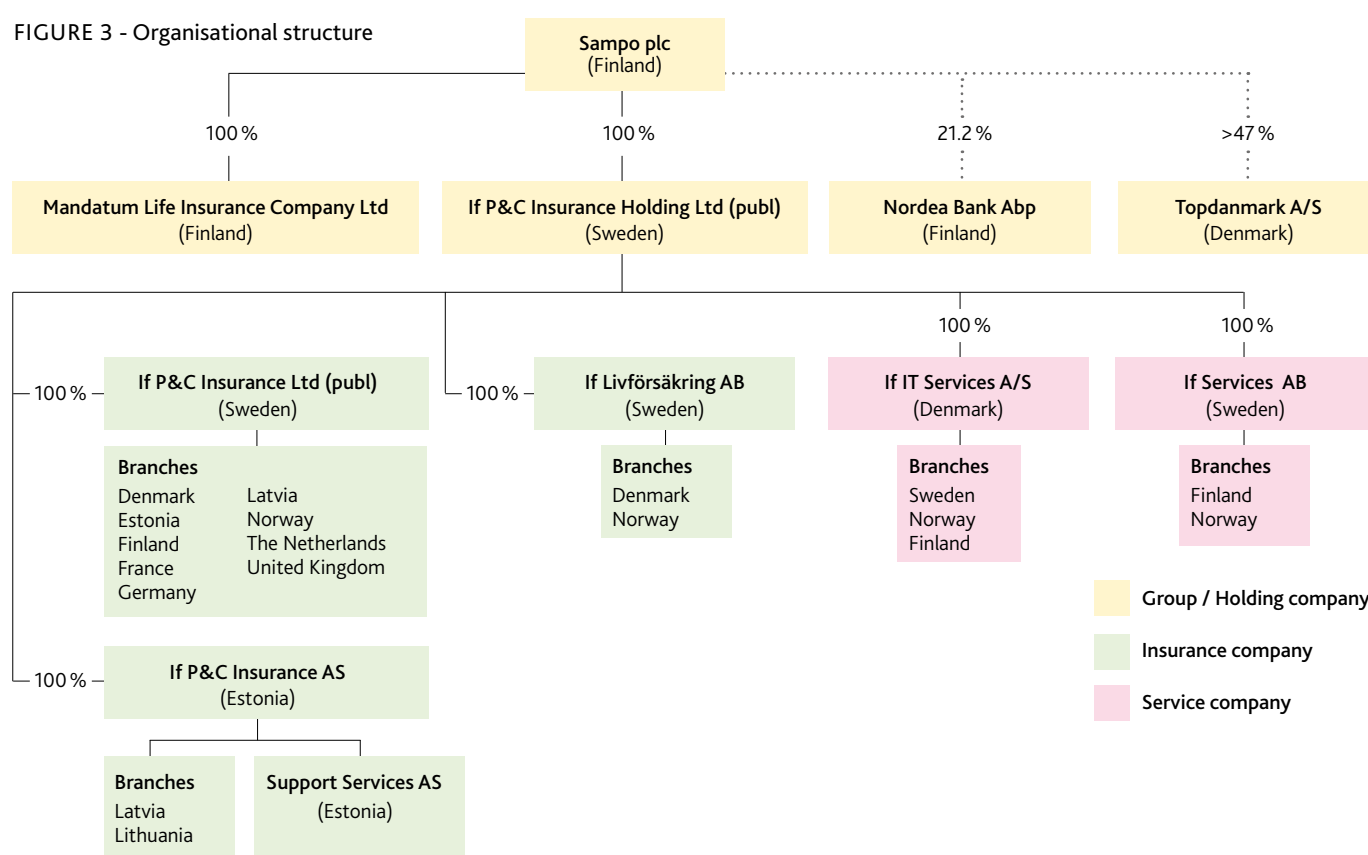
1.1.2 If's financial supervisory authority contact information

Finansinspektionen
Box 7821
SE-103 97 Stockholm

1.1.3 Sampo's financial supervisory authority contact information

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

FIGURE 3 - Organisational structure



1.1.4 External auditors contact information

KPMG AB
Box 382
101 27 Stockholm

1.1.5 Branches and geographical areas

If is the largest property and casualty (P&C) insurer in the Nordics with market shares in Sweden, Norway and Finland of approximately 18%, 21% and 22%³ respectively. In Denmark, where the market is less consolidated, If's share is approximately 6%⁴. If's Commercial and Industrial customers with global operations are also served by branches in Estonia, France, Germany,

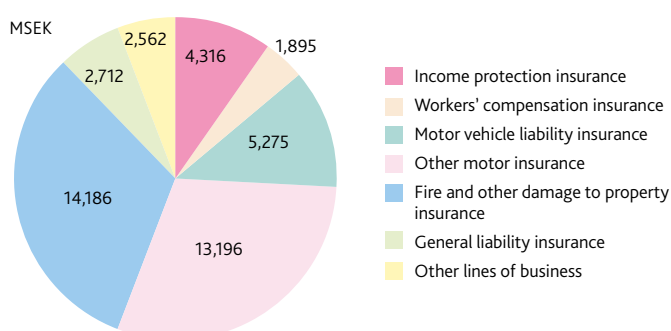
Latvia, the Netherlands and the United Kingdom, as well as via an international partner network.

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

³ SE: Svensk Försäkring (Q4 2018), NO: Finansnæringens Fellesorganisasjon (Q4 2018) and FI: Finanssialan Keskusliitto (Q4 2017)

⁴ DK: Forsikring & Pension (Q4 2017)

FIGURE 4 - Premiums written (gross) by Solvency II lines of business



1.1.6 Significant events over the reporting period

No significant events during the report period.

1.2 Underwriting Performance⁵

The technical result for 2018 amounted to 6,115 MSEK (5,254 MSEK), corresponding to a combined ratio of 85.7% (84.4%).

Gross premiums earned increased during the year, mainly due to the merger with the former sister company If P&C Insurance Company Ltd (If Finland), which took place in early October 2017.

Despite adverse weather conditions, the claims statistics show that none of the year's major weather events impacted the earnings significantly. The risk ratio amounted to 63.8% (62.1%).

Due to continued efforts to streamline processes and work procedures, the cost ratio improved to 21.9% (22.2%). In the tables below, If's gross premiums earned and underwriting performance by line of business and country are presented.

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

MSEK Line of Business	Premiums earned (gross)		Underwriting performance (net)	
	2018	2017	2018	2017
Income protection insurance	4,200	3,666	675	620
Workers' compensation insurance	1,947	1,015	956	704
Motor vehicle liability insurance	5,379	4,229	1,539	599
Other motor insurance	13,034	10,722	1,451	1,230
Fire and other damage to property insurance	14,187	11,349	1,338	1,611
General liability insurance	2,650	2,062	765	661
Other lines of business	2,558	1,403	-696	-275
Sum	43,955	34,446	6,029	5,150
Allocated investment return as part of the technical account			128	179
Other technical income and expenses			-42	-75
Technical result from property and casualty insurance, GAAP			6,115	5,254

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

MSEK Country	Premiums earned (gross)		Underwriting performance (net)	
	2018	2017	2018	2017
Denmark	4,274	3,941	43	23
Finland	9,687	2,409	1,081	606
Norway	13,843	12,856	1,844	2,327
Sweden	15,750	14,858	3,203	2,135
Other	401	382	-143	59
Sum	43,955	34,446	6,029	5,150

Gross premiums earned were higher in all business lines compared to the preceding year. The increase was at large attributable to the merger with If Finland, especially with regards to Workers' compensation insurance and Other lines of business. For Income protection insurance, growth was mostly due to a new partner agreement within health insurance.

Revenues per geographical area presented in the table above are distributed among the countries in which If has branches, corresponding at large with the customers' geographic domicile. The revenue increase in Finland reflects the effect of the merger with If Finland. Cleared from this effect, the Finnish premium development was relatively weak compared to the other Nordic

countries, largely explained by lower market premiums due to changes in motor insurance. However, measured in number of customers, the Finnish growth was positive.

In addition to the merger, the underwriting performance was positively impacted by reserve releases relating to claims from prior years and by fewer large losses than in the preceding year.

Overall, 2018 was another good year for If with continued stable profitability through underwriting excellence and increased cost efficiency. During the year, the efforts also continued to make If the smoothest insurance company, which in addition to being Best in Risk also means being able to offer customer-oriented products and services through leading digital solutions.

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.

1.3 Investment Performance

2018 was an eventful year in the financial markets. At full market value, the return from asset management decreased to -823 MSEK (2,388 MSEK), corresponding to a total return of -0.8% (3.1%). The return on interest-bearing securities was in line with their benchmark indices while equities underperformed compared to their benchmark indices.

The total return on If's interest-bearing securities amounted to 1.1% (2.3%) for 2018. The lower return is mainly explained by higher credit spreads and a low interest rate environment in Europe. The duration for the interest-bearing securities was unchanged at 1.4 years (1.4 years) at year-end.

The stock markets showed a negative trend in general during 2018, particularly in the fourth quarter, which was reflected in If's equities. The return on If's equities amounted to -10.4% (9.2%).

Alternative Investments, such as private equity and properties, constitute only a very small part of total investment assets but showed positive returns for the year. Costs for hedging investment assets and other administrative costs are reported under Other in the tables below.

TABLE 3 – Investment performance, 31 December 2018

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

TABLE 4 – Investment performance, 31 December 2017

	Fair value 31 Dec 2017		Fair value 31 Dec 2016		Return 2017				
					Interest, dividends etc. MSEK	Changes in value, Income statement MSEK	Total, Income statement MSEK	Changes in equity MSEK	Total return MSEK
Return on investment assets	MSEK	%	MSEK	%					
Interest-bearing securities	92,675	86	65,897	84	1,291	-63	1,228	464	1,692
Equities	14,450	13	12,354	16	366	538	904	175	1,079
Currency (active positions)	6	0	-1	0	-	-23	-23	-	-23
Currency (other)	150	0	-182	0	-	29	29	-	29
Properties	122	0	2	0	2	2	4	-	4
Other	-	-	-	-	-336	-58	-393	-	-393
Total investment assets	107,401	100	78,070	100	1,323	425	1,748	640	2,388

1.4 Performance of other activities

Costs not included in the underwriting performance or in the investment performance relate mainly to amortization of goodwill. Amortization amounted to 288 MSEK (277 MSEK).

For leasing agreements, see 4.5.1.

1.5 Any other information

Ricard Wennerklint resigned as CEO on 7 February 2019, and at the same time Torbjörn Magnusson resigned as Chairman of the

Board. On the same day, Måns Edsman was appointed new CEO and Morten Thorsrud was elected as new Chairman of the Board.

If's Board of Directors and CEO decided in February 2019 to propose a dividend payment of 6,200 MSEK to If Holding. The proposed dividend was deducted from eligible own funds as per 31 December 2018.

SYSTEM OF GOVERNANCE

2 System of Governance

2.1 General information on System of Governance

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

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

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

2.1.1 Legal and operational structure

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

The insurance operation is organised in accordance with customer segments into business areas Private, Commercial and Industrial. The operational structure spans across several legal If entities. Corporate functions such as Finance, Legal, Human Resources, Communication and IT 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 exercises its right to participate in company decisions. The General Meeting decides, inter alia, on the Articles of Association and appoints members to the Board of Directors.

