ANNUAL REPORT 2018

If P&C Insurance Ltd, 516401-8102

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CONTENTS

The Board of Directors and the President of If P&C Insurance Ltd (publ), corporate registration number 516401-8102, hereby issue their Annual Report for the 2018 fiscal year.

ORGANIZATION

If P&C Insurance Ltd (publ) is a wholly owned subsidiary to If P&C Insurance Holding Ltd (publ), corporate reg. no. 556241-7559, whose headquarter is in Solna, Sweden. The consolidated accounts are prepared by If P&C Insurance Holding Ltd (publ). If P&C Insurance Holding Ltd (publ) is in turn a wholly owned subsidiary of Sampo plc, a Finnish listed company, whose registered office is in Helsinki.

If P&C Insurance Ltd conducts property and casualty insurance operations in Sweden and in Norway, Denmark, Finland, Estonia and Latvia via branches. In addition, If has branch offices in France, the Netherlands, the United Kingdom and Germany for customers that conduct international operations.

The insurance operation in the Nordic region is organizationally divided in accordance with customer segment into the business areas Private, Commercial and Industrial. Support functions such as IT, Human Resources, Communication, Risk Management and Finance are organized as a support to the business.

RESULT FROM OPERATION

On October 1, 2017, the sister company If P&C Insurance Company Ltd (Finland) was merged with If P&C Insurance Ltd (publ), at which point the assets and liabilities in the Finnish company were allocated to If P&C Insurance's existing Finnish branch. The Finnish company's operations up until the merger date were not included in the 2017 income statement for If P&C Insurance Ltd. Therefore, the merger affects most of the figures compared with last year.

RESULTS

The result before income taxes was MSEK 7,888 (8,780). The technical result of property and casualty insurance operations amounted to MSEK 6,115 (5,254).

PREMIUMS WRITTEN

Gross written premiums for the year amounted to MSEK 44,141 (34,119). Adjusted for exchange-rate effects, the underlying increase in premium volumes was 26.4%. The increase was mainly in the Commercial and Industrial business area.

CLAIMS INCURRED AND OPERATING EXPENSES

Net claims incurred amounted to MSEK 29,322 (22,423), which corresponded to a claims ratio of 69.5% (68.0).

Operating expenses in the insurance operation totaled to MSEK 6,818 (5,400). The expense ratio was stable compared to the preceding year and amounted to 16.2% (16.4)

The combined ratio amounted to 85.7% (84.4).

INVESTMENT RESULT

At full market value, profit from asset management decreased to MSEK -823 (2,387), corresponding to a total return of -0.8% (3.1).

Net investment return amounted to MSEK 2,590 (1,748) in the income statement and MSEK -3,413 (639) in other comprehensive income.

Year 2018 was an eventful year on the financial markets across the world. It started off with the same momentum as the previous year, but as we entered February the volatility increased significantly. Then the markets calmed down even though the US increased its interest rate several times and a global trade war was still escalating. At the end of the summer the selloff accelerated in number of emerging markets at the same time as both the US and the Swedish stock markets reached new all-time highs.

As we entered October markets were in for a reality check that started a downward trend, which continued until the year end. This was due to the ongoing trade war and a continuation of increased interest rates in the US at the same time as the market started to incorporate a higher likelihood of a recession in the US by 2020. To summarize, the last quarter of the year resulted in an overall bad year for equities, but also interest-bearing assets due to widened credit spreads and a continued low interest rate environment in Europe.

Interest-bearing assets returned 1.1% (2.3%) for the year. The continued low interest rate environment in Europe and higher credit spreads especially during the fourth quarter , made the return lower for the year. The duration of the interest-bearing assets was unchanged at 1.4 (1.4) at the end of the year.

The total return on equities was negative for the year, -10,4% compared to 9,2% the year before.

The strongest contributors to the negative return were the East Asian and European stock markets.

Alternative Investments constitute only a very small part of total investment assets but showed positive returns for the year.

Returns for interest-bearing assets were almost in line with their benchmark indices while equities underperformed theirs.

If's investment assets are mainly managed by the asset management unit within the Group's Parent Company, Sampo.

NET PROFIT AND TAX COSTS

Net profit was MSEK 6,132 (6,880). The effective tax rate for the year was 22.3% (21.7). Of total taxes, current tax expenses amounted to MSEK 1,781 (1,877) and deferred tax income was MSEK 24 MSEK (expense 24).

SOLVENCY CAPITAL, CASH FLOW AND DIVIDEND

The solvency ratio declined to 64.4% (95.0). Solvency capital decreased to MSEK 27,290 (31,062). Cash flow from operating activities amounted to MSEK 5,824 (5,714) and cash flow from investing activities amounted to MSEK 50 (-). A total dividend of MSEK 7,000 (4,200) was paid. As presented in the proposed appropriation of the company's unrestricted funds in Note 42, it is proposed that the 2019 Annual General Meeting decides to distribute a dividend of MSEK 6,200.

TECHNICAL PROVISIONS (RESERVES)

Gross provisions at year-end increased to MSEK 89,654 (88,150).

Currency effects arising from the conversion of provisions in foreign currencies increased the provisions by MSEK 2,461. After adjustments for exchange-rate effects the premium reserve increased by MSEK 186 and the claims reserve decreased by MSEK 1,143.

Reinsurers' share of technical provisions was in line with the preceding year and amounted to MSEK 2,105 (2,112). After adjustments for exchange-rate effects, reinsurers' share of technical provisions decreased by MSEK 148.

CORPORATE GOVERNANCE STATEMENT

The company is not listed, and does not comply with the Swedish Code of Corporate Governance. However, the company has subordinated loans listed for trading on the

Luxembourg Stock Exchange (BdL Market). According to the Annual Accounts Act (1995:1560), for insurance companies, there are requirements stipulating that such insurance companies shall submit a limited Corporate Governance Statement. The company has decided to allow the Corporate Governance Statement to be part of the Board of Directors' Report.

As mentioned above, the company is a wholly owned subsidiary of If P&C Insurance Holding Ltd (publ), which in turn is a wholly owned subsidiary of the listed Finnish company, Sampo plc. The shareholder's right to participate in company decisions is exercised at the Annual Meeting and at Extraordinary General Meetings.

The Articles of Association, which is the fundamental control document for the company, states, inter alia, the object of the company's operation, the size of the share capital, the number of members of the Board of Directors and the period for such assignments, auditors, matters that shall be addressed at the Annual General Meeting and how notice convening the General Meetings shall be sent out. According to the Articles of Association, the Board of Directors shall comprise of not less than three and not more than nine elected members, and the election shall apply for the period ending at the next Annual General Meeting. The Articles of Association contains no stipulations pertaining to amendments of the Articles of Association. The company's Articles of Association states that when voting at General Meetings, each share shall carry one vote and that the shareholder or shareholder's representative is entitled to vote for the full number of shares represented, with no restrictions on voting entitlement.

No General Meeting has granted any authorization to the Board of Directors to make decisions that the company shall issue new shares or acquire own shares.

The Board of Directors and the President of the company are ultimately responsible for all financial reporting. The central finance and accounting department is responsible in part for control systems, control, accounting and reporting in accordance with generally accepted accounting principles, and in part for liquidity, funding and capital.

The Internal Audit performs independently, on behalf of the Board of Directors, audit reviews of the company's operations and system for internal control according to an annually established plan. The head of the internal audit reports directly to the company's Board of Directors.

The Compliance function provides advice to management and the business operations on issues pertaining to regulatory compliance. The Compliance function also monitors the internal processes for regulatory compliance with reference to the operations requiring licenses. The Compliance function reports to the Board of Directors and the President of the company.

On behalf of the Chief Risk Officer (CRO) the Risk Control unit within Risk Management is responsible for the collective internal reporting of all of the company's significant risks at an aggregated level. The responsibility includes underwriting, market, credit, operational, asset and liability management, liquidity and concentration risk. The CRO reports to the If ORSA Committee and the Board of Directors. In addition, the company has a comprehensive system for monitoring risks in the business operations, as described in the section on Objectives and Policies for Financial Risk Management.

SUSTAINABILITY REPORT

The Parent Company If P&C Insurance Holding Ltd (publ), corporate reg. no. 556241-7559, whose headquarter is in Solna, has prepared a sustainability report named If Sustainability Report 2018. It covers the parent company and its subsidiaries and is available on the website https://www.if.se. If Skadeförsäkring AB (publ) has therefore chosen not to prepare its own sustainability report.

OBJECTIVES AND POLICIES FOR FINANCIAL RISK MANAGEMENT

The core of the company's insurance operations is the transfer of risk from the insured clients to the insurer. If's result depends on both the underwriting result and the return on investment assets.

The main objectives of If's risk management are to ensure that sufficient return is obtained for the risks taken and that risks are taken into account in pricing decisions and other business decisions.

This requires risks to be properly identified and monitored. The risks, exposures and risk management are described in Note 5.

SOLVENCY II

If P&C Insurance Ltd (publ) uses an approved partial internal model (PIM) to calculate the solvency capital requirement (SCR) for the majority of the insurance risks while other risks are calculated using the standard formula.

As per December 31, 2018, the SCR amounted to MSEK 14,205 (MSEK 15,593) and the eligible own funds amounted to MSEK 24,269 (MSEK 25,512).

PERSONNEL

During the year the number of employees increased and amounted to 6,006 (5,614) at year-end. The average number of employees during the year was 5,932 (4,343), of whom 54% (46) were women.

The principles applied for determining remunerations and benefits for key management personnel are presented in Note 12.

APPLIED ACCOUNTING POLICIES

If P&C Insurance Ltd applies to the extent possible accounting policies that comply with International Financial Reporting Standards (IFRS) as adopted by the EU, known as IFRS restricted by law. For the 2018 fiscal year, there were no new or amended standards that caused any for If's accounting significant changes or new requirements.