2.1.2.2 Board of Directors

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

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

2.1.2.3 CEO

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

possibility to delegate the decision authority concerning the daily business activities to other persons within If, but retains the ultimate responsibility for such decisions. The CEO is the deciding body for a number of instructions within If's policy framework.

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

2.1.3 Key functions

2.1.3.1 Risk Management function

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

2.1.3.2 Compliance function

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

2.1.3.3 Internal Audit function

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

2.1.4 The remuneration system in If

If's Remuneration policy, together with the Sampo Group Remuneration Principles, 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. Furthermore, and in accordance with the insurance distribution directive (IDD), individual employees shall not be remunerated, and their performance shall not be assessed, in a way that conflicts with the duty to act in the best interests of the customers. The long-term financial stability and value creation of Sampo Group guide the remuneration design.

2.1.4.1 Principles for the remuneration

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

Fixed salaries shall be fair and 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. Employees in key functions are not entitled to variable compensation.

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

The Remuneration policy contains specific arrangements applicable to identified 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 Administrative, Management or Supervisory Body or key function holders⁷

The Swedish members of the Administrative, Management or Supervisory Body or key function holders are entitled to pension according to FTP17⁸ or individually agreed defined-contribution pension. The Norwegian members are covered by a defined contribution or a defined benefit pension depending on the year of birth. The Finnish members are not covered by any supplementary pension or early retirement schemes⁹.

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

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

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

- If has paid dividend of 7 BnSEK to If Holding; and
- If, through its Estonian branch, has acquired substantially all of the assets of Support Services AS (Estonia), a subsidiary of If's sister company If P&C Insurance AS (Estonia).

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.

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 members of the Board of Directors, 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, including criminal, financial and supervisory aspects relevant to the assessment.

2.2.3 Description of the Fit and Proper process

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

The fit and proper assessment is presented to the function or leader responsible for the appointment, who decides whether the assessed person shall be considered fit and proper for the position or not. Required notifications is made to the Swedish Financial Supervisory Authority (Swedish FSA).

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

⁸ Insurance industry's occupational pension plan.

⁹ For more information about pensions, see the Annual Report - Note 12, and the publication *Redogörelse för ersättningar inom If Skadeförsäkring AB for the year 2018*.

2.3 Risk Management System including own risk and solvency assessment

2.3.1 Description of If's Risk Management System

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

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

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, minimizing the risk of unexpected financial loss and giving input to business decisions by considering the effect on risk and capital.

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

2.3.3 If's Risk Management Strategy

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

- Ensure a sound and well-established risk culture in If;
- Ensure that risks affecting the profit and loss account and the balance sheet are identified, assessed, managed, monitored and reported;
- Ensure that the riskiness of the insurance business is reflected in the pricing;
- Ensure adequate long-term investment returns within set risk levels;

- Ensure that risk buffers – in the form of capital and foreseeable profitability – are adequate in relation to the current risks inherent in business activities and external risks;
- Limit fluctuations in the company's economic values;
- Ensure the overall efficiency, security and continuity of operations; and
- Safeguard If's reputation and ensure that customers and other stakeholders have confidence in If.

2.3.4 Risk Appetite Framework

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

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

2.3.5 If's Risk Management Process

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

FIGURE 6 - If's Risk Management Process



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

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

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

Monitoring. The first line of defence is responsible for monitoring that all risks are identified, assessed, managed and reported. The second line of defence monitors both the risk management processes within the first line of defence as well as the overall aggregated risk profile for If.

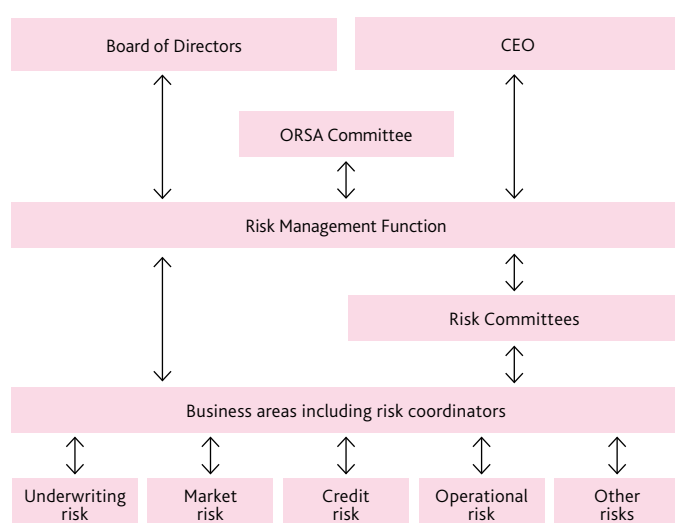
Risk reporting. First line of defence reports to the second line of defence as well as to applicable risk committees on monthly, quarterly or bi-annually basis. The second line of defence coordinates the risk reporting to the Board of Directors and CEO. The reporting includes the following reports:

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

2.3.6 Reporting structure in the Risk Management System

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

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

2.3.7.2 The Board of Directors

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

the second line of defence as well as from the CEO and has an active role in the forward looking ORSA process.

2.3.7.3 CEO

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

2.3.7.4 Risk committees

Own Risk and Solvency Assessment Committee (ORSA Committee)

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

Other committees in the Risk Management System

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

2.3.7.5 Risk Management function

The Risk Management function is responsible for coordinating the risk management activities 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;
- Monitor and support the business areas and corporate functions in their work to manage all risks;
- Secure a holistic and aggregated reporting of If's risk exposure, risk position and risk profile;
- Regularly assess If's own funds position in accordance with both internal and external measurements;
- Manage and develop If's internal model, including validation of the model 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 Risk Management function is headed by the CRO. The Risk Management function is included in the second line of defence and is operationally independent in relation to the business. This means that the function is not part of the governance of, or the decision-making process in, the operations of If's licensed activities.

2.3.7.6 Line organisation

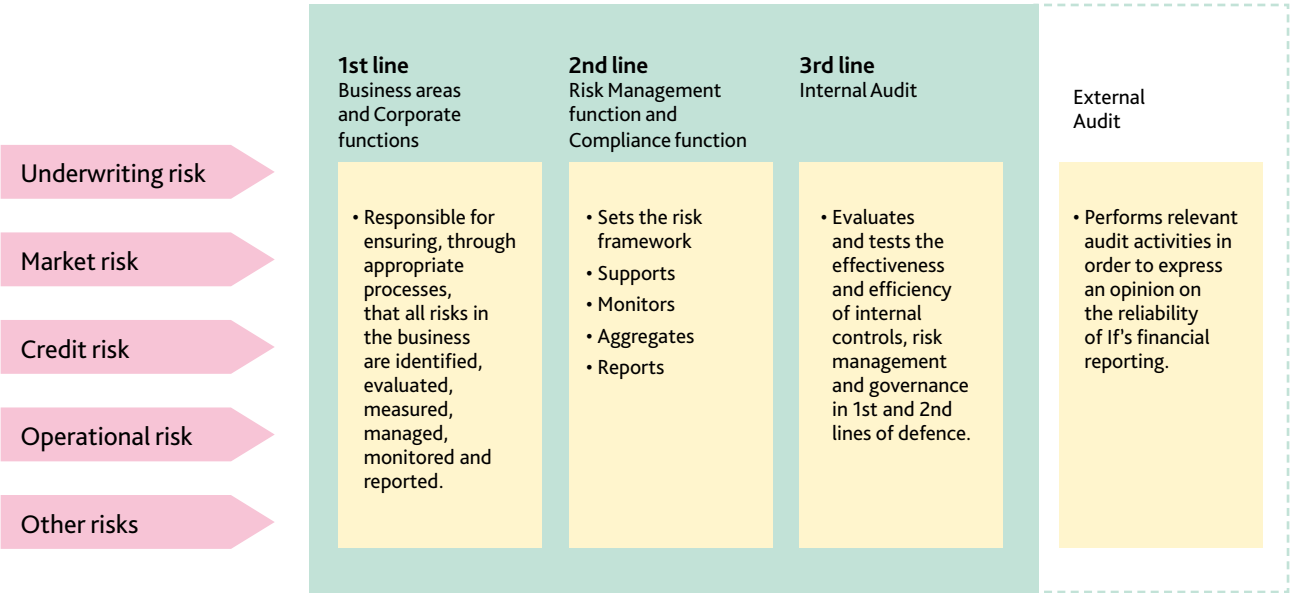
The leaders within the line organization have the day-to-day responsibility to manage risks within the mandates and

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

2.3.7.7 Implementation of the Risk Management System

For effective implementation of the Risk Management System within If, the model of three lines of defence is used. The model ensures that the responsibility and the different roles of the Risk Management System are clearly established and defined; the responsibilities for each line are described in Figure 8.

FIGURE 8 - Three lines of defence



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

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

2.3.8 If's own risk and solvency assessment process

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

The ORSA consists of a quantitative and qualitative assessment of If's material risks resulting in an assessment on the company's overall solvency position. If's comprehensive ORSA

is normally performed at least annually in order to ensure that If's own funds are and will remain sufficient to cover the risks resulting from the proposed business plan. The annual ORSA process is performed based on Q3 data as it is carried out in parallel with, and supports, the business plan presented to If's Board of Directors.

The solvency position is assessed partly in relation to If's own view of risk, quantified by If's internal model, and partly in relation to the regulatory capital requirement. If's capital planning model is a tool used in the ORSA process, which forecasts the own funds and capital requirements over a three-year planning period. The assessment also includes a number of scenario analyses, stress tests, sensitivity analyses and reverse stress tests. The stress tests cover the main 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 over the planning horizon is conducted. The risks are assessed on an impact and likelihood basis, that is, what impact a materialised risk would have on If's strategic and financial plan and the likelihood that the risk will occur. The assessment is conducted according to a common

grading scale. The concluding assessment is performed by the Risk Management function, based on the risk owners'¹⁰ views.

The outcome of the annual risk and solvency assessment is documented in the ORSA report. The report for 2019-2021 was approved by the Board of Directors in December 2018. By approving the report, the Board accepted it as the basis for deciding on the financial plan. Following the approval, the report was submitted to the Swedish FSA.

2.3.9 Governance of If's internal model

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

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

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

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

2.3.9.1 Roles, responsibilities and committees

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

Board of Directors

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

CRO

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

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

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

As chairman of the Internal Model Committee, the CRO decides on minor changes according to the Internal Model Change policy. An absolute limit to this delegation is when a combination of minor changes can be considered a major change, in which case a decision by the Board of Directors and prior approval by the supervisory authority 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; and
- Defining data requirements and quality features for the internal model as outlined in the Accounting and Risk Data instruction, to assess appropriateness of the data and, if needed, take appropriate action regarding data quality.