EVENTS AFTER THE BALANCE SHEET DAY

Ricard Wennerklint resigned as President on February 7, 2019 and at the same time Torbjörn Magnusson resigned as Chairman of the Board. On the same day, Måns Edsman was appointed new President and Morten Thorsrud was elected as new Chairman of the Board.

OUTLOOK

The development of the global economy in 2019 is difficult to predict. Despite increased competition in the market, the underlying profitability of the insurance operation is expected to remain on a good level. Precision in the pricing of new insurance contracts is a success factor, at the same time as efficiency-enhancement work is important in order to maintain sustainable profitability.

Five-year summary

MSEK	2018	2017	2016	2015	2014
Condensed income statement					
Premiums written, net of reinsurance	42,353	32,700	30,049	29,965	30,031
Premiums earned, net of reinsurance	42,172	32,977	29,770	29,702	29,840
Allocated investment return transferred from the non-technical account	128	179	224	435	567
Other technical income	373	248	197	210	180
Claims incurred, net of reinsurance	-29,322	-22,423	-20,569	-21,243	-21,230
Of which, Claims-adjustment costs	*-2,431*	*-1,932*	*-1,709*	*-1,783*	*-1,810*
Operating expenses in insurance operations, net of reinsurance	-6,818	-5,400	-4,953	-5,028	-4,999
Other operating expenses/Other technical expenses	-418	-326	-263	-218	-191
Technical result from property and casualty insurance	**6,115**	**5,254**	**4,406**	**3,858**	**4,167**
Investment return	2,590	1,748	1,479	2,550	2,900
Allocated investment return transferred to the technical account	-448	-327	-238	-477	-622
Interest expense, subordinated debt	-69	-65	-64	-95	-130
Amortization goodwill	-288	-277	-273	-281	-292
Income from associates	38	-	-	-	-
Result before income taxes and appropriations	**7,938**	**6,334**	**5,310**	**5,555**	**6,023**
Untaxed reserves	-	2,495	-	-	-
Group contribution	-50	-48	-10	-	-
Result before income taxes	**7,888**	**8,780**	**5,300**	**5,555**	**6,023**
Income taxes	-1,757	-1,901	-1,181	-1,237	-1,337
Net profit for the year	**6,132**	**6,880**	**4,119**	**4,318**	**4,686**
Balance sheet, December 31					
Assets					
Intangible assets	282	489	720	934	1,308
Investment assets	102,990	104,818	77,274	69,999	72,523
Reinsurers' share of technical provisions	2,105	2,112	2,121	2,092	2,093
Debtors	16,080	14,960	11,109	9,461	9,475
Other assets, prepayments and accrued income	3,849	4,747	2,429	2,163	2,857
Total assets	**125,306**	**127,125**	**93,653**	**84,649**	**88,256**
Shareholders' equity, provisions and liabilities					
Shareholders' equity	18,939	22,180	14,384	9,180	10,483
Untaxed reserves	7,043	6,957	7,090	6,837	7,056
Subordinated debt	1,124	1,078	1,045	1,004	2,433
Deferred tax liability	184	847	707	545	928
Technical provisions	89,654	88,150	62,108	60,121	60,531
Creditors	6,256	5,589	6,472	4,991	4,601
Provisions, accruals and deferred income	2,105	2,324	1,847	1,971	2,224
Total shareholders' equity, provisions and liabilities	**125,306**	**127,125**	**93,653**	**84,649**	**88,256**
Key data, property and casualty operations					
Claims ratio	69.5%	68.0%	69.1%	71.5%	71.1%
Expense ratio	16.2%	16.4%	16.6%	16.9%	16.8%
Combined ratio	85.7%	84.4%	85.7%	88.4%	87.9%
Risk ratio [1)]	63.8%	62.1%	63.4%	65.5%	65.1%
Cost ratio [1)]	21.9%	22.2%	22.4%	22.9%	22.8%
Insurance margin [1)]	14.6%	16.2%	15.0%	13.0%	14.0%
Key data, asset management					
Total investment return [2)]	-0.8%	3.1%	3.3%	2.0%	4.5%
Capital strength according to Solvency I regulation					
Capital base [3) 4)]	-	-	-	16,491	14,663
Solvency requirement [4)]	-	-	-	5,058	4,949
Capital strength according to Solvency II regulation [5)]					
Own Funds (capital base)	24,269	25,512	19,881	-	-
- basic own funds	24,269	25,512	19,881	-	-
- ancillary own funds	-	-	-	-	-
Solvency Capital Requirement (SCR)	14,205	15,593	11,717	-	-
Eligible own funds to cover the minimum capital requirement	21,129	22,752	16,697	-	-
Minimum capital requirement (MCR)	6,392	7,017	5,273	-	-
Other key data					
Solvency capital	27,290	31,062	23,226	17,566	20,900
Solvency ratio	64.4%	95.0%	77.3%	58.6%	69.6%

[1)] Refers to alternative performance measurements which are defined in Glossary and definitions. [2)] Calculations are made in accordance with the policies used internally within If for the valuation of asset management. [3)] Calculations are made taking the proposed dividend into account. [4)] Calculations are made in accordance with the Solvency I-regulation that ended January 1, 2016. [5)] The calculations were based on the Solvency II-regulation, which applies from January 1, 2016.

INCOME STATEMENT

MSEK	Note	2018	2017
TECHNICAL ACCOUNT OF PROPERTY AND CASUALTY INSURANCE			
Premiums earned, net of reinsurance			
Premiums written, gross	7	44,141	34,119
Premiums ceded	7	-1,788	-1,419
Change in provision for unearned premiums and unexpired risks		- 186	327
Reinsurers' share of change in provision for unearned premiums and unexpired risks		4	-51
		42,172	**32,977**
Allocated investment return transferred from the non-technical account	8	128	179
Other technical income		373	248
Claims incurred, net of reinsurance			
Claims paid			
Gross		-31,228	-24,652
Reinsurers' share		596	830
Change in provision for claims outstanding			
Gross		1,463	1,483
Reinsurers' share		- 152	-84
	9	**-29,322**	**-22,423**
Operating expenses			
Operating expenses in insurance operations, net of reinsurance			
Gross		-6,941	-5,501
Commission and profit participation in ceded reinsurance		123	101
		-6,818	**-5,400**
Other operating expenses/Other technical expenses		- 418	-326
	10,11,12,13	**-7,236**	**-5,726**
Technical result from property and casualty insurance	14	**6,115**	**5,254**
NON-TECHNICAL-ACCOUNT			
Investment result			
Investment income		3,535	2,854
Unrealized gains on investment assets		155	2
Investment charges		- 695	-374
Unrealized losses on investment assets		- 405	-734
	15	**2,590**	**1,748**
Allocated investment return transferred to the technical account	8	-448	-327
Interest expense, subordinated debt	16	-69	-65
Amortization, goodwill	17	-288	-277
Result from associated companies		*38*	-
Result before income taxes and appropriations		**7,938**	**6,334**
Appropriations			
Change in untaxed reserves		-	2,495
Group contribution		-50	-48
		-50	**2,447**
Result before income taxes		**7,888**	**8,780**
Tax	18	-1,757	-1,901
Net profit for the year		**6,132**	**6,880**

STATEMENT OF COMPREHENSIVE INCOME

MSEK	Note	2018	2017
Net profit for the year		**6,132**	**6,880**
Other comprehensive income			
Items that will be reclassified subsequently to profit and loss when specific conditions are met			
Effects of changes in exchange rates, foreign operations		362	74
Remeasuring of financial assets, available for sale		-2,357	1,098
Value changes recognized in income statement on AFS assets		-1,056	-459
Taxes related to items which will be reclassified when specific conditions are met	18	678	-269
		-2,373	**445**
Total comprehensive income		**3,759**	**7,325**

BALANCE SHEET

Assets, December 31

MSEK	Note	2018	2017
Intangible assets			
Goodwill		52	312
Other intangible assets		230	177
	19	**282**	**489**
Investment assets			
Land and buildings	20	44	122
Investments in associates		-	11
Other financial investment assets	21, 23	102,939	104,679
Deposits with ceding undertakings		7	7
	22	**102,990**	**104,818**
Reinsurers' share of technical provisions			
Provisions for unearned premiums and unexpired risks		425	386
Provisions for claims outstanding		1,679	1,726
	24	**2,105**	**2,112**
Debtors			
Debtors arising out of direct insurance operations	25	13,078	11,713
Debtors arising out of reinsurance operations	26	456	465
Other debtors	27	2,546	2,781
		16,080	**14,960**
Other assets			
Tangible assets	28	185	167
Cash and bank balances		1,396	2,347
Collaterals and settlement claims		66	54
		1,648	**2,567**
Prepayments and accrued income			
Accrued interest and rental income		452	456
Deferred acquisition costs	29	1,156	1,137
Other prepayments and accrued income	30	593	587
		2,201	**2,180**
Total assets		**125,306**	**127,125**

Shareholders equity, provisions and liabilities, December 31

MSEK	Note	2018	2017
Shareholders' equity			
Share capital		104	104
Statutory reserve		388	388
Fund for costs of development		209	104
Fair value reserve		2,423	5,070
Profit brought forward		9,683	9,634
Net profit for the year		6,132	6,880
		18,939	**22,180**
Untaxed reserves	31	**7,043**	**6,957**
Subordinated debt	32	**1,124**	**1,078**
Technical provisions (gross)			
Provisions for unearned premiums and unexpired risks		20,203	19,355
Provisions for claims outstanding		69,452	68,795
	33	**89,654**	**88,150**
Provisions for other risks and charges			
Deferred tax liability	34	184	847
Other provisions	35	432	604
		616	**1,451**
Deposits received from reinsurers		-	-
Creditors			
Creditors arising out of direct insurance operations	36	1,812	1,795
Creditors arising out of reinsurance operations		237	232
Derivatives	21, 22, 23	45	107
Other creditors	37	4,162	3,455
		6,256	**5,589**
Accruals and deferred income			
Reinsurers' share of deferred acquisition costs		32	29
Other accruals and deferred income	38	1,642	1,692
		1,673	**1,720**
Total shareholders' equity, provisions and liabilities		**125,306**	**127,125**

CHANGES IN SHAREHOLDERS' EQUITY

MSEK	Restricted equity				Unrestricted equity		
	Share capital	Statutory reserve	Fund for costs of development	Fair value reserve [1]	Profit brought forward	Net profit for the year	Total equity
Equity at beginning of 2017	**104**	**388**	**14**	**3,980**	**9,898**	**-**	**14,384**
Addition due to legal merger	-	-	18	589	4,065	-	4,672
Total comprehensive income	-	-	-	501	-56	6,880	7,325
Dividend	-	-	-	-	-4,200	-	-4,200
Transfer between restricted and unrestricted equity	-	-	72	-	-72	-	-
Equity at end of 2017	**104**	**388**	**104**	**5,070**	**9,634**	**6,880**	**22,180**
Equity at beginning of 2018	**104**	**388**	**104**	**5,070**	**16,514**	**-**	**22,180**
Total comprehensive income	-	-	-	-2,647	274	6,132	3,759
Dividend	-	-	-	-	-7,000	-	-7,000
Transfer between restricted and unrestricted equity	-	-	105	-	-105	-	-
Equity at end of 2018	**104**	**388**	**209**	**2,423**	**9,683**	**6,132**	**18,939**

[1] The fair value reserve correspond in full to value changes of financial assets available for sale with deduction for deferred tax.

The share capital comprises 1,044,306 shares with a quotient value of SEK 100 each.
The accumulated translation difference corresponded to MSEK 10 (-352).

CASH FLOW STATEMENT

MSEK	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES		
Cash flow from insurance operations		
Premium flows, direct insurance	44,489	33,987
Claim payments, direct insurance	-31,118	-24,524
Reinsurance	-1,221	-595
Costs of operations	-7,285	-5,341
	4,864	**3,527**
Cash flow from asset management		
Interest payment received	1,492	1,276
Dividends received, shares	488	366
Cash flow from properties	0	2
Net investments in financial investment assets	1,606	1,320
	3,586	**2,963**
Interest payment, subordinated debt	-68	-66
Realized foreign exchange transactions	-471	263
Group internal flows, net [1)]	222	-2,634
Addition due to legal merger	-	3,695
Paid income tax	-2,309	-2,034
	5,824	**5,714**
CASH FLOW FROM INVESTING ACTIVITIES	50	-
Dividend and sale of shares, associates	**50**	**-**
CASH FLOW FROM FINANCING ACTIVITIES		
Dividend paid	-7,000	-4,200
	-7,000	**-4,200**
Cash flow for the year	**-1,125**	**1,514**
Cash and bank		
Cash and bank balances on January 1	2,347	742
Effect of exchange rate changes	174	91
Cash flow during the period	-1,125	1,514
Cash and bank balances on December 31	**1,396**	**2,347**

NOTES

NOTE 1 – ACCOUNTING POLICIES

COMPANY INFORMATION

This annual report for If P&C Insurance Ltd was prepared and authorized for publication by the Board of Directors and President on February 25, 2019 and will be presented to the 2019 Annual Meeting for approval. The company is a Swedish public company with its registered office in Stockholm and its headquarters in Solna, Sweden.

The Company's primary operations are described in the Report of the Board of Directors.

STATEMENT OF COMPLIANCE WITH REGULATIONS APPLIED

The annual report for If P&C Insurance Ltd was prepared in accordance with the Swedish Annual Accounts Act for Insurance Companies (ÅRFL) and the Swedish Financial Supervisory Authority's regulations and general recommendations on Annual Accounts in Insurance Companies (FFFS 2015:12). In accordance with the Swedish Financial Supervisory Authority´s general recommendations, generally accepted international accounting standards and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for legal entities are applied to the extent that these do not contravene the law or other statutes or the said regulations and general recommendations.

In accordance with Chapter 2 of the Swedish Annual Accounts Act (ÅRL) and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, it is possible to depart from the aforementioned regulations if the effect of the departure is immaterial.

IFRS 15 Revenue from Contracts with Customers took effect on January 1, 2018. For If, the standard applies to revenue in the insurance operations other than revenue involving a transfer of insurance risk. Such revenue is recognized as Other technical income in the income statement and comprises an insignificant share of If's overall operations and result. The application of IFRS 15 did not have any material impact on If's financial position or result.

IFRS 16 Leases took effect on January 1, 2019, but in accordance with RFR 2 Accounting for legal entities, the standard will not be applied to the financial statements for If P&C Insurance Ltd. The company will continue not to recognize a right-of-use asset or lease liability in the balance sheet, but rather will recognize all lease payments as an expense in the income statement.

Issued, but not yet effective, international accounting standards or standards that If for some other reason does not apply, are currently assessed as not likely to have any significant impact on the financial statements when first applied, except IFRS 9 Financial Instruments and IFRS 17 Insurance Contracts.

IFRS 9 Financial Instruments took effect on January 1, 2018. In accordance with an EU-adopted amendment to IFRS 4 Insurance Contracts, the IASB has decided that, under certain circumstances, insurance companies may delay their initial application of IFRS 9 so that the date coincides with the initial application of IFRS 17 Insurance Contracts (see below). If meets these requirements since If has not previously applied IFRS 9 and the carrying amount of the insurance-related liabilities accounts for more than 90% of the carrying amount of the total liabilities. In light of this, If has decided to delay the application of IFRS 9. Accordingly, the transition from IAS 39 to IFRS 9 is not expected to have any significant impact on If's financial reporting until 2022. However, expanded disclosure requirements have been introduced for financial instruments, which will facilitate comparisons with companies that have already implemented IFRS 9. For more information, refer to Note 21 Other financial investment assets and derivative liabilities.

IFRS 9 contains some optionality, and If is of the opinion that there are significant cross-influences with respect to the published, but not yet adopted, standard concerning insurance contracts that still need to be carefully assessed before a final decision can be made as to the classification of financial assets.

IFRS 17 Insurance Contracts was published in May 2017 and was originally expected to take effect on January 1, 2021. The standard has not yet been adopted by the EU. In November 2018, the IASB proposed that the standard take effect one year later and that the initial mandatory application of IFRS 9 be delayed. IFRS 17 replaces IFRS 4 Insurance Contracts and, unlike its predecessor, contains a complete framework for the measurement and presentation of insurance contracts. Based on an initial, preliminary assessment, the measurement rules in the standard are expected to have a limited effect on If's profit or loss and balance sheet, while the presentation rules may have a material impact.

MEASUREMENT BASES FOR THE PREPARATION OF THE ACCOUNTS

The accounts are based on historical acquisition values with the exception of the totally dominant share of investment assets, which are recognized at fair value. The financial reports and notes are presented in SEK millions (MSEK), unless otherwise stated. The totals in tables and statements in the annual report may not always reconcile due to rounding. The aim is for each line item to correspond to the source and therefore rounding differences may arise in totals.

TRANSACTIONS, RECEIVABLES AND LIABILITIES IN FOREIGN CURRENCY AND TRANSLATION OF THE ACCOUNTS OF FOREIGN BRANCHES

If's Swedish operations report in SEK and foreign branches report in their respective functional currency, determined as the local currency in the country in which the branch is active. Income statement items in another currency then the functional currency (foreign currency) are translated to their respective presentation currency using the average exchange rate for the month during which they were reported, while assets and liabilities in foreign currency are translated at the closing date exchange rates. Any unrealized translation differences arising are reported net in the income statement as exchange-rate gains/losses under Investment result. Currency forward contracts used to hedge currency exposure in the balance sheet are fair valued and the effects are also reported in their entirety as exchange-rate gains/losses.

In the preparation of the annual report, translation from the presentation currencies of the branches into SEK is effected in line with IAS 21. Items in the balance sheets are translated using the exchange rate on the balance sheet date and items in the income statement are translated using the average exchange rates for the period in which the item arose.

The translation differences arising from the use of different exchange rates for items in the balance sheet and income statement, the fact that capital contributions and dividends are translated at different exchange rates than those prevailing on the transaction date and that shareholders' equity is translated at a different exchange rate at year-end than at the beginning of the year are reported in other comprehensive income.

For If's most significant currencies, the following exchange rates were used as of December 31 to translate balance sheet items in foreign currency to SEK:

	2018	2017
Danish kroner	1.37	1.32
Euro	10.25	9.84
Norwegian kroner	1.03	1.00
US dollars	8.96	8.21

POLICIES APPLYING TO ITEMS IN THE BALANCE SHEET

INTANGIBLE ASSETS INCLUDING GOODWILL

Intangible assets consist of externally acquired rights etc., internally developed intangible assets and goodwill. Intangible assets are valued at their acquisition value less deductions for accumulated amortization.

Internally developed intangible assets are measured at acquisition value, determined as the direct and indirect expenses for the development (programming and testing) of computer systems and so forth that are expected to provide financial benefits in the future. Only expenses linked to new development and major system changes are capitalized.

Rights and similar assets are amortized from the day they are valid. Capitalized development expenses are amortized from the date the asset is put into production. Amortization is applied over its estimated useful life. The useful life is determined individually by asset and for capitalized developments does not exceed 10 years.

An amount corresponding to the closing carrying amount for development expenses capitalized from 2016 is presented as a fund within restricted equity (Fund for costs of development).

The estimated useful life of goodwill in acquired companies and portfolios is generally 10 years. The goodwill associated with assets and liabilities resulting from the merger of Skandia's and Storebrand's property and casualty insurance portfolios is considered to have such a long-term value that the amortization period has been set at 20 years.