The Head of Capital Management is given the mandate to decide upon updates as outlined in the Internal Model Change policy. The mandate applies provided that the documentation for the internal model is updated along with documentation on changes to the model. These updates are to be reported at the subsequent meeting of the Internal Model Committee. The Head of Capital Management 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 internal model validation, including compilation of the validation plan and the validation report, and for reporting of the performed validation and its findings to the CRO, CEO and to the Board of Directors.

Internal Audit

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

Internal Model Committee

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

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

Other functions relating to the internal model

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

¹⁰ The business areas and the support functions, i.e. the first line of defence, are responsible for assessing, monitoring and mitigating risks.

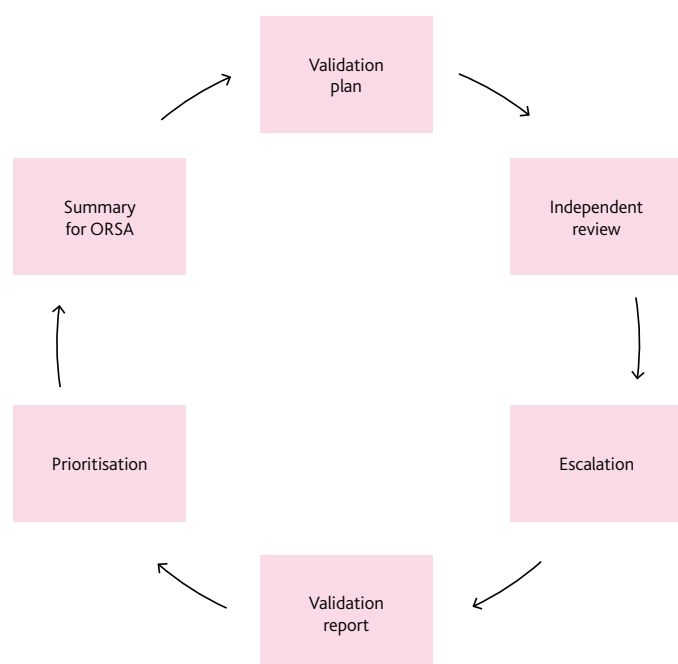
list of any data deficiencies as well as providing an action plan for improving the data quality over time.

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

2.3.9.2 Description of the validation process

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

FIGURE 9 - Annual validation process



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

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

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

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

2.4 Internal control

2.4.1 If's internal control system

The 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 the Board of Directors and Management have available, relevant and reliable financial information supporting their decision-making, and that external stakeholders can rely on If's financial information. Furthermore, If's internal control system aims to ensure the effectiveness and efficiency of the daily operations by taking If's strategic objectives into account. An effective internal control system provides the Board of Directors and CEO with reasonable assurance that the company's objectives are achieved.

The internal control system is based on the three lines of defence model which clarifies who is responsible for what with regards to risk management and internal control. Reporting lines have been established within the three lines of defence to ensure that the Board of Directors and the CEO are able to 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. The purpose of the policy is to describe how internal control activities are carried out appropriately with regards to nature, size and complexity of the business. The internal control framework in If is based on the COSO¹¹ 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; control environment, risk assessment, control activities, information and communication, as well as monitoring.

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

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

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

Information and communication support the other components by conveying responsibilities and authorities to personnel as well as through providing information in a sufficient and effective way.

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

2.4.2 Compliance function

2.4.2.1 Responsibilities

The Compliance function is responsible for advising the Board of Directors and the CEO on compliance with the rules 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 identifies and assesses risks for non-compliance. The Compliance function shall address the rules that follow from If's licence to conduct insurance business. However, advice and support are also provided in other legal areas at the request of the Board of Directors or the CEO.

¹¹ The Committee of Sponsoring Organizations of the Treadway Commission.

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 CCO is the Head of the Compliance function and is appointed by the CEO. The Board of Directors has issued an instruction for the CCO, describing the responsibilities more in detail. The CCO appoints Compliance Officers to perform compliance activities.

2.5 Internal Audit function

2.5.1 Internal Audit

The Internal Audit is a function, independent of business operations, which evaluates the sufficiency and effectiveness of the internal control system, and the quality with which the tasks are performed. The function is established by the Board of Directors and managed by the CAE, appointed by the Board of Directors of Sampo.

2.5.1.1 Internal Audit policy

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

2.5.1.2 Internal Audit Activity Plan

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

2.5.1.3 Reporting

The Internal Audit function reports conclusions from audits performed to the Board of Directors and CEO. Before audit reports are distributed, audit observations and recommendations are discussed with the audit client. The final audit reports shall

always be approved by the CAE before distribution.

The Internal Audit function performs follow-ups to ensure that appropriate actions have been taken to handle the observations and recommendations identified in the final audit report.

The CAE submits status reports at least twice a year to the Board of Directors and to the Audit Committee. These reports include the severe internal control deficiencies detected including the follow-up issues, which have not been mitigated or remedied according to the agreed management action plans.

2.5.1.4 Internal Auditor Independence

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

2.6 Actuarial function

2.6.1 The implementation of the Actuarial function

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

2.6.1.1 Responsibilities and tasks

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

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

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

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

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

2.6.1.2 Reporting

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

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

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

2.7 Outsourcing

2.7.1 If's Outsourcing Policy

If's Outsourcing policy 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.

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

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

2.7.2 Outsourcing of critical or important operational functions or activities

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

Investment and asset management are partially outsourced to Sampo. Because of If's operational structure with business areas Private, Commercial and Industrial operating through different legal entities and branch offices, a number of additional intra-group outsourcing arrangements have been set-up. For example, 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 inter alia entered in order to provide claims handling services in areas where If has no physical presence. There are also certain claims handling arrangements which have been concluded as part of larger partner co-operations. These also include sales and franchising arrangements and the partners are located mainly in the Nordic countries.

2.8 Any other information

2.8.1 Adequacy of system of governance

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

2.8.2 Any other material information

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



RISK PROFILE

3 Risk Profile

If's overall risk strategy is to focus on both capital efficiency and a sound risk management. Available capital shall exceed both the economic capital and the solvency capital requirement as well as maintain an A rating by both Standard & Poor's and Moody's. This means that the risk exposure for If is quantified using different measures¹² for different purposes.

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

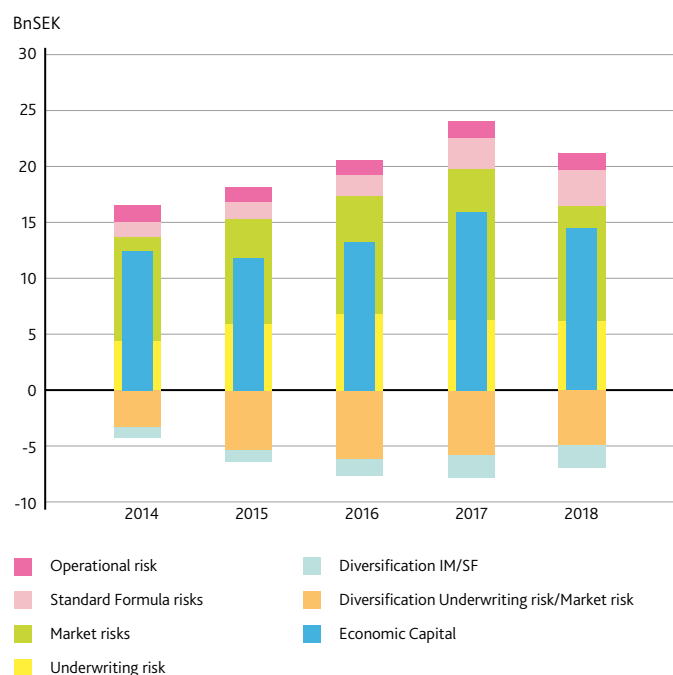
For internal quantitative risk measurement and reporting, as well as for management decisions the measure economical capital is used. The economic capital is based on the internal model for underwriting risk and market risk including their diversified aggregation. Operational risk and less material risks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

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, legal risk, strategic risk, compliance risk, reputational risks, emerging risks and other concentration risks.

3.2 If's risk profile

The figure below shows economic capital as per 31 December 2014 to 31 December 2018.

FIGURE 11 – Development of economic capital (pre-tax)



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 and 2017 when major model changes were made. Inflation risk was reclassified from market risk to underwriting risk in 2015 and the merger with If Finland in 2017 increased economic capital as well as increased the proportion of market risk in comparison to underwriting risk. The decrease by 2 BnSEK in economic capital during 2018 is mainly explained by decreased market risk due to lower equity exposure and spread volatilities.

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. Premium risk, catastrophe 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 0.2 BnSEK to 6.3 BnSEK during 2018. Inflation risk and reserve risk have the largest effects on economic capital. The decrease in underwriting risk was caused by a lower inflation risk, partly offset by increased reserve risk due to increased exposure.

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.

The main premium risks are claims volatility, risk assessment in pricing and claims inflation. The overall premium risk remained stable during 2018.

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, changes in annuity indexing system and increased retirement age. During 2018, reserve risk remained stable.

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

¹² Internal economic measures (economic capital), measures based on regulatory requirements, i.e. the solvency capital requirements according to the partial internal model, and rating agency measures. Rating agency measures are not specifically handled in the report.

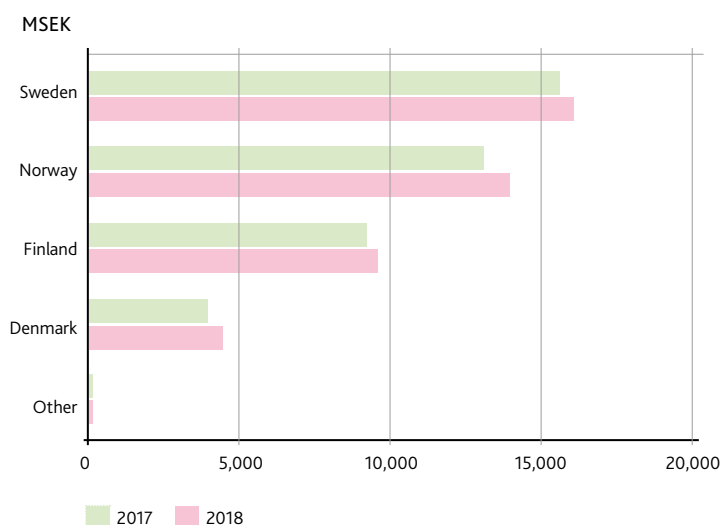
The provisions for the Swedish Motor Third Party Liability (MTPL) and Workers Compensation include annuities that are sensitive to changes in mortality assumptions, inflation and discount rate. The MTPL portfolio represents 23% of the Solvency II claims reserve as well as approximately 5% of the undiversified economic capital 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 provision 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 due to the fact that If has a large customer base and the business is underwritten in different geographical areas and across several lines of business. The geographical distribution of gross written premium for 2018 is shown in the figure below.

FIGURE 12 – Gross written premium per country



Despite the diversified portfolio, risk concentrations and consequently severe claims may arise through for example, exposures to natural catastrophes such as storms and floods. Accumulation of risks within the business area Industrial 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, considering the expected investment income, expenses, indexation, mortality and other possible adjustments into account.