If there is any indication on the closing date that the carrying amount of an intangible asset is higher than its recoverable amount, a calculation is made of the asset's recoverable amount. The recoverable amount is the higher of the asset's net realizable value and its value in use. If the determined recoverable amount is less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount. If, subsequently, a higher recoverable amount can be set, a previous impairment may be reversed, but this does not apply to impairment of goodwill.

LAND AND BUILDINGS/INVESTMENT PROPERTIES

If reports all its owned properties as investment assets (investment properties), normally fair valued pursuant to IAS 40 and with changes in value reported in the income statement. One indirectly owned property that was added due to merger is reported at the carrying amount of the transferor company. The classification as investment properties complies with the company's basic approach to these assets. If has concluded that a separation of such owned properties, which according to IAS 40 represent owner-occupied properties, would have only an insignificant effect on the particular asset and profit/loss item. The fair value consists of the realizable value and is set annually by external surveyors using acknowledged and accepted valuation methods. Accepted methods consist of local sales-price method (current prices paid for comparable properties in the same location/area) or cash flow models applying current market interest rates for the calculation of the present value of the property. Since valuation is effected at fair value, properties are not depreciated.

VALUATION OF OTHER INVESTMENTS ASSETS

Financial investment assets are reported in the original currency and at fair value with – as a main principle – changes in value recognized in other comprehensive income until being realized. The presentation below describes the detailed valuation for each type of asset.

The purchase and sale of money market and capital market instruments on the spot market as well as derivative transactions are reported in the balance sheet on the transaction date. The counterparty's liability/receivable is reported between the transaction date and payment date in a gross amount under the item Other assets or Other creditors.

SHARES

Shares are fair valued. For shares listed on an authorized 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.

INTEREST-BEARING SECURITIES

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

DERIVATIVES

All derivative instruments are fair valued and are valued individually. Derivative transactions with a positive market value on the closing date are reported as Other financial investment assets and positions with a negative market value are reported on the liabilities side of the balance sheet under the heading Derivatives.

RECEIVABLES

Receivables are reported in the amount expected to be received.

Provisions for doubtful receivables are normally posted on the basis of individual valuations of the receivable. Receivables pertaining to standard products are valued through a standard computation based on reported losses during prior periods.

TANGIBLE ASSETS

Tangible assets consist of machinery and equipment and are initially valued at acquisition value. Acquisition value includes not only the purchase price but also expenses directly attributable to the acquisition. Machinery and equipment are reported at historical acquisition value, less accumulated depreciation. These deductions are based on historical acquisition value and the estimated useful life.

Acquisitions of assets financed through leasing agreements, but for which If is responsible for the financial risks and benefits associated with ownership (financial leasing), are recognized in the company as operating leases. IFRS 16 Leases took effect on January 1, 2019, but in accordance with RFR 2 Accounting for legal entities, the standard will not be applied to the financial statements for If P&C Insurance Ltd. The company will continue not to recognize a right-of-use asset or lease liability in the balance sheet, but rather will recognize all lease payments as an expense in the income statement.

Depreciation period	
Office equipment	3–10 years
Computer equipment	3–5 years
Vehicles	5 years
Other fixed assets	4–10 years

If there is any indication on the closing date that the carrying amount of a tangible asset is higher than its recoverable amount, a calculation is made of the asset's recoverable amount. Recoverable amount refers to the higher of the asset's net realizable value and its value in use. If the determined recoverable amount is less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount. If, subsequently, a higher recoverable amount can be set, a previous impairment may be reversed.

CASH AND BANK

In addition to small petty cash amounts, cash and bank consists of bank balances in insurance operations and funds transferred to asset management that have not been invested in investment assets.

DEFERRED ACQUISITION COSTS

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

SUBORDINATED DEBT

Issued subordinated loans are reported in their original currency at accrued acquisition value. 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, costs for 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.

TECHNICAL PROVISIONS

Technical provisions consist of:

- Provision for unearned premiums and unexpired risks; and
- Provision for claims outstanding.

The provisions correspond to the liabilities pursuant to current insurance contracts.

PROVISION FOR UNEARNED PREMIUMS AND UNEXPIRED RISKS

The provision for unearned premiums is intended to cover anticipated claims costs and operating expenses during the remaining term of insurance contracts in force.

In property and casualty insurance and reinsurance, the provision for unearned premiums is calculated on a strictly proportional basis over time for most products, i.e. calculated on a pro rata temporis basis.

In the event that premiums levels are deemed to be insufficient to cover anticipated claims costs and operating expenses, the provision for unearned premiums is required to be augmented by a provision for unexpired risks. Calculation of the provision for unexpired risks must also take into account premium installments not yet due.

PROVISION FOR CLAIMS OUTSTANDING

The provision for claims outstanding is intended to cover the anticipated future payments of all claims incurred, including claims not yet reported to the company (the IBNR provision). The provision for claims outstanding includes claim payments plus all costs of claim settlements.

The provision for claims outstanding in direct property and casualty insurance and reinsurance is calculated with the aid of statistical methods or through individual assessments of individual claims. Often a combination of the two methods is used, meaning large claims are assessed individually while small claims and claims incurred but not reported (the IBNR provision) are calculated using statistical methods. The provision for claims outstanding is not discounted, with the exception of provisions for vested annuities, which are discounted to present value using standard actuarial methods, taking anticipated inflation and mortality into account.

PENSION COSTS AND PENSION COMMITMENTS

The company´s pension obligations comprise pension plans in several national systems that are regulated through local collective bargaining agreements and social insurance laws and consist of both defined contribution and defined benefit pensions.

The reporting of pension costs and obligations mainly complies with the policies applied locally in each particular country. The reporting policies for pensions in Sweden, Denmark and Finland resemble each other, in that the pension cost consists of the premium paid for securing pension obligations via insurance in a life insurance company. In Norway, however, other policies apply, which essentially entail that the booked cost of defined benefit pensions is calculated on the basis of assumptions regarding pensionable income at the retirement age and also taking into account the financial consequences arising from the pension plan's assets and obligations. The rules and regulations for pension reporting in Norway are undergoing a gradual alignment to IFRS and, given such a situation, If has decided until further notice to apply unchanged policies for the presentation of Norwegian pensions in the company's financial statements.

POLICIES APPLYING TO ITEMS IN THE INCOME STATEMENT

In the income statement, there is a division into the result of insurance operations – the technical result – and the non-technical result, which is primarily attributable to asset management.

Items included in the technical result pertain overwhelmingly to the company´s operations as an insurer, that is, the transfer of insurance risk pursuant to the definition in IFRS 4, Insurance Contracts. Only contracts that do not cover a significant transfer of insurance risk are attributable to other operations and are reported pursuant to IFRS 15 Revenue from Contracts with Customers.

Reporting in the income statement complies with the principle for gross accounting of accepted and ceded insurance. Income statement items thus disclose the accounting effects of the underlying flow and the accrual of issued insurance contracts and the equivalent for reinsurance purchased.

PREMIUMS WRITTEN

The premium refers to the compensation that If receives from the policyholder in return for the transfer of risk. Premiums written are reported in the income statement at the inception of risk coverage in line with the insurance contract. When the contracted premium for the insurance period is divided into several amounts, the entire premium amount is still recognized at the beginning of the period.

PREMIUMS EARNED

Premiums earned are reported as the share of premiums written that is attributable to the accounting period. The share of premiums written from insurance contracts pertaining to periods after the closing date is allocated to the premium reserve in the balance sheet. The provision posted in the premium reserve is normally calculated by distributing premiums written strictly on the basis of the underlying term of the insurance contract. For certain insurance products – in particular those with terms longer than one year – the accrual is risk adjusted, i.e. in relation to expected claims.

ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT

The investment result is reported in the non-technical result. Part of the income is transferred from investment income to the technical result for insurance operations based on the net technical provisions. When calculating this income, interest rates corresponding to the discount rate in each country are used for annuities. For other technical provisions, interest rates are used that for each currency match the interest rate for government bonds with a maturity that approximates with the technical provisions. Negative interest rates are not used.

OTHER TECHNICAL INCOME

Other technical income consists of income in insurance operations that does not involve the transfer of insurance risk. Such income is primarily attributable to sales commission and services for administration, claims settlement, etc. in insurance contracts on behalf of other parties.

CLAIMS INCURRED

Total claims incurred for the accounting period cover claims payments during the period and changes in provisions for unsettled claims. In addition to claims payments, claims incurred also include claims-adjustment expenses. Provisions for unsettled claims are divided into reported and claims not yet reported to the company (IBNR).

OPERATING EXPENSES

Operating expenses reported in the technical result in the income statement are divided into expenses arising from the handling of insurance contracts that include the transfer of insurance risk, and costs for other technical operations and other technical costs. Administrative expenses refer to direct and indirect costs and are distributed among the following functions: Acquisition, Claims settlement, Administration, Asset Management and Other.

Claims settlement costs are included in the administrative expenses of insurance operations but are reported among claims incurred in the income statement.

In addition to administrative expenses, the operating expenses of insurance operations include acquisition costs and accrual of acquisition costs.

Recognized cost for the fee to Swedish Motor Insurers is included in other technical costs.

INVESTMENT RESULT

The investment result is distributed among four items in the income statement and specified in the disclosure notes. As a general rule, unrealized value changes are reported in Other comprehensive income until realized. Unrealized value changes constitute the difference between acquisition cost and fair value. At disposition, the unrealized changes in value are reversed so that the realized gains and losses comprise the difference between acquisition cost and sale price. The result also comprises impairment losses from Available-for-sale financial assets that were deemed necessary in accordance with the specific impairment requirements in IAS 39.

In line with these paragraphs, If has assessed whether there is any objective evidence that an asset is impaired. In this assessment, If has chosen to use, in respect of interesting-bearing securities, criteria related to issuer default. In respect of shares, the assessment is also conducted on an individual basis but generally all shares with a significant (>20%) and/or prolonged (12 months) decline in value in relation to the acquisition cost shall be impaired. For both asset categories, the carrying amount is reduced to current fair value. In the event of a subsequent recovery of a value decline, the recovery is presented as a reversed impairment loss in respect of interest-bearing securities but not in respect of shares.