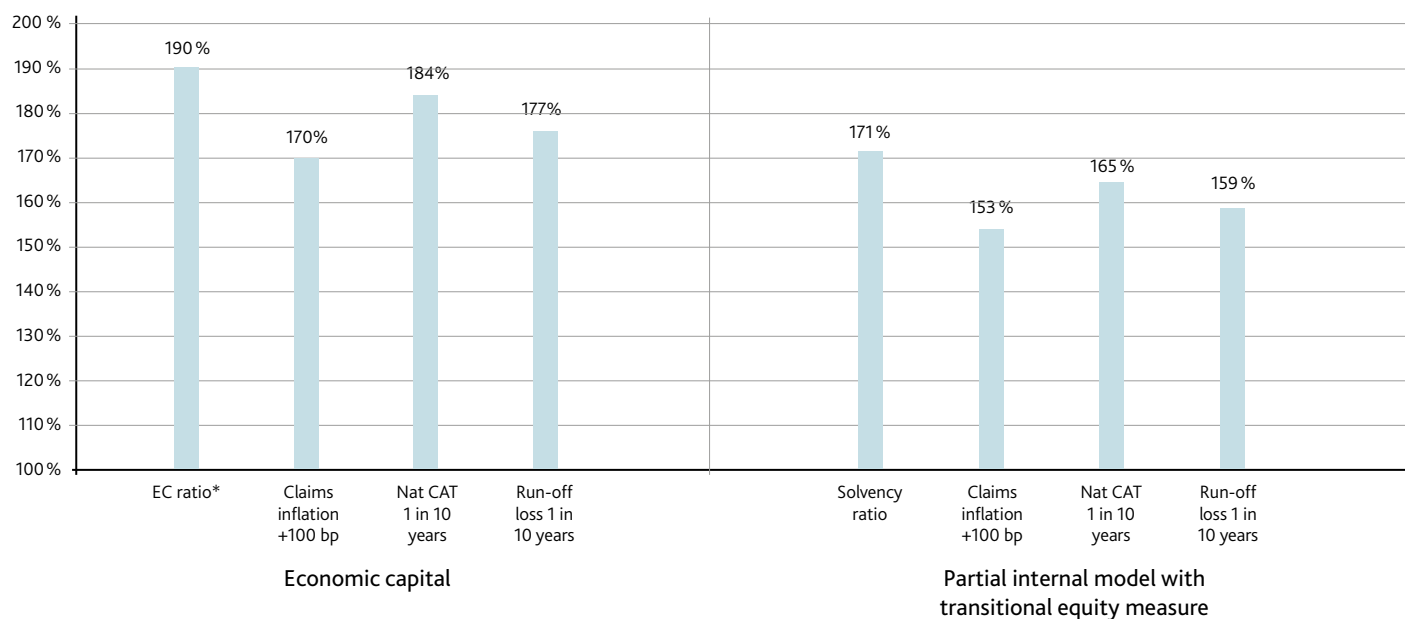
The economic impact of natural disasters and single large claims is managed using reinsurance and through diversification. The need and optimal choice of reinsurance is evaluated by comparing the expected cost versus the benefit of the reinsurance, the impact on result volatility and capital requirements.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

3.3.4 Risk sensitivity

Stress tests have been performed to assess If's sensitivity against major risk factors. The sensitivity is expressed as the effect on If's capital position, both on internal economic capital and on the regulatory solvency capital requirement, at 31 December 2018. The solvency ratio for economic capital is based on If's internal model for both underwriting risk and market risk. The solvency ratio for the regulatory solvency capital requirement is calculated according to the partial internal model, where underwriting risk is based on If's internal model. Risks not covered by the internal model are calculated using the standard formula.

The purpose of the stress 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 of the three sensitivity tests, If has 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 (Nat CAT), it is assumed that claims payments are immediate and hence this would not affect the technical provisions, leaving underwriting and market risk unaffected but the eligible own funds reduced. In the run-off stress, 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.

If's 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 section 3.5, since If views spread risk as being part of credit risk. Asset and Liability Management 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

The economic capital for market risk decreased by 2.6 BnSEK to 10.6 BnSEK during 2018. The decrease is mainly due to lower equity exposure and lower spread volatilities. If has a well-diversified investment portfolio, which has positive diversification effects when calculating the economic capital.

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

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

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

3.4.1.1 Currency risk

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

If is exposed to currency risk due to operations in foreign branches. In addition, If's investment decisions create currency exposure. Compared to 31 December 2017, the currency risk has decreased due to lower exposure.

3.4.1.2 Equity risk

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

The equity portfolio consists of Nordic shares and a diversified global funds portfolio, at year-end 2018, If's exposure amounted to 11,422 MSEK. Compared to 31 December 2017, the equity risk has decreased mainly due to lower equity exposure.

3.4.1.3 Interest rate risk

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

The duration of fixed income investments was 1.4 years at year-end 2018. Compared to 31 December 2017, the interest rate risk has decreased mainly due to lower interest rate volatility.

3.4.1.4 Spread risk

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

The spread risk in If has decreased mainly due to lower spread volatilities. For information on spread risk exposure, concentration, mitigation and sensitivity, see section 3.5.

3.4.1.5 Asset and Liability Management 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.

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 IBNR¹³ 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 presents the market risk concentration of the investment portfolio in If as per 31 December 2018. Figure 14 shows the market values per type of asset and Figure 15 shows economic capital for market risk per type of asset (pre diversification effects).

FIGURE 14 – Market values per type of asset

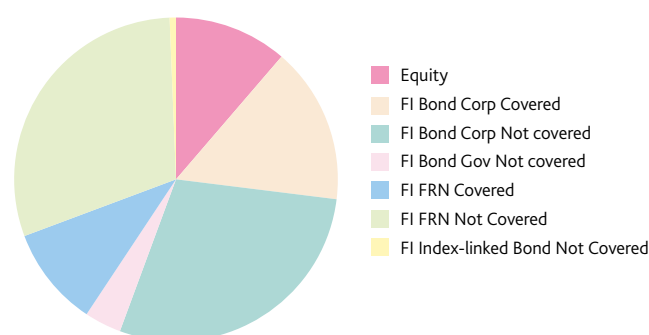
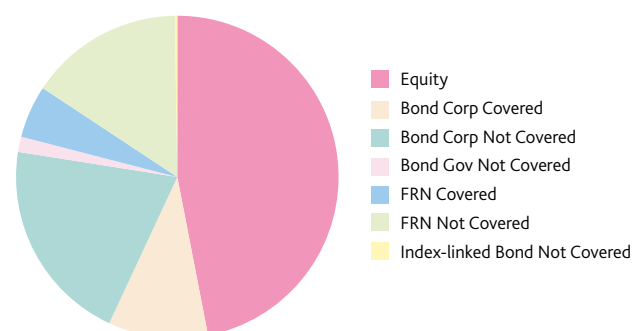


FIGURE 15 – Economic capital per type of asset



¹³ Incurred But Not Reported

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, the so called translation risk, 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 5 - Currency risk

MSEK Currency	EUR	NOK	DKK	GBP	USD	JPY	OTHER
Open position (SEK), 2018	-1,153	924	154	-15	-43	-3	-15
Open position (SEK), 2017	-1,029	773	70	13	19	-2	-40

Above IFRS values give a fair picture of currency risk concentrations excluding translation risk.

The investment portfolio consists mainly of fixed income (88.8%) and equities (10.9%).

TABLE 6 - Breakdown of equity investments by industry sectors

MSEK Industry sector	2018		2017	
	Carrying amount	%	Carrying amount	%
Industrials	3,704	46.9	5,056	49.1
Consumer Discretionary	1,960	24.8	2,810	27.3
Telecommunication Services	651	8.2	654	6.3
Materials	609	7.7	661	6.4
Health Care	598	7.6	588	5.7
Energy	260	3.3	62	0.6
Consumer Staples	113	1.4	132	1.3
Financials	4	0.0	287	2.8
Information Technology	0	0.0	46	0.4
Total	7,899	100	10,296	100

The sector allocation of equity excludes investments made through ETF:s, mutual and private equity funds of 3,717 MSEK (4,154 MSEK)

TABLE 7 - Breakdown of equity investments by geographical regions

MSEK Geographical area	2018		2017	
	Carrying amount	%	Carrying amount	%
Scandinavia	7,898	69.2	10,295	72.2
Western Europe	1,235	10.8	1,483	10.4
Far East	1,149	10.1	1,347	9.4
North America	877	7.7	860	6.0
Latin America	262	2.3	277	1.9
Total	11,422	100	14,264	100

The geographical allocation of equity excludes investments made through private equity funds of 194 MSEK (186 MSEK).

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

The average duration of fixed income investments was 1.4 years at year-end 2018. The duration of fixed income investments is shown in the table below.

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

MSEK Instrument type	2018			2017		
	Carrying amount	%	Duration	Carrying amount	%	Duration
Short-term fixed income	2,177	2.3	0.1	2,433	2.6	0.0
Scandinavia, long-term government and corporate securities	66,046	71.0	1.3	67,247	72.6	1.3
Scandinavia, index-linked bonds	655	0.7	1.9	679	0.7	2.9
Europe, long-term government and corporate securities	15,851	17.0	1.8	13,994	15.1	1.9
USA, long-term government and corporate securities	6,190	6.7	2.0	6,099	6.6	2.3
Global, long-term government and corporate securities	2,124	2.3	2.3	2,222	2.4	2.9
Total	93,043	100	1.4	92,675	100	1.4

IR Derivatives are included

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

3.4.3 Risk mitigation

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

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

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

If's equity portfolio is actively managed with a long-term investment horizon. The equity risk is reduced by diversifying the investments across industry sectors and geographical regions. According to If's Investment policy, equity investments in relation to the total investment portfolio and the exposure towards an individual issuer are to be limited. The interest rate risk is managed by sensitivity limits 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.

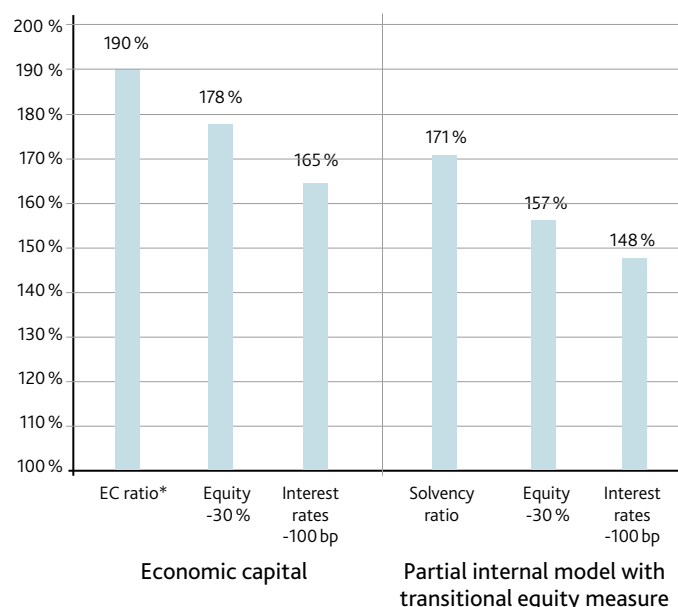
The market risk is actively monitored and controlled by the Investment Control Committee and reported to the ORSA Committee quarterly.