TAXES

The company's tax expense is calculated in accordance with IAS 12 Income taxes. This entails calculation and recognition of both current and deferred tax.

Current tax is calculated individually for each branch in accordance with the tax rules in the country concerned. Current tax also includes non-deductible coupon taxes in respect of dividends received.

If's foreign branch offices are taxed on their results in the country concerned. In Sweden, the company is in principle liable for taxation on all income, including the reported results from the foreign branch offices.

In Sweden, taxable income is also impacted by translation differences pertaining to the net assets of branches, which are recognized in other comprehensive income in accordance with IAS 21. A complication in this context is that If has opted for centralized asset management, which give rise to considerable intra-company balance sheet items. In contrast to other assets and liabilities, the translation differences associated with these intra-company items are not taxable/deductible. As a result, the net impact on taxable income can be substantial and far exceed the recognized translation differences.

The liability that arises in the Swedish head office due to its centralized asset management is denominated in local currency and thus gives rise to currency effects on the intra-company items which, in accordance with IAS 21, are recognized in profit and loss. These effects are not taxable/deductible either and can thus also have a material impact on taxable income.

Because the two permanent tax effects arise simultaneously and display a strongly opposing correlation, relate to the same counter-party and are settled at the same time, the tax effects of the exchange-rate differences on the head office's internal liability are netted against the tax effects arising in conjunction with the translation of the balance sheet of branches. If thus recognizes all tax effects related to the above items net in other comprehensive income.

If the company pays tax in Sweden on its foreign income, with the aim of avoiding double taxation, a deduction for the taxes paid abroad is normally allowed.

Income taxes abroad are attributable to taxes on foreign branch office income and withholding taxes on the return on foreign investments assets.

In Sweden, the tax rate during the year was 22% of taxable income. In Norway, the tax rate was 25%, in Denmark 22% and in Finland 20%. In Sweden, the tax rate is to be reduced as of 2019 to 21.4% and as of 2021 to 20.6%. This has been taken into account when calculating deferred tax assets and liabilities as of December 31, 2018.

Deferred tax attributable to temporary differences between the amounts reported and the equivalent actual taxation is reported in the company's accounts. For income reported in the income statement for the period but which is not taxed until a later period, a deferred tax cost is charged, which results in a corresponding liability item, Deferred tax liabilities. Similarly, costs that will not result in tax deductions until a later period give rise to deferred tax revenue and a corresponding deferred tax asset. Deferred tax assets and liabilities are reported net in those cases where they pertain to the same tax authority and can be offset against each other. The tax effect of tax loss carry-forwards is reported as deferred tax assets if it is considered likely that they can be used to offset taxable profits in the future.

APPROPRIATIONS AND UNTAXED RESERVES

Tax legislation in Sweden allows companies to reduce their taxable income for a specific year by making appropriations to untaxed reserves. If reports provisions to a contingency reserve, which is a voluntary consolidation reserve whose maximum provision is regulated under guidelines issued by the Swedish Financial Supervisory Authority. Access to the reserve is restricted to loss coverage. Other utilization requires the approval of the regulatory authorities.

Changes in untaxed reserves are reported over the income statement, under Appropriations. The accumulated value of the provisions is reported under the heading Untaxed reserves.

In addition, paid and received Group contributions are recognized as an appropriation in the income statement.

POLICIES APPLYING TO ITEMS IN THE CASH FLOW STATEMENT

If defines cash and cash equivalents as the balance in ongoing transaction accounts in banks. Cash flow for the year thus consists of the net of inflows and outflows of cash and cash equivalents during the year, and, at the same time, settlement of the balance-sheet item Cash and bank balances is a reconciliation of the company's cash and cash equivalents.

In the income statement of a property and casualty insurance company, all premiums written are accrued over the contractual period. Claims provisions are continuously generated using statistical models for anticipated claims, and the actual claims reserves are made when the claims occur. The claim is finally settled through payment to the policyholder. The cash flow arising from an insurance contract and a claim thus differs considerably from the procedure for recognizing income. The link between the income statement and cash flow is recognized in the insurance business's balance sheet, where accrual items are recognized in technical provisions (premium and claims provisions) and in the receivables and liabilities that comprise outstanding items attributable to insurance contracts. In insurance companies with extensive operations, the law of large numbers means that the effects of the underlying differences between accounting and real cash flow are reduced considerably.

The cash flow statement shows separate items of the company's cash flow. The analysis has its foundation in the income statement items that are directly connected with external payment flows. These items are adjusted in the statement with the changes in the balance sheet during the period (counterparty receivables/assets) that are directly linked to the income statement items in question. The balance sheet items reported in the company comprise significant receivables/liabilities in foreign currency and are thus subject to continuous revaluation at the exchange rate prevailing at each closing date. In the cash flow statement, the effect of this recalculation is eliminated and the individual cash flows shown in the analysis are therefore not directly evident as differences in the balance sheets and notes presented in other parts of the annual report.

POLICIES APPLIED FOR ALTERNATIVE PERFORMANCE MEASURES

Key figures are financial measurements of the historical earnings trend and financial position. If presents a number of key figures, some of which are referred to as alternative performance measures and are not defined in applicable accounting standards (IFRS, ÅRFL, FFFS 2015:12 and FRL). Definitions of a number of key figures are provided in the Glossary and definitions, including a number that are marked as alternative performance measures.

Alternative performance measures are used in cases where If considers it relevant to monitor and describe the company's financial situation and to provide additional useful information to the users of its financial statements. In order to facilitate increased comparability, comments on changes in amounts and percentages between the current year and the preceding year are occasionally adjusted for the impact of changes in exchange rates, whereby amounts in foreign currency have been recalculated using the same exchange rates for the particular years.

Since these measures have been developed and adapted for If, they are not fully comparable with similar performance measures presented by other companies.

NOTE 2 – Significant considerations and assessments affecting the financial statements

Preparing financial statements requires that the Board and executive management make judgments and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, revenue and expenses. The judgments and assumptions are based on experience and insight into the insurance business. The actual outcome may deviate from these assessments.

Judgments made by the Board and executive management in the application of IFRS that have a significant effect on the financial statements for 2018 and assessments that may cause material adjustments in the financial statements in subsequent years are commented on below.

VALUATION OF INVESTMENT ASSETS

If has elected to apply a classification according to IAS 39 that means that almost all financial investment assets, apart from associates, are fair valued. Since the valuation of the assets is essentially based on observable market listings, the company believes that this accounting method offers a good presentation of the company's holdings of investments assets.

The main part of the financial assets that are not derivatives has been classified as available-for-sale financial assets. Value changes on these assets are therefore normally recognized in other comprehensive income until being realized, unless the application of the specific impairment paragraphs in IAS 39 require an impairment loss to be recognized in the income statement. In line with these paragraphs, If has assessed whether there is any objective evidence that an asset is impaired. The company's assessment affects the reported profit of the year but not shareholders' equity. The assessment criteria are presented in Note 1 (under the heading of Investment result). Additional information is provided in Notes 5, 15, 21 and 22.

TECHNICAL PROVISIONS

The provision for unsettled claims is designed to cover anticipated future payments for all claims incurred, including claims not yet reported to If, referred to as IBNR provision. The provision is calculated using statistical methods or through individual assessments of claims. These provisions are significant in an assessment of the company's reported results and financial position, since any deviation from actual future payments gives rise to a prior-year claims result reported in future years. Additional comments on provision risk are provided in Note 5 and an account of the company's prior-year claims results in recent years is available in Note 33.

The provision for unearned premiums and unexpired risk is designed to cover anticipated claims and operating expenses during the remaining term of the insurance contracts concluded. For most products, the provision is calculated strictly in proportion to time. If the premium level is deemed to be insufficient to cover the anticipated claims and operating expenses, the provision for unearned premiums is strengthened with a provision for unexpired risks. This assessment includes estimates of future claims frequency and other factors affecting the need for a provision for unexpired risk. This provision is also commented on in Note 5.

NOTE 3 – Reporting of the effects of changed exchange rates

In addition to the Nordic currencies, If underwrites insurance in the most frequently used international currencies. Moreover, asset management is characterized by a large degree of international diversification. Accordingly, assets and liabilities in currencies other than SEK account for considerable sums. According to If's Currency Policy, exchange-rate risks are to be limited by conducting specific hedging transactions when required. The Currency Policy set limits for currency exposure.

As a result of the large amount of foreign currency in business operations, financial reports in SEK are continuously impacted by effects attributable to exchange-rate changes. In the income statement, transactions in foreign currency are translated into SEK using the average exchange rate during the month when the transaction was incurred or reported. Normally, the accounting of insurance contracts matches the contracted currency. Accordingly exchange-rate effects that could have an impact on a specific reporting line in the income statement do not have a material impact on the technical result from property and causality insurance.

Balance sheet items established in foreign currency are translated to SEK using the exchange rate on the balance sheet date. Currency exposure in the balance sheet is mainly controlled by the continuous allocations of If's investment assets in foreign currency. The remaining exposure that arises is managed through the use of currency forward contracts.

For 2018, a net exchange rate gain of MSEK 63 was recognized in the income statement. The gain arose as a result of the translation of the income statement and balance sheet items and from currency derivatives. Accordingly, exchange-rate result may be divided into:

MSEK **Total exchange-rate result**	**2018**	**2017**
Conversion of items in the income statement and balance sheet	621	-750
Realized effects of currency derivatives	-485	269
Unrealized effects of currency derivatives	-73	487
Total exchange rate result	**63**	**16**

NOTE 4 – Information about related parties

RELATIONS WITHIN IF

The If Group pursues a joint external reinsurance program covering all legal entities. Additional reinsurance is bought by If Livförsäkring AB and If P&C Insurance AS through intra-group reinsurance. Reinsurer for this intra-group reinsurance is If P&C Insurance Ltd. The scope of the intra-Group reinsurance is as follows:

MSEK	2018	2017
Premiums written received	24	24

If Livförsäkring AB has outsourced almost all of its business to If P&C Insurance Ltd. The outsourced services include for example sales, customer service, claims assessment, asset management and administration. Payment for these services is a calculated percentage cost based on new written policies and renewals. Payments amounted to:

MSEK	2018	2017
Commission	85	85

If's Nordic organization entails that costs for staff and management functions, for instance, must be distributed among companies in line with the prevailing rules for transfer pricing in order to achieve appropriate accounting and taxation. Based on an agreement between If P&C Insurance Ltd and the former Finnish sister company If P&C Insurance Company Ltd, which was terminated in connection with the merger between these entities in 2017, the following expenses have been distributed:

MSEK	2018	2017
Invoiced from If P&C Insurance Ltd (publ)	-	41
Invoiced from If P&C Insurance Company Ltd	-	61

If P&C Insurance Ltd and the Estonian group company Support Services AS had previously an agreement concerning for example administration and claims handling. The agreement was terminated in connection with the transfer of Support Services AS's business to the Estonian branch of If P&C Insurance Ltd. Based on the agreement, the following expenses have been distributed:

MSEK	2018	2017
Invoiced from Support Services AS	-	17

If P&C Insurance Holding Ltd (publ) is the primary account holder in a Group account structure that covers all transaction accounts in If P&C Insurance Ltd's insurance operations.

The If Group's purchases of data-processing services and data production are conducted through If IT Services A/S – If P&C Insurance's sister company – which has monitoring and administrative responsibility for IT operations with suppliers/contracts. If P&C Insurance Ltd's costs for these services amount to:

MSEK	2018	2017
IT expenses	1,174	870

If P&C Insurance Ltd and its sister company If Services AB has entered into agreements under which various services are provided. If P&C Insurance Ltd performs certain services for If Services AB such as accounting and HR. If Services AB performs, inter alia, claims handling and mediates, as a tied insurance intermediary to If P&C Insurance Ltd, If P&C Insurance Ltd's insurances in Norway and Finland. Based on these agreements, the following expenses have been distributed.

MSEK	2018	2017
Invoiced from If P&C Insurance Ltd (publ)	5	2
Invoiced from If Services AB	18	11

RELATIONS WITH IF GROUP'S ASSOCIATES

The Parent Company If P&C Insurance Holding Ltd (publ) owns a share of 33.0% of Svithun Rogaland Assuranse AS, which is an insurance agency that sells insurance products on behalf of If P&C Insurance Ltd.

The Parent Company If P&C Insurance Holding Ltd (publ) owns a share of 22.0% of CAB Group AB, which provides systems and services for calculations of costs of repairing vehicles.

The Parent Company If P&C Insurance Holding Ltd (publ) owns directly (10.2%) and indirectly via If P&C Insurance Ltd (15.0%) a share of 25.2% of SOS International A/S, a company providing assistance services to insurance companies.

In 2018, the Parent Company If P&C Insurance Holding Ltd (publ) has acquired an ownership share of 34.0% of Boligselskapenes Service Senter AS, which provides various services to housing associations, and Digiconsept AS, which owns the intellectual property rights to Boalliansen, a web portal for housing enterprises. Boligselskapenes Service Senter AS mediates insurances on behalf of If P&C Insurance Ltd.

RELATIONS WITH SAMPO

If P&C Insurance Ltd is included in the Sampo Group via its parent company, If P&C Insurance Holding Ltd (publ). The term closely related companies refers to all companies in this corporate group with the exception of If P&C Insurance Holding (publ) and its subsidiaries.

If P&C Insurance Ltd and Sampo plc have an asset management agreement according to which all investment decisions, within the framework of the Investment Policy, have been outsourced to Sampo. The compensation takes the form of fixed commission calculated in accordance with the market value of the assets under management.

As of September 30, 2017 Topdanmark A/S is a subsidiary of Sampo. Under the Danish Corporate Income Tax Act, the If Group and the Topdanmark group are subject to mandatory joint taxation in Denmark. Topdanmark A/S is the administration company for the Danish joint taxation.

RELATIONS WITH NORDEA

Nordea is an associate company of Sampo, and consequently related company to If P&C Insurance Ltd.

Nordea is If Group's banking partner in Sweden, Norway, Denmark, Finland and the United Kingdom and agreements have been concluded covering the management of bank accounts and related services. The Parent Company, If P&C Insurance Holding Ltd (publ), is the primary account holder of the Nordic cash pool in Nordea. However, If P&C Insurance Ltd has its own accounts with Nordea in the Nordic region.

In asset management, investments are made in bonds and other interest-bearing securities issued by companies in the Nordea Group. Nordea is also included among the market makers used for the general trading with securities. Nordea is also counterparty for transactions in interest rate and currency derivatives. Further information on this matter is provided in Note 5, Table 17.

Nordea distributes If Group's P&C insurance products through its banking offices and internet banking offices in Sweden and Finland for which they are paid commission.

Transactions with related companies (excluding If Group companies)

	Income		Expenses		Assets		Liabilities	
MSEK	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
If Group's associates	4	-	-97	-68	5	1	-	-3
Sampo	1	9	-20	-17	0	159	-1	-2
Nordea	64[1]	-169[1]	-19[2]	-62[2]	7,115	7,081	-41	-106
Other related parties								
Subsidiaries of Sampo	40	-	-	-	175	-	-1	-
Other associates, Sampo	1	-	-	-	50	-	-	-

1) Including interest income
2) Including interest expense

NOTE 5 Risks and Risk Management

RISK MANAGEMENT SYSTEM

Risk is an essential and inherent element of If's business activities and operating environment. A high-quality risk management process is a prerequisite for running the business effectively achieving established goals. 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 taking into account the effect on risk and capital. If's risk appetite framework defines the boundaries for what level of risk If is willing to accept in the pursuit of the objectives. The framework includes the risk appetite statement, capital adequacy, steering documents, processes and controls.

If's Risk Management System comprises strategies, processes and reporting procedures necessary to continuously identify, measure, monitor, manage and report risks. The Risk Management System is part of the larger Internal Control System and ensures that all risks are managed from a legal entity perspective. The main risk categories in If are: underwriting, market, credit and operational risk, see Figure 1. Each key risk is subject to a dedicated risk-management process.

Steering documents are in place for each risk area specifying restrictions and limits chosen to reflect and ensure that the risk level at all times complies with If's overall risk appetite and capital constraints.

FIGURE 1 – Risks encompassed in the Risk Management System

RISK STRATEGY

The Risk Management policy defines the overall risk strategy and the risk appetite for the main risks. The risk management strategies are to:

- Ensure a 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.

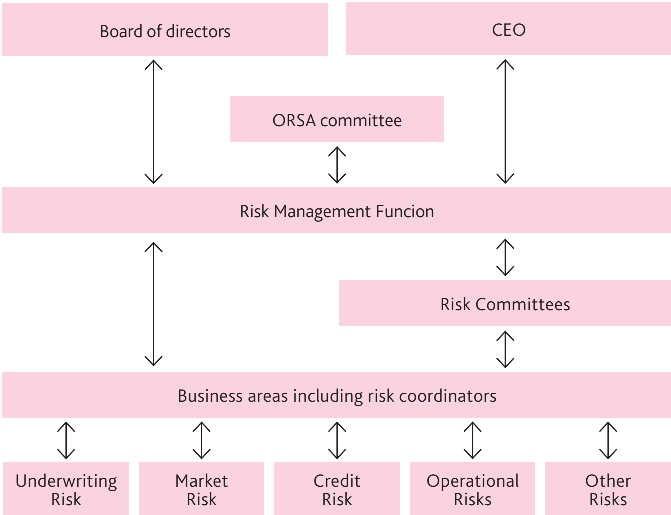
RISK MANAGEMENT PROCESS

The overall risk management process in If includes five main steps; risk identification, risk assessment/ measuring, risk monitoring, risk managing and risk reporting.

REPORTING STRUCTURE AND RISK GOVERNANCE

Figure 2 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 organization.

FIGURE 2 – If's risk management reporting structure



BOARD OF DIRECTORS
The Board of Directors is the corporate body responsible for internal control, risk control, and for ensuring that If has appropriate risk management systems and processes. The Board of Directors approves the yearly Risk Management policy and other risk-steering documents.

CEO
The CEO is responsible for organizing 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.

RISK COMMITTEES IN THE RISK MANAGEMENT SYSTEM
Own Risk and Solvency Assessment Committee (ORSA committee) assists the CEO in fulfilling the responsibility of overseeing If's risk and risk management system. The committee reviews the effectiveness of If's internal control system, as well as initiates and monitors efforts and actions relating to these areas. Furthermore, the committee monitors that If's short-term and long-term aggregated risk profile is aligned with If's risk strategy and capital requirements. The committee meets at least four times a year.

There are also additional committees in place for key risk areas. These committees have the responsibility to monitor that risks are managed and controlled in accordance with the steering documents. The chairmen of the committees are responsible for the reporting to the ORSA committee. The committees also monitor the effectiveness of the steering documents and give input with respect to changes and updates, if needed. None of If's committees have any decision-making mandate.

RISK MANAGEMENT FUNCTION
The Risk Management function facilitates the implementation and development of the Risk Management System in If P&C Insurance Ltd and consists of the CRO, the risk control unit and the capital management unit. The function is responsible for coordinating the risk management activities on behalf of the Board of Directors and the CEO.

LINE ORGANIZATION
The line organization has the day-to-day responsibility for managing risks within limits and restrictions set by the risk policies, guidelines and instructions and has to ensure that it has resources and tools in place. On behalf of the Heads of the business areas/corporate functions, a risk coordinator structure is established. The Head of the Risk Control unit issues instructions describing the responsibility of the risk coordinators.