3.4.4 Risk sensitivity

To test the sensitivity to important risk factors, equity and interest rate stresses have been performed. The sensitivity is expressed as the effect on If's capital position, both in terms of internal economic capital and in terms of the solvency capital requirement as per 31 December 2018.

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

FIGURE 16 – Market risk sensitivity



*Eligible own funds in proportion to economic capital.

The key assumption in the equity stress is that the equity risk decreases with the same proportion as the market value. 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 is the risk of loss or of adverse change in the financial situation, resulting from fluctuations in counterparty default risk and spread risk.

3.5.1 Risk exposure

Counterparty default risk is the risk of loss or of adverse change in the financial situation, resulting from changes in the credit standing of issuers of securities, counterparties and any debtors to which insurance undertakings are exposed to. The standard formula is used for the calculation of counterparty default risk.

Spread risk refers to the sensitivity of the value of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate. Spread risk is measured by If's internal model as described in section 3.4.

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

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

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

3.5.1.2 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 9.

TABLE 9 – Reinsurance recoverables

MSEK Rating (S&P)	2018	%	2017	%
AAA	-	-	-	-
AA	462	23.5	294	15.3
A	241	12.3	155	8.1
BBB	6	0.3	5	0.3
BB – CCC	-	-	-	-
Not rated	1	0.0	3	0.1
Captives and statutory pool solutions	1,251	63.8	1,462	76.2
Total	1,960	100	1,919	100

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

TABLE 10 – Ceded treaty and facultative premiums per rating category

MSEK Rating (S&P)	2018	%	2017	%
AAA	-	-	-	-
AA	325	61.4	302	59.0
A	204	38.6	210	41.0
BBB	-	-	-	-
BB – CCC	-	-	-	-
Not rated	-	-	-	-
Total	529	100	512	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 is 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 11 – Fixed income exposure by sector, assets and rating 2018

MSEK Sector	AAA	AA+ - AA-	A+ - A-	BBB+ - BBB-	BB+ - C	D	Not rated	Total ¹⁾	Equities ²⁾	Prop- erties	Derivatives (Counter- party Risk)	Total ³⁾	Change compared to Dec 31, 2017
Basic Industry	-	-	272	522	-	-	218	1,012	362	-	-	1,374	-78
Capital Goods	-	-	299	562	-	-	466	1,327	3,886	-	-	5,213	-1,116
Consumer Products	-	578	1,320	2,942	211	-	765	5,817	2,126	-	-	7,943	-1,068
Energy	-	517	-	-	647	-	1,693	2,858	260	-	-	3,117	364
Financial Institutions	-	7,476	12,384	5,033	560	-	121	25,573	-	-	14	25,587	2,178
Governments	1,366	-	-	-	-	-	-	1,366	-	-	-	1,366	462
Government Guaranteed	98	244	-	-	-	-	-	342	-	-	-	342	-816
Health Care	72	109	264	503	-	-	26	974	594	-	-	1,568	45
Insurance	-	-	453	574	163	-	424	1,614	-	-	-	1,614	253
Media	-	-	-	-	-	-	218	218	-	-	-	218	4
Packaging	-	-	-	-	-	-	53	53	-	-	-	53	2
Public Sector, Other	5,647	1,047	-	-	-	-	-	6,694	-	-	-	6,694	-1,441
Real Estate	-	56	678	1,296	447	-	4,965	7,441	-	44	-	7,485	1,310
Services	-	-	23	627	545	-	493	1,688	-	-	-	1,688	87
Technology & Electronics	89	-	26	-	85	-	805	1,006	-	-	-	1,006	190
Telecom	-	-	-	1,575	487	-	57	2,119	651	-	-	2,770	602
Transportation	-	555	244	292	-	-	1,564	2,654	11	-	-	2,666	-244
Utilities	-	-	352	2,026	673	-	445	3,495	-	-	-	3,495	241
Others	-	248	-	-	-	-	128	376	8	-	-	384	15
Covered Bonds	26,144	361	-	-	-	-	-	26,505	-	-	-	26,505	-3,183
Funds	-	-	-	-	-	-	-	-	3,717	-	-	3,717	-437
Clearing Houses	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	33,417	11,192	16,314	15,952	3,817	-	12,441	93,132	11,615	44	14	104,806	-2,632
Change compared to Dec 31, 2017	-3,932	-1,241	6	2,243	2,165	0	1,079	320	-2,831	-77	-44	-2,632	

¹⁾ Total fixed income exposure differs by 89 MSEK from the corresponding financial assets and liabilities in Table 3 because other derivatives and collaterals are excluded.

²⁾ Total equity exposure differs by -1 MSEK from the corresponding financial assets and liabilities in Table 3 because derivatives are excluded.

³⁾ Total exposure differs by 36 MSEK from the corresponding financial assets and liabilities in Table 3 because derivatives and collaterals are excluded except for OTC derivatives, 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, a careful selection of counterparties and clearing houses as well as by using collateral techniques. Credit exposures are reported by ratings, instruments and industry sectors.

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

The Reinsurance Security Committee (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.

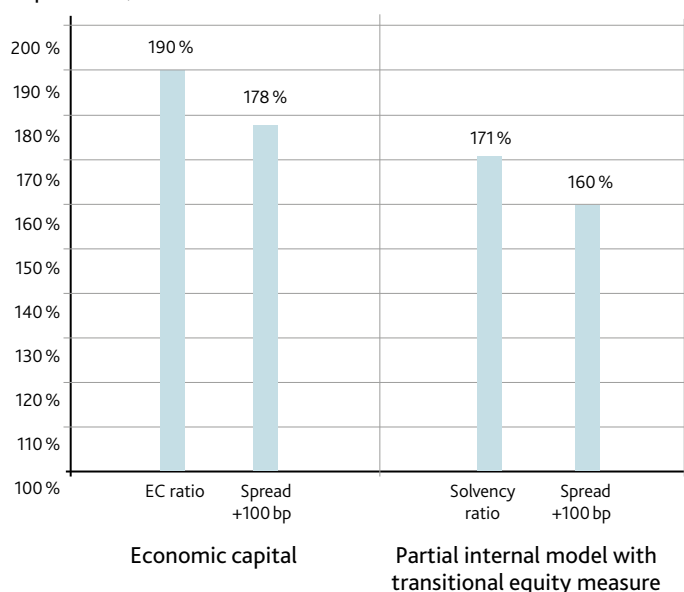
The development of the portfolio with respect to credit risk is monitored and reported to the Investment Control Committee and the Reinsurance Security Committee on a regular basis and on quarterly basis to the ORSA Committee.

3.5.4 Risk sensitivity

3.5.4.1 Risk sensitivity in Investment Operations

To test the sensitivity for major risk factors, a credit spread stress has been performed showing the effect on the Solvency II ratios as per 31 December 2018. 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, 31 December 2018



3.5.4.2 Risk sensitivity in Reinsurance Operations

To quantify the exposure to credit losses due to reinsurance counterparty default, a credit simulation within the reinsurance operations is performed. In the simulation a counterparty default rate of 50% on average is assumed and future credit losses are estimated for 50,000 outcomes with a one-year horizon. Non-rated captives and pools are treated as BBB rated. The exposure is based on discounted values in line with Solvency II as per from 31 December 2018. The results, as shown in Figure 18 and Table 12, indicate limited exposure to credit risk towards reinsurance counterparties.

FIGURE 18 – Risk sensitivity

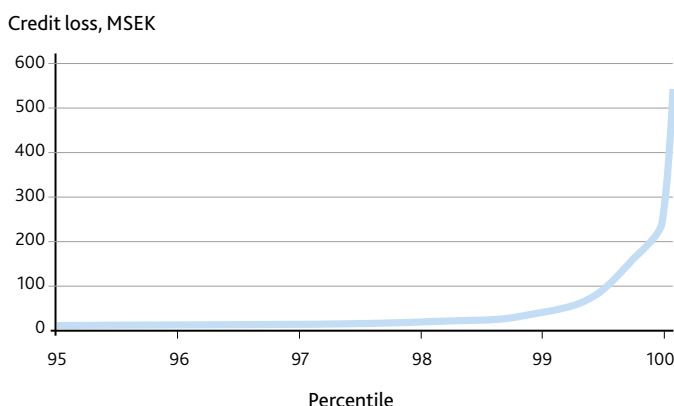


TABLE 12 – Risk sensitivity

MSEK	Q4 2018
Probability	
5.0 %	1
2.5 %	9
1.0 %	45
0.5 %	109
0.03 %	307

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 13. 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 13 – Maturities of IFRS cash flows for financial assets, financial liabilities and net technical provisions 31 December 2018

MSEK	Carrying amount			Cash flows						
	Carrying amount	Of which without maturity	Of which with contractual maturity	2019	2020	2021	2022	2023	2024-2033	2034-
Financial assets	121,214	12,970	108,244	30,762	19,677	25,866	19,093	10,625	7,740	-
Financial liabilities	8,358	81	8,277	7,182	74	1,201	-	-	-	-
Net technical provisions	87,550			29,879	10,626	5,971	4,116	3,377	19,726	19,226

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 covers identification and costs of alternative financing tools and consideration of the effect on the liquidity situation of expected new business. The expected cash flows from investment assets and technical provisions are also compared to measure the level of mismatch.

3.6.5 Expected profit included in future premiums

The total expected profit included in future premiums amounted to 1,747 MSEK at 31 December 2018.

3.7 Operational risk including legal risk

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

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

3.7.1 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, monitored and reported regularly through self-assessment. An operational risk coordinator network, supports the risk owners in the OCRA process.

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

External factors that may affect operational risk are identified through the processes for strategic risk and emerging risk. See sections 3.8.1 and 3.8.4. A special process exists to identify and report any external and internal fraud.

The main operational risks for If are related to IT-applications and information security. During 2018 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 steering documents, set mandates, four-eyes and grandfather principles, clear roles and division of responsibilities, employee training as well as automated and manual controls in key business processes. To further strengthen If's 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, business continuity planning and information security. Analyses of fraud trends are performed, and control activities are carried out to mitigate the risk. In addition, internal training on ethical rules and guidelines are provided to employees on a regular basis.

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

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

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

3.7.4 Risk sensitivity

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

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 regarding likelihood and impact. 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. Strategic risk for If is related to competitors' behaviors, mainly changes in market shares through price reductions or increased distribution capacity. Furthermore, recessions and instability in the financial markets can have a negative effect. Ifs operations are also affected by changes in relevant legislation and case law.

During the reported period, there has been no significant change in 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 regulations.

3.8.2.1 Risk exposure

Compliance risk is assessed in the OCRA process, see 3.7.1. The compliance risks are measured by assessing the impact and likelihood of breaching applicable rules. The main compliance risk identified is the risk of breaching the General Data Protection Regulation (GDPR).

3.8.2.2 Risk mitigation

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

3.8.3 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 a compliance risk. When operational risks and compliance risks are assessed by the line organisation, the reputational risk as a consequence of a materialised risk is also evaluated. The risks are assessed based on likelihood and impact. 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

Some areas are especially sensitive to reputational risk, such as marketing and claims handling, as individual incidents can receive high media attention. Professional handling and communication are key to mitigating these risks. Additional mitigating

techniques are clear and implemented steering documents, e.g. Ethics policy and Social media instructions, as well as incident handling procedures and the internal whistleblowing process. Close monitoring of all types of media is performed continuously to identify potential negative publicity at an early stage.

3.8.4 Emerging risks

Emerging risks are 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 developing risks materialise, or identified risks change, this is primarily identified, assessed and managed by the underwriting and claims teams in the different business areas as part of the regular risk assessment processes. However, in order to capture cross business area risks and in order to 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 risks that have been under observations during 2018 are cyber risks and the risk of lack of climate change adaption. During 2018, there have not been any material changes regarding emerging risks.

3.8.4.2 Risk concentration

Cyber insurance is inherently exposed to risk concentration. Cyber threats are continuously developing, which may lead to changes in the risk concentration. Climate change can also lead

to changes in If's risk concentration, for example through increased frequency of flooding or forest fires.

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

3.9 Other Information

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



VALUATION FOR SOLVENCY PURPOSES

4 Valuation for Solvency Purposes

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

The accounting standards under Swedish GAAP used for If's statutory accounts have not been subject to any significant amendments in 2018 causing new divergences to occur between Solvency II and Swedish GAAP. Balance sheet items in foreign currency are translated to SEK using the closing date exchange rate, both in the statutory accounts and in the Solvency II balance sheet.

Overall, as an effect of the Solvency II adjustments at year-end, the excess of assets over liabilities is 3,282 MSEK higher in the Solvency II balance sheet compared to the statutory accounts.

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

TABLE 14 – Balance sheet adjustment for Solvency II purpose

MSEK Classification	Statutory accounts value	Solvency II adjustments	Solvency II value	
Assets				
Goodwill	52	-52	-	A
Deferred acquisition costs	1,156	-1,156	-	B
Intangible assets	230	-230	-	A
Property, plant & equipment held for own use	185	-	185	
Investments (other than assets held for index-linked and unit-linked contracts)	102,438	78	102,516	C
<i>Property (other than for own use)</i>	44	78	122	
<i>Equities</i>	7,850	-	7,850	
<i>Bonds</i>	90,739	-	90,739	
<i>Collective Investments Undertakings</i>	3,711	-	3,711	
<i>Derivatives</i>	94	-	94	
Loans and mortgages	997	-	997	
Reinsurance recoverables from:	2,105	-324	1,781	B
<i>Non-life and health similar to non-life</i>	2,105	-324	1,781	
Insurance and intermediaries receivables	13,332	-9,653	3,679	B
Reinsurance receivables	163	-	163	
Receivables (trade, not insurance)	2,613	-1,227	1,385	C,D
Cash and cash equivalents	1,396	-	1,396	
Any other assets, not elsewhere shown	639	-96	542	E
Total assets	125,306	-12,661	112,645	
Liabilities				
Total TP	89,654	-15,928	73,726	B
<i>Technical provisions – non-life (excluding health)</i>	51,526	-13,074	38,451	
<i>Technical provisions - health (similar to non-life)</i>	15,665	-2,177	13,488	
<i>Technical provisions - life (excluding index-linked and unit-linked)</i>	22,463	-677	21,787	
Provisions other than technical provisions	180	-	180	
Pension benefit obligations	251	275	526	E
Deferred tax liabilities	184	910	1,095	G
Derivatives	47	-	47	
Insurance & intermediaries payables	1,812	-	1,812	
Reinsurance payables	237	-45	192	B
Payables (trade, not insurance)	4,162	-1,200	2,962	D
Subordinated liabilities	1,128	76	1,205	F
<i>Subordinated liabilities in Basic Own Funds</i>	1,128	76	1,205	
Any other liabilities, not elsewhere shown	1,668	-32	1,636	B
Total liabilities	99,323	-15,943	83,381	
Excess of assets over liabilities	25,983	3,282	29,264	

The adjustments can be divided into seven categories:

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

The methods used for the valuation of assets and liabilities are disclosed in below sections separately for each material category of asset or liability. This includes the basis, methods and main assumptions used for valuation for solvency purposes as well as a quantitative and qualitative explanation of any material differences between the valuation in the Solvency II balance sheet and the balance sheet in the statutory accounts. The level at which assets and liabilities are aggregated into "material classes" is based on the nature and function of the assets and other liabilities 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 at year-end 2018 was 52 MSEK. Goodwill is valued at zero value for solvency purposes.

4.1.2 Intangible assets other than goodwill

In If's statutory accounts, other intangible assets of 230 MSEK are reported, mainly relating to capitalised costs for the development of various insurance systems (including patents, licenses and other contractual rights in relation to computer software).

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

4.1.3 Property, plant and equipment

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 in the statutory accounts reported at historical acquisition value, less depreciation. These deductions are based on the historical acquisition value and the estimated economic useful life. The current treatment in the statutory accounts is applicable also for solvency valuation purposes.

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

4.1.4 Investment assets

4.1.4.1 Property (other than for own use)

Properties are recognized as investment assets. In the Solvency II balance sheet these are reported as property (other than for own use) and in the statutory accounts as investment properties. In the statutory accounts a property is normally fair valued pursuant to IAS 40. One indirectly owned property that was added due to merger is reported at the carrying amount of the transferor company. In the Solvency II balance sheet all properties are valued at fair value. The classification as investment properties complies with the company's basic approach to these assets.

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

4.1.4.2 Equities

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

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

4.1.4.3 Bonds

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

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

4.1.4.4 Investment Funds

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

4.1.4.5 Derivatives (assets and liabilities)

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

4.1.5 Loans and mortgages

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

4.1.6 Reinsurance receivables and receivables (trade, not insurance)

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

The Solvency II adjustment of 1,200 MSEK relates to the Finnish medical malpractice pool public sector, which is treated as part of the Solvency II best estimate technical provisions.

4.1.7 Cash and cash equivalents

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

4.1.8 Other assets not elsewhere shown

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

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

4.1.9.1 Deferred acquisition costs

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

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

4.1.9.2 Reinsurance recoverables

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

4.1.9.3 Insurance and intermediaries receivables

In line with Solvency II classification, insurance and intermediaries receivables relates to receivables amounts due by policyholders, other insurers, and receivables linked to insurance business. Under a full Solvency II classification, the technical provisions should fully take account of all cash inflows and outflows. Rather than recognizing 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 and insurers as well as other receivables linked to If's insurance business. These are reported in the amounts expected to be received, both in the statutory accounts and in Solvency II.

4.2 Technical Provisions

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

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

- Recognition of the premium provisions in Solvency II compared with the unearned premium reserve of the statutory accounts;
- Application of discounting;
- 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 described in section 4.1 above as well as removal of deferred acquisition costs, add up to a reduced liability by 4,871 MSEK, which is explained by the following movements.

TABLE 15 – Revaluation of technical provisions for Solvency II purposes

MSEK	2018	2017
Solvency II adjustments of technical provisions		
Gross deferred acquisition costs	-1,156	-1,137
Ceded technical provisions	-324	-290
Premium receivable asset	-9,653	-8,921
Total adjustment of assets	-11,133	-10,348
Technical provisions gross (excl. RM)	-18,261	-17,233
Reinsurance payable liability	-45	-36
Ceded deferred acquisition costs	-32	-29
Introduction of risk margin	2,333	3,136
Total adjustment of liabilities	-16,004	-14,162
Total adjustment of technical provisions according to Solvency II	-4,871	-3,814

4.2.1.1 Main quantitative differences explained

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

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

MSEK Type of technical provisions	Reinsurance share of best estimates			Technical provisions, gross				
	Annual statement	Solvency II		Annual statement	Solvency II		Best estimate	Risk margin
Total	2,104	-325	1,779	89,654	-15,928	73,726	71,393	2,333
Health similar to life	-	-	-	11,144	-106	11,038	10,786	252
Income protection insurance (annuities)	-	-	-	237	-3	234	226	8
Medical expense insurance (annuities)	-	-	-	31	1	32	31	1
Workers' compensation insurance (annuities)	-	-	-	10,877	-104	10,773	10,529	244
Health similar to non-life	273	-35	238	15,665	-2,177	13,488	12,875	613
Income protection insurance	11	-5	6	7,929	-1,716	6,213	5,964	249
Medical expense insurance	0	-	0	1,616	-368	1,248	1,203	45
Workers' compensation insurance	262	-30	232	6,120	-93	6,027	5,708	319
Life excluding health	-	-	-	11,319	-570	10,749	10,558	191
Fire and other damage to property insurance (annuities)	-	-	-	52	-2	50	49	1
Motor vehicle liability insurance (annuities)	-	-	-	11,070	-555	10,515	10,332	183
General liability insurance (annuities)	-	-	-	197	-13	184	177	7
Non-life excluding health	1,831	-290	1,541	51,526	-13,075	38,451	37,174	1,277
Fire and other damage to property insurance	724	-131	593	13,326	-3,649	9,677	9,323	354
Marine, aviation and transport insurance	182	-31	151	1,233	-98	1,135	1,071	64
Other motor insurance	22	-4	18	9,398	-5,291	4,107	4,010	97
Motor vehicle liability insurance	9	-2	7	21,023	-3,583	17,440	16,951	489
General liability insurance	894	-122	772	6,490	-442	6,048	5,776	272
Assistance	-	-	-	56	-12	44	43	1

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

In the statutory accounts, recognition of a liability as an insurance contract would according to IFRS 4 be dependent on the existence of significant underwriting risk. Based on If's assessment that there is no material degree of underwriting risk prevalent, the Medical Malpractice Pool public sector in Finland is not 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 Medical Malpractice Pool public sector are reclassified as forming a part of the Solvency II best estimate technical provisions. Under this treatment the receivables balances are netted against the liabilities in the technical provisions, as they are premium cash inflows and thus included in the best estimate.

4.2.2 Assumptions underlying the calculation of If's technical provisions

4.2.2.1 Adherence with solvency requirements

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

4.2.2.2 General Provisions

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

The best estimate is calculated gross, without deduction of the amounts recoverable from reinsurance contracts (these are calculated separately, refer separate disclosure in relation to reinsurance recoverables in section 4.2.2.14 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 eligible own funds equal to the solvency capital requirement necessary to support the insurance and reinsurance obligations over the lifetime thereof. The rate used in the determination of the cost of providing that amount of eligible own funds is called Cost-of-Capital rate. The solvency capital requirement used in the risk margin calculation is based on the partial internal model.

4.2.2.3 Data quality

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

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

4.2.2.4 Risk-free interest rate term structure

The risk-free interest rate term structure used to calculate the best estimate with respect to insurance or reinsurance obligations

are calculated separately for each material currency, based on information and data relevant for that currency. The risk-free interest rate term structures are determined in a transparent, prudent, reliable and objective manner. Volatility adjustment or matching adjustment is not applied.