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

CAPITAL MANAGEMENT
If P&C Insurance Ltd focuses on capital efficiency and sound risk management by keeping its capital resources at an appropriate level in relation to the risks taken over the business planning horizon. This means ensuring that the available capital exceeds the internal and regulatory capital requirements, as well as maintaining an A rating from Standard & Poor's and Moody's.

Capital management is based on If P&C Insurance Ltd's risk-appetite statement, which provides further details on risk preferences and risk tolerances. These are established through steering documents decided by the Board of Directors. If P&C Insurance Ltd's risk profile, capital requirements and available capital are measured, analyzed and reported to the ORSA committee and the Board of Directors on a quarterly basis, or more often when deemed necessary.

In order to maintain a sufficient level of capital, If:

- Projects its risk and capital according to the financial plan;
- Allocates capital to business areas and lines of business, ensuring that a risk-based approach is used for target setting and profitability evaluation;
- Manages its debt-to-equity relation to enhance the return to shareholders while maintaining reasonable financial flexibility; and
- Assures its dividend capacity through the effective use of reinsurance, group synergies and diversification benefits.

RISK AND CAPITAL MODELING
In order to assess the overall risk profile, it is necessary to consider the interrelationships between various risks, since some of these risks could develop in opposite directions creating diversification effects. For this purpose, If has used an internal model to calculate economic capital for market risk and underwriting risk. Through simulations of both investment and insurance operations, the effect of, for example, reinsurance structures and investment allocations are analyzed.

In addition to the calculation and reporting of economic capital for If and its subsidiaries, the internal model is used as a basis for decisions regarding:

- Allocation of capital to business areas and lines of business;
- Evaluation of the effect on the risk profile related to changes in the investment portfolio;
- Evaluation of reinsurance programs;
- Evaluation of investment policy and limits.; and
- Evaluation of risks over the business planning horizon.

Operational risk and less material risks are quantified using the Solvency II standard formula.

CAPITAL POSITION

The capital position is the relationship between available capital and required capital. To fulfill requirements from various stakeholders, different measures are used to describe the capital position: regulatory measures, internal economic measures and rating agency measures. If considers both a one-year and a multi-year perspective.

REGULATORY MEASURES

Insurance is a regulated business with EU common rules for the capital requirement and available capital. If P&C Insurance Ltd's partial internal model (PIM) is used to calculate the solvency capital requirement (SCR) for the majority of the insurance risk, while other risks are calculated using the standard formula. The company fulfilled regulatory capital requirements during 2018.

TABLE 1 – Regulatory capital measures

MSEK	2018	2017
SCR	14,205	15,593
Own funds	24,269	25,512

INTERNAL ECONOMIC MEASURES

Economic capital is an internal measure showing the deviation from the expected result calculated at a confidence level corresponding to 99.5% on a one-year horizon. If P&C Insurance Ltd's major quantifiable risks are included in the calculation of the economic capital. The calculations are based on an economic, market-consistent valuation.

RATING AGENCY MEASURES

If P&C Insurance Ltd is rated A+ by Standard & Poor's and A1 rated by Moody's. The objective is to retain a single A-rating.

IF P&C INSURANCE LTD'S RISKS

UNDERWRITING RISK

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

PREMIUM RISK AND CATASTROPHE RISK

Premium risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events that have not occurred at the balance date.

Catastrophe risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events

RISK MANAGEMENT AND CONTROL

The principal methods for mitigating premium risks are by reinsurance, diversification, prudent underwriting and regular follow-ups linked to the strategy and financial planning process. The Underwriting Policy (UW Policy) sets general principles, restrictions and directions for the underwriting activities. The UW Policy is supplemented with guidelines outlining in greater detail how to conduct underwriting within each business area.

If's Reinsurance Policy stipulates guidelines for the purchase of reinsurance. The optimal choice of reinsurance is evaluated by comparing the expected cost versus the benefit of the reinsurance, the impact on result volatility and capital requirement. The main tool for this evaluation is If's internal model in which small claims, single large claims and natural catastrophes are modelled. The Reinsurance Policy includes limitations on permitted reinsurers and their ratings for each line of business. In addition, limits relating to concentration risk and exposure to reinsurance risk are given. The reinsurers are continuously assessed and evaluated through If´s own financial and qualitative pre-defined analyses.

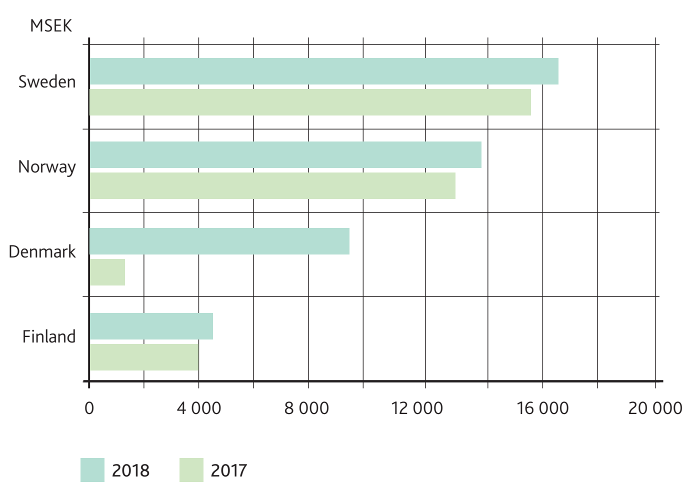
A Group-wide reinsurance program has been in place in If since 2003. In 2018, retention levels were between MSEK 100 and MSEK 250 per risk and MSEK 250 per event.

RISK EXPOSURE

There is a risk, given the inherent uncertainty of P&C insurance, of losses due to unexpectedly high claims costs. Examples of what could lead to high claims costs include large fires and natural catastrophes or an unforeseen increase in the frequency or the average size of small and medium-sized claims.

If P&C Insurance Ltd mainly underwrites insurance policies in Sweden, Norway, Finland and Denmark. The company also underwrites policies for Nordic clients with operations outside the Nordic region. The geographical distribution of premium income is shown in Figure 3.

FIGURE 3 – Premium income per country



An analysis of how changes in the combined ratio, premium and claims level affect the result before tax is presented in Table 2.

TABLE 2 – Sensitivity analysis, premium risk

MSEK			Effect on result before tax	
Parameter	Current level 2018	Change	2018	2017
Combined ratio	85.7%	+/- 1 percentage point	+/- 422	+/- 398
Premium level	42,172	+/- 1%	+/- 422	+/- 398
Claims level	29,322	+/- 1%	+/- 293	+/- 277

RESERVE RISK

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

Reserve risk includes revision risk, which is defined as the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the level, trend, or volatility of revision rates applied to annuities, due to changes in the legal environment or in the state of health of the person insured.

The technical provision for unearned premiums is intended to cover anticipated claim costs and operating expenses during the remaining term of insurance contracts in force. Since claims are paid after they have occurred, it is necessary to set provisions for claims outstanding. The technical provisions are hence the sum of the provisions for unearned premiums and provisions for claims outstanding.

Technical provisions always include a degree of uncertainty since the provisions are based on estimates of the size and the frequency of future claim payments.

The uncertainty of technical provisions is normally greater for new portfolios for which complete run-off statistics are not yet available, and for portfolios including claims that take a long time to settle. Workers' Compensation (WC), Motor Third Party Liability (MTPL), Personal Accident, and Liability insurance are products with the latter characteristics.

RISK MANAGEMENT AND CONTROL

The Board of Directors decides on the guidelines governing the calculation of technical provisions. If P&C Insurance Ltd's Chief Actuary is responsible for developing and presenting guidelines on how the technical provisions are to be calculated and for assessing whether the level of the total provisions is sufficient.

The actuarial estimates are based on historical claims data 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 generally used, combined with projections of the number of claims and average claims costs.

The provisions for annuities are calculated as discounted values based on the amounts and payment periodicity in each individual case, taking expected investment income, expenses, indexation, other possible adjustments and mortality into account. The anticipated inflation trend is taken into account when calculating the technical provisions and is of high importance for claims settled over a long period of time, such as claims related to MTPL and WC business. The anticipated trend is based on external assessments of the inflation trend in various areas, such as the consumer price index and payroll index, combined with If P&C Insurance Ltd's own estimation of costs for various types of claims.

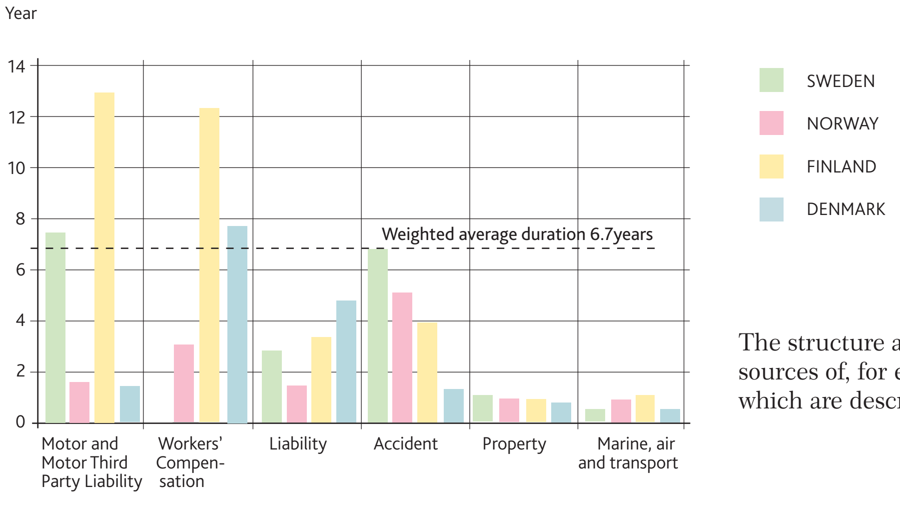
RISK EXPOSURE
For lines of business such as MTPL and WC, legislation differs significantly between countries. Some of the provisions for these lines include annuities that are sensitive to changes in mortality assumptions and discount rates. In 2018, the proportion of technical provisions related to MTPL and WC was 56%. The amount of technical provisions broken down by product and country is shown in Table 3.