4.2.2.5 Basic risk-free interest rate term structure

The basic risk-free rates are derived for the following currencies: DKK, EUR, GBP, NOK, SEK and USD and these currencies cover more than 99% of 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 If. Actuarial and statistical methods used for calculating best estimates of technical provisions are based on recognised actuarial and statistical techniques. The information on which the calculation of technical provisions is based largely is If's own historical claims data. External data used, such as Consumer Price Index, various branch indices, are based on official sources, which are considered reliable and transparent as well as publicly available.

4.2.2.8 Assumptions on future management actions

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

4.2.2.9 Assumptions on policyholder behavior

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

If takes into account future policyholder 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, and is therefore based on credible and relevant experience of cancellations.

4.2.2.10 On proportionality and the use of simplifications

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

and actual outcome is investigated in order to assess whether the assumptions underlying the relevant method needs to be adjusted.

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

4.2.2.11 Boundary of contract

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

In certain cases an insurance contract cannot be cancelled even though the risk coverage period has not yet inceptioned, 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 expenses for non-incurred claims are taken into account when estimating the premium provision. 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.

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

4.2.2.13 Derivation of the risk margin

The risk margin is calculated at a legal entity level and is based on the solvency capital requirement according to the partial internal model.

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

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

4.2.2.14 Recoverables from reinsurance contracts and special purpose vehicles

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

If has no special purpose vehicles.

4.2.2.15 Uncertainties connected to the calculations

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

4.3 Liabilities (other than technical provisions)

4.3.1 Provisions other than technical provisions

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

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

4.3.2 Pension benefit obligation

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

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

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

- An undertaking's pension benefit obligations are presented net. As a result prepaid expenses of 96 MSEK (assets) are netted with pension obligations in the accounts of 251 MSEK, leading to net position of 155 MSEK; and
- As a result of revaluation of Pension Obligations using IAS 19 the net liability increased by 371 MSEK when compared with the statutory accounts, leading to a revalued net position of 526 MSEK.

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

4.3.3 Deferred tax liabilities

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

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

Deferred tax assets and tax liabilities are not discounted and are measured at the tax rates expected to apply when the asset is realised, or the liability is settled. Table 17 presents the tax rates used when calculating deferred tax assets and liabilities at 31 December 2018.

TABLE 17 – Tax rates

Country	Tax rate	
	2018	2017
Sweden	21.4%	22%
Norway	25%	25%
Denmark	22%	22%
Finland	20%	20%
UK	22%	22%
Germany	28%	28%
France	35%	35%
Netherlands	0%	0%

For the year-end 2018, If recognised a net deferred tax liability position of 184 MSEK in its statutory accounts. As an effect of Solvency II valuation adjustments, the deferred tax liability amount was increased by 910 MSEK to a net deferred tax liability position of 1,095 MSEK.

TABLE 18 – Reconciliation of net DTA position in Solvency II balance sheet

MSEK	Statutory accounts value	SII adjustments	Solvency II value
Reconciliation of net deferred tax position			
1. Provisions, including pension obligations, reported in line with IAS 19 in Solvency II	69	84	153
2. Goodwill eliminated in Solvency II accounts	-	10	10
3. Under-depreciation	4	-	4
4. Investment assets at fair value	-239	-10	-249
5. Deferred tax relating to untaxed reserves	-97	-	-97
6. Technical provisions recalculated according to Solvency II	-	-1,061	-1,061
7. Other intangible assets eliminated in the Solvency II reporting	-	51	51
8. Subordinated liabilities	-	16	16
9. Other temporary differences	79	-	79
Deferred tax liabilities, net	-184	-910	-1,095

The main drivers for this change, as shown in the table above, are technical provisions liabilities (including re-insurance recoverables), the impact of IAS 19 recognition of pension obligations as well as the differing treatment of goodwill, deferred acquisition costs and intangible assets.

For solvency purposes, deferred taxes are not recognized in relation to allocations made to its untaxed reserves (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.

4.3.4 Derivatives

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

4.3.5 Insurance & Intermediaries payables

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

These balances are recognised at accrued acquisition value in the statutory accounts and in the Solvency II balance sheet, as the carrying amount is considered a reasonable approximation of the fair value.

4.3.6 Reinsurance payables

In line with Solvency classification, reinsurance payables include 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. 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 45 MSEK are reclassified from reinsurance payables to the ceded part of the insurance obligation. The remaining balance reinsurance payables consists of amounts payable to reinsurers. The treatment of these balances in the statutory accounts is applicable also for Solvency purposes.

4.3.7 Payables (trade not insurance)

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

4.3.8 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.

For purposes of classification in the Solvency II balance sheet, the subordinated liability fully meets the requirements for inclusion in basic own funds, and therefore, the whole balance is recognised under the caption Subordinated liabilities in Basic Own Funds.

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

By year-end, the valuation difference between Solvency II and statutory accounts gives rise to an increase in If's subordinated liability of 76 MSEK. This adjustment also gives rise to a change in deferred tax in the Solvency II balance sheet.

4.3.9 Any other liabilities not elsewhere shown

Any other liabilities not elsewhere shown, includes balances not shown in any other Solvency II balance sheet item, mainly accrued expenses related to salaries and social insurance as well as reinsurers' share of ceded deferred acquisition costs.

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 ceded deferred acquisition costs amounting to 32 MSEK in the statutory accounts.

4.4 Alternative Methods for Valuation

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

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

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

Table 19 provides information on how the assets are split between categories QMP/QMPS and AVM for the purposes of the Solvency II valuation. Technical provisions and those classes of assets and liabilities where the carrying value is considered 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 19 – Solvency II assets split between QMP and AVM

MSEK Type of assets	AVM	QMP/QMPS	Total
Government Bonds	-	8,402	8,402
Corporate Bonds	-	82,337	82,337
Derivatives	-	94	94
Equities	8	7,842	7,850
Investment Funds	194	3,517	3,711
Property	122	-	122
Total	324	102,192	102,516

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

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

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

Property. The value of If's property corresponds to the net realizable value and is set annually by external surveyors using the local sales-price method or cash flow models. Please also refer to section 4.1.4.1.

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. 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. Leasing assets and leasing liabilities are neither recognised in the balance sheet of the statutory accounts nor in the Solvency II balance sheet.

TABLE 20 – Operating leases

MSEK Asset class	Total future minimum lease payments			Total	Total lease payments during the period
	<1 year	1-5 years	>5 years		
Property, plant & equipment	256	766	360	1,382	298

4.5.2 Defined pension benefit plans

This section includes a breakdown of If's employee benefits in terms of defined benefit plans, in accordance with the guidelines on reporting and public disclosure. For further information see If's annual report, note 12.

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

TABLE 21 – Employee benefit obligations at 31 December 2018

MSEK	2018	2017
Present value of estimated pension obligation, including social costs	2,750	2,639
Fair value of plan assets	2,224	2,082
Net pension obligation recognised in the Solvency II balance sheet	526	558

The pensions obligations are primarily funded through insurance whereby the insurers establish the premiums and disburse the benefits (funded plans). In Norway, the funded pension obligations are insured with Storebrand. In Sweden, the pension obligations are mainly insured with Skandia, but a minor part is funded through the mutual pension association, FPK. If's obligation is primarily fulfilled through payment of premiums. In addition to funded pension plans, there are also unfunded pension benefits in Norway for which If is responsible for ongoing payment. To cover the funded pension benefits, the related

capital is managed as part of the insurers' management portfolios. The insurers and If are jointly responsible for monitoring the pension plans, including investment decisions and contributions. The pension plans are essentially exposed to similar material risks regarding the final amount of the benefits, 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

TABLE 22 – Specification of employee benefit obligations by geographical area

MSEK	Sweden	Norway
Recognised in income statement and other comprehensive income		
Current service cost	-49	-18
Past service cost	-1	-
Interest expense on net pension liability	-4	-8
Total in income statement	-54	-26
Remeasurement of the net pension liability	92	-28
Total in comprehensive income statement	146	-2
Recognised in balance sheet		
Present value of estimated pension liability, including social costs	2,153	597
Fair value of plan assets	1,911	314
Net liability recognised in balance sheet	243	283
Distribution by asset class		
Debt instruments, level 1	44%	51%
Debt instruments, level 2	0%	13%
Equity instruments, level 1	23%	14%
Equity instruments, level 3	9%	2%
Property, level 3	11%	14%
Other, level 1	0%	6%
Other, level 2	6%	1%
Other, level 3	7%	0%

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

Actuarial assumptions 2018	Sweden	Norway
Discount rate	2.50%	2.75%
Future salary increases	2.75%	3.00%
Price inflation	2.00%	2.00%
Mortality table	FFFS 2007:31 +1 year K2013	
Average duration of pension liabilities	21 years	12 years
Expected contributions to the defined benefit plans during 2019 and 2018	89 MSEK	19 MSEK

TABLE 24 – Sensitivity analysis of effect of reasonably possible changes

MSEK	2018			2017		
	Sweden	Norway	Total	Sweden	Norway	Total
Discount rate, +0.50%	-260	-37	-297	-233	-45	-278
Discount rate, -0.50%	300	41	341	268	51	319
Future salary increases, +0.25%	77	4	81	73	5	79
Future salary increases, -0.25%	-70	-4	-74	-68	-5	-73
Expected longevity, +1 year	92	14	106	77	17	95

TABLE 25 – Analysis of the employee benefit obligation

MSEK	2018			2017		
	Funded plans	Unfunded plans	Total	Funded plans	Unfunded plans	Total
Present value of estimated pension liability, including social costs	2,458	292	2,750	2,357	283	2,639
Fair value of plan assets	2,224	-	2,224	2,082	-	2,082

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;
- Ensuring dividend capacity through the effective use of reinsurance, group synergies and diversification benefits; and
- Performance of stress and scenario tests to evaluate risk sensitivities and to evaluate the future capital situation.

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

If's risks are measured, reported and aggregated in order to perform an overall assessment of risk and capital. The outcome of these procedures and the subsequent follow up 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 Swedish FSA.

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 capital management plan covers three years and considers any planned capital issuances, redemptions or repayments of own funds items as well as outlines how the dividend forecast will affect own funds.

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

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

5.1.1.2 Capital adequacy measures

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

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

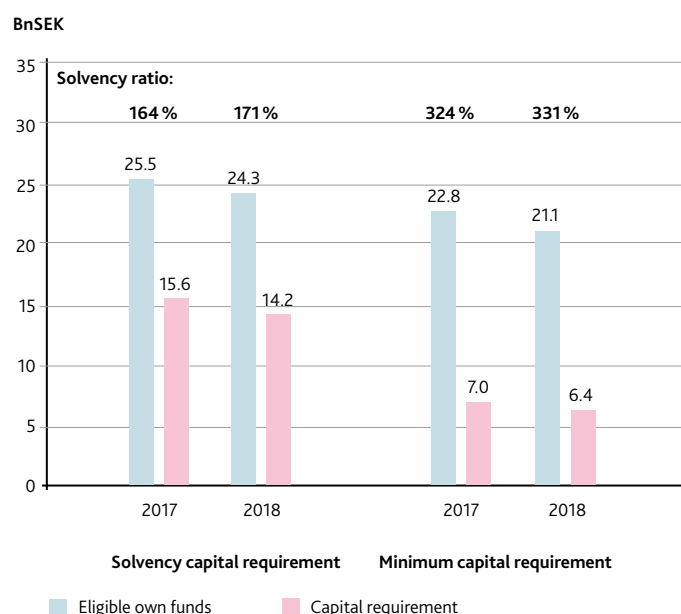
5.1.2 If's own funds and solvency position

At 31 December 2018, If had a solvency ratio to meet the solvency capital requirement of 171% (164%) and a solvency ratio to meet the minimum capital requirement of 331% (324%). Transitional equity measures are applied.

As shown in Figure 19 the solvency capital requirement has decreased relatively more than own funds, which explains the improved solvency ratio. The capital requirement has decreased as a result of the insurance risk in former If Finland being included in If's partial internal model from Q1 2018 and due to lower market risk.

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's capital and solvency overview



5.1.2.1 Change in own funds over the reporting period

Total eligible own funds for the solvency capital requirement coverage have decreased by 1,243 MSEK over the reporting period. There have been no own funds items issued or redeemed over the reporting period.

TABLE 26 – Changes in own funds

MSEK	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Eligible own funds for solvency capital requirement coverage at 1 January 2018	25,512	21,349	-	4,163	-
Net result, statutory accounts	6,132	6,132	-	-	-
Total comprehensive income, statutory accounts	-2,373	-2,373	-	-	-
Change in own funds items not included in equity in the statutory accounts	133	9	-	124	-
Change in Solvency II valuation adjustments in excess of assets over liabilities	1,077	1,063	-	14	-
Change in adjustment for subordinated liabilities	-11	-	-	-11	-
Norwegian Natural Perils Capital, taxed part	0	-129	-	129	-
Proposed dividend	-6,200	-6,200	-	-	-
Eligible own funds for solvency capital requirement coverage at 31 December 2018	24,269	19,850	-	4,419	-

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

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

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

5.1.2.3 Tiering of basic own funds items

At 31 December 2018 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 19,746 MSEK (21,244 MSEK) at 31 December 2018. The reconciliation reserve consists of shareholders' equity and untaxed reserves (excluding ordinary share capital and Norwegian natural perils capital) according to the statutory accounts as well as Solvency II valuation adjustments. A proposed dividend of 6,200 MSEK (7,000 MSEK) has been deducted from the reconciliation

reserve. The reconciliation reserve meets the requirements for treatment as unrestricted Tier 1 Own Funds.

Through its Norwegian branch, If provides property insurance that also provides protection against perils caused by natural events. As a consequence, the branch is a member of the Norwegian Natural Peril's Pool and is obliged to make equity provisions in the form of natural perils capital. If's Norwegian natural perils capital of 3,214 MSEK (2,994 MSEK) is included as Tier 2 own funds and presented as other items approved by the Swedish FSA.

Other items included as Tier 2 own funds consist of If's subordinated debt of 1,205 MSEK (1,170 MSEK), nominal amount 110 MEUR. Increase in value is mainly due to exchange rate effect of 45 MSEK reduced by change in Solvency II valuation adjustment of 11 MSEK. The 110 MEUR debt is dated with a final maturity in 2041. The 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 debt on the first call option date or on any quarterly interest payment date falling after 8 December 2021.

TABLE 27 – The tiering of own funds

MSEK	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Ordinary share capital	104	104	-	-	-
Reconciliation reserve	19,746	19,746	-	-	-
Subordinated liabilities	1,205	-	-	1,205	-
Other own fund items approved by the Swedish FSA	3,214	-	-	3,214	-
Total eligible own funds, in QRT template 5.23.01.01	24,269	19,850	-	4,419	-

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

All items included in Tier 1 own funds items are undated and thus fulfil the permanence requirements. The 110 MEUR (nominal amount) subordinated liability in Tier 2 own funds is not undated, but given its final maturity in 2041, it is considered to be of sufficiently long duration. This could be compared to the weighted average duration of If's technical provisions of 6.7 years (6.5 years).

5.1.2.5 General eligibility limit application

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

TABLE 28 – Assessment of eligible own funds (including tiering)

MSEK	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Total eligible own funds to meet the solvency capital requirement	24,269	19,850	-	4,419	-
Total eligible own funds to meet the minimum capital requirement	21,129	19,850	-	1,278	-
Solvency capital requirement	14,205				
Solvency capital requirement ratio	171%				
Minimum capital requirement	6,392				
Minimum capital requirement ratio	331%				

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.02.01.02 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 29 – Shareholder's equity and untaxed reserves, excess of assets over liabilities and available basic own funds

MSEK	2018	2017
Ordinary share capital	104	104
Statutory reserve	388	388
Fund for costs of development	209	104
Fair value reserve	2,423	5,070
Retained earnings and net income for the year	15,815	16,514
Untaxed reserves	7,043	6,957
Total equity and untaxed reserves statutory accounts	25,983	29,137
Adjustments for Solvency II valuation		
Eliminations for goodwill and intangible assets	-282	-489
Changes in deferred taxes	-910	-629
Changes in net technical provisions	4,871	3,814
Changes in pension benefit obligations	-371	-402
Valuation of property at fair value	50	0
Changes in valuation of subordinated liabilities	-76	-88
Sum of all reconciling movements, due to differences in valuation	3,282	2,205
Excess of assets over liabilities, Solvency II balance sheet template	29,264	31,342
Subordinated liabilities in basic own funds	1,205	1,170
Proposed dividend	-6,200	-7,000
Total available basic own funds, reported in the own funds template	24,269	25,512

To arrive at If's solvency capital requirement a tax adjustment is subtracted from the pre-tax solvency capital requirement figure, representing the loss absorbing capacity of deferred taxes. 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 solvency capital requirement tax computation is adjusted to take account of these reserves absorbing losses primarily on a pre-tax basis. This affects the tax computation, since If's calculation of the loss absorbing capacity of deferred taxes only takes account of the solvency capital requirement pre-tax which exceeds the untaxed reserves. The minimum capital requirement 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 solvency capital requirement; and
- 3.7 MEUR, which is the applicable absolute floor for If.

The minimum capital requirement at 31 December 2018 corresponds to the upper limit of the minimum capital requirement (6,392 MSEK, or 45% of the solvency capital requirement).

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

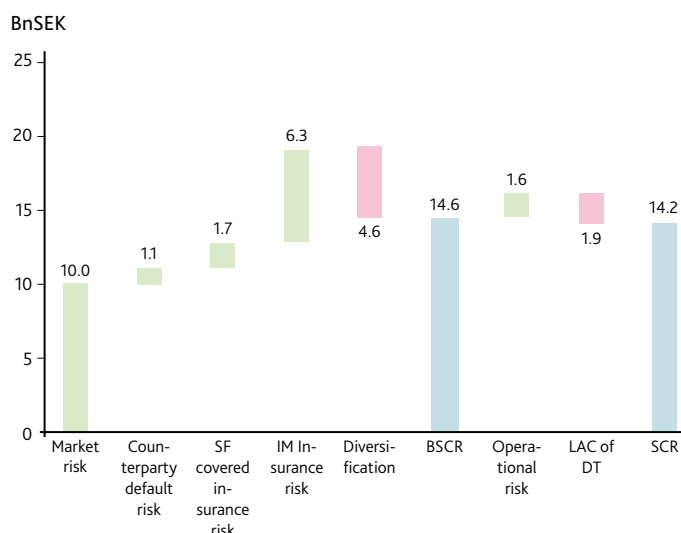
5.2 Solvency Capital Requirement and Minimum Capital Requirement

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

5.2.1 Overview of If's regulatory capital adequacy requirements

Figure 20 summarizes If's solvency capital requirement based on the partial internal model.

FIGURE 20 – Solvency capital requirement



Aside from underwriting risk, market risk is predominant in If's calculation of the basic solvency capital requirement. 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.

At 31 December 2018 If had, based on the partial internal model (with transitional equity measures), a solvency capital requirement ratio of 171%, and a minimum capital requirement ratio of 331%.

During the year the solvency capital requirement has decreased from 15,923 MSEK to 14,205 MSEK, mainly driven by the approval of the application to extend the scope of the partial internal model to include If Finland's operations (merged into the company during 2017) in combination with a decrease in market risk. The minimum capital requirement has decreased from 7,017 MSEK to 6,392 MSEK during the year, driven by the decreased solvency capital requirement.

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

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

5.4 Differences between the standard formula and the internal model

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

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

- Calculation of economic capital and solvency capital requirement;
- Capital allocation to lines of business and calculation of risk-based combined ratio targets;
- Evaluation of reinsurance program structures; and
- Risk and solvency assessment over the planning 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, and revision risk of annuities. These are instead calculated with the Solvency II standard formula. The result from the standard formula and the internal model are aggregated to obtain the final solvency capital requirement.

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 capital requirement is Value-at-Risk at the 99.5% percentile of the change in own funds. As the internal model is based on simulations it provides a full distribution of outcomes, and If is therefore not limited to a specific risk

measure or confidence level. The main risk measures reported by the model are the solvency capital requirement and the economic capital.

The main driver of the differences between the results of the standard formula and the partial internal model is due to differences in the measurement of diversification effects in relation to underwriting risk. 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.

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

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

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

5.6 Any other information

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

APPENDIX

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

Measure	Own funds
<p>Economic Capital: Economic capital is based on Ifs internal model and is a risk measure used in both internal and external risk reporting and in decision-making.</p> <p>The economic capital is obtained by compiling underwriting risk and market risk according to the internal model, with the remaining risks calculated using the Solvency II standard formula. The internal model's part of the economic capital is defined as the difference between the expected result and the simulated result at the confidence level of 99.5% during a one-year time horizon ("1 in 200 years").</p>	<p>The eligible own funds for coverage of economic capital are based on the Solvency II balance sheet, but with the risk margin in Technical Provisions calculated on the basis of the economic capital and not on the regulatory solvency capital requirement.</p>
<p>Solvency capital requirement according to the partial internal model: The solvency capital requirement according to the partial internal model (with transitional equity measure) is obtained by compiling the underwriting risk according to If's internal model, with other risks calculated using the standard formula. The loss coverage capacity for deferred tax is considered. The purpose of the transitional equity measure is to smoothen the transition from Solvency I to Solvency II.</p> <p>The internal model's part of the partial internal model's solvency capital requirement is defined as the difference between the expected result and the simulated result at the confidence level of 99.5% during a one-year time horizon ("1 in 200 years").</p>	<p>The eligible own funds for coverage of the solvency capital requirement are based on the Solvency II balance sheet and with a risk margin calculated on the basis of the solvency capital requirement according to the partial internal model.</p>
<p>Minimum capital requirement: The level of the minimum capital requirement is linked to the solvency capital requirement as it should normally be 25-45% of the solvency capital requirement.</p>	<p>The eligible own funds for coverage of the minimum capital requirement are based on the Solvency II balance sheet as are also own funds for coverage of the solvency capital requirement. There are, however, additional restrictions on the inclusion of specific eligible own fund items.</p>

APPENDIX 2 – Quantitative reporting templates

The following reporting templates (QRTs) 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



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