TABLE 3 – Technical provisions (net) per product and country

	Sweden		Finland		Norway		Denmark	
MSEK	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Motor and Motor Third Party Liability	23,860	24,765	10,522	10,167	5,399	5,277	1,679	1,575
Workers' Compensation	-	-	12,051	11,801	2,093	2,144	2,590	2,482
Liability	2,685	2,634	1,133	1,202	1,135	1,255	784	726
Accident	3,401	3,150	1,646	1,537	3,820	3,550	990	902
Property & Other	4,407	4,007	2,435	2,227	4,778	4,672	1,089	971
Marine, air and transport	226	202	127	96	412	470	287	225
Total	**34,578**	**34,759**	**27,914**	**27,030**	**17,637**	**17,368**	**7,420**	**6,881**

The durations of technical provisions for various products are shown in Figure 4.

FIGURE 4 – Duration of technical provisions 2018



The structure and duration of technical provisions are also sources of, for example, interest rate risk and inflation risk, which are described in greater detail under market risk.

A sensitivity analysis of the reserve risk is presented in Table 4.

TABLE 4 – Sensitivity analysis, reserve risk

Portfolio	Risk	Change in risk parameter	Country	2018 Effect MSEK	2017 Effect MSEK
Nominal reserves	Inflation increase	Increase by 1 percentage point	Sweden	1,891	1,806
			Denmark	158	115
			Norway	497	506
			Finland	347	368
Discounted reserves (annuities and part of Finnish IBNR)	Decrease in discount rate	Decrease by 1 percentage point	Sweden	681	652
			Denmark	156	130
			Finland	3,005	2,947
Annuities and estimated share of claims reserves to future annuities	Decrease in mortality	Life expectancy increase by 1 year	Sweden	248	242
			Denmark	17	16
			Finland	678	652

FINANCIAL ASSETS AND LIABILITIES

The recognition of financial assets and liabilities depends on their classification.

TABLE 5 – Categories of financial assets and financial liabilities

MSEK	2018	2017
Financial assets at fair value		
Financial assets, mandatory at fair value through profit and loss (trading)	94	242
Financial assets, available for sale	101,850	103,626
Loans and receivables [1]	19,270	18,897
Total financial assets	**121,214**	**122,764**
Financial liabilities, mandatory at fair value through profit and loss (trading)	45	107
Financial liabilities measured at amortized cost or at the amount expected to be settled [2]	8,313	7,105
Total financial liabilities	**8,358**	**7,212**

1) Loans and receivables consists of the following balance sheet items: loans and receivables, deposits with ceding undertakings, debtors, cash and bank, collaterals and settlement claims and financial accrued income.

2) Financial liabilities measured at amortized cost or at the amount expected to be settled consists of the following balance sheet items: subordinated debt, creditors arising out of direct insurance and reinsurance operations, collaterals and settlement liabilities and financial other creditors and accrued expenses.

TABLE 6 – Investment assets categorized from an asset management perspective

	Investment assets and derivative liabilities		Assets under active management		Assets under active management categorized from an asset management perspective					
					Fixed income		Equity		Properties	
MSEK	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Land and buildings	**44**	**122**	44	122					44	122
Investments in associated companies	**-**	**11**								
Financial assets, mandatory at fair value through profit and loss (trading)										
Derivatives [1]	94	242	94	242			0	3		
Financial assets, available for sale										
Shares and participations	11,561	14,427	11,561	14,427			11,561	14,427		
Bonds and other interest-bearing securities	90,289	89,199	90,289	89,199	90,289	89,199				
Loans										
Other loans	995	811	995	811	995	811				
Total other financial investment assets	**102,939**	**104,679**								
Deposits with ceding undertakings	**7**	**7**								
Total investment assets	**102,990**	**104,818**								
Other assets										
Cash and bank			1,396	2,347	1,396	2,347				
Collaterals and settlement claims			66	54	12	34	54	19		
Accrued income			452	456	452	456				
Assets under active management			**104,898**	**107,657**	**93,144**	**92,847**	**11,616**	**14,450**	**44**	**122**
Financial liabilities, mandatory at fair value through profit and loss (trading)										
Derivatives [2]	45	107	45	107	18	23				
Total derivative liabilities	**45**	**107**								
Financial liabilities valued at the amount expected to be settled										
Collaterals and settlement liabilities			81	147	81	147				
Accruals			1	1	1	1				
Liabilities under active management			**128**	**255**	**101**	**172**				
Assets under active management, net			**104,770**	**107,401**	**93,043**	**92,675**	**11,616**	**14,450**	**44**	**122**

1) Only fixed income and equity derivatives are included in the assets categorized from an asset management perspective. Excluded currency derivatives amounted to MSEK 94 (239).
2) Only fixed income and equity derivatives are included in the liabilities categorized from an asset management perspective. Excluded currency derivatives amounted to MSEK 27 (84).

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.

RISK MANAGEMENT AND CONTROL

The Investment Policy is the principal document for managing If's market risks. It sets guiding principles for, inter alia, 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 when setting return and liquidity targets. The Board of Directors decides on the Investment Policy once a year or more often if necessary. The Investment Policy is supplemented with guidelines defining mandates and authorizations and guidelines on the use of derivatives. The market risk is actively monitored and controlled by the Investment Control Committee and reported to the ORSA Committee quarterly.

RISK EXPOSURE

If P&C Insurance Ltd's investment operations generated a return of -0.8% in 2018. Investment assets amounted to MSEK 104,703. The main market risks are interest rate risk, equity risk and currency risk. The exposure towards market risk can be described through the allocation of investment assets and the sensitivity of values to changes in key risk factors.

TABLE 7 – Allocation of assets under active management

MSEK	2018 Carrying amount	2018 %	2017 Carrying amount	2017 %
Fixed income	93,043	88.9	92,675	86.4
Equities	11,616	11.1	14,450	13.5
Properties	44	0.0	122	0.1
Total	**104,703**	**100**	**107,246**	**100**

Currency derivatives amounting to MSEK 67 (155) are excluded from the allocation of assets under active management.

During the year, the proportion of equity investments decreased from 13.5% to 11.1%. The proportion of fixed income investments increased from 86.4% to 88.9%.

Table 8 shows the sensitivity analysis of the fair values of financial assets and liabilities in different market scenarios. The effects represent the immediate impact on fair value as a result of a change in the underlying market variables as of December 31 each year. The sensitivity analysis includes the effects of derivative positions and is calculated before tax.

TABLE 8 – Sensitivity analysis of the fair values of financial assets and liabilities

	2018				2017			
	Interest rate		Equities	Properties	Interest rate		Equities	Properties
MSEK	1 percentage point parallel shift down	1 percentage point parallel shift up	20% fall in prices	20% fall in prices	1 percentage point parallel shift down	1 percentage point parallel shift up	20% fall in prices	20% fall in prices
Assets								
Short-term fixed income	1	-1			0	0		
Long-term fixed income	1,457	-1,410			1,442	-1,393		
Equities			-2,323				-2,890	
Other financial assets				-9				-24
Liabilities								
Subordinated loans	-38	37			-50	48		
Derivatives, net	-15	14			-20	19		
Total change in fair value	**1,406**	**-1,361**	**-2,323**	**-9**	**1,372**	**-1,326**	**-2,890**	**-24**

INTEREST RATE RISK

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

RISK MANAGEMENT AND CONTROL

In accordance with If P&C Insurance Ltd's Investment Policy, the nature of the insurance commitments with respect to interest rate risk and inflation risk is taken into account in the composition of investment assets. The interest rate risk is managed by sensitivity limits for instruments sensitive to interest rate changes.

RISK EXPOSURE

Since the technical provisions are predominantly stated in nominal terms in the balance sheet, If P&C Insurance Ltd is mainly exposed to changes in future inflation. However, the economic value of these provisions, meaning the present value of future claims payments, is exposed to changes in interest rates. Furthermore, the provisions for annuities are discounted and potential changes in discount rates affect the level of technical provisions.

The discount rates could vary between countries mainly as a result of legislative differences, but also due to the prevailing interest rate environment.

The duration of provisions and thus sensitivity to changes in interest rates is analysed in greater detail in Figure 4 and Table 4, in the reserve risk section. The cash flows of financial assets and liabilities are presented by maturities in Table 16, in the liquidity risks section. The duration of fixed income investments was 1.4 at year-end 2018 (1.4). The duration of fixed income investments is shown in Table 9.

TABLE 9 – Duration and breakdown of fixed income investments per instrument type

	2018			2017		
MSEK	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**

EQUITY RISK

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

RISK MANAGEMENT AND CONTROL

The equity portfolio is actively managed with a long-term investment horizon. The equity risk is reduced by diversifying the investments across industry sectors and geographical regions. According to If's Investment Policy, equity investments may not exceed 16.5% of the total investment portfolio and the exposure towards an individual issuer is to be limited.

RISK EXPOSURE

The equity portfolio consists of Nordic shares and a diversified global fund portfolio. At year-end, If's exposure amounted to MSEK 11,616 and the proportion of equities in the investment portfolio was 11.1%.

TABLE 10 – Breakdown of equity investments by industry sectors

	2018		2017	
MSEK	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**	**100.0**	**10,296**	**100.0**

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

TABLE 11 – Breakdown of equity investments by geographical regions

	2018		2017	
MSEK	Carrying amount	%	Carrying amount	%
Scandinavia	7,899	69.2	10,296	72.2
Far East	1,235	10.8	1,347	9.4
Europe	1,149	10.1	1,483	10.4
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 MSEK 194 (186).

CURRENCY RISK

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

RISK MANAGEMENT AND CONTROL

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 P&C Insurance Ltd is also exposed to translation risk. Translation risk refers to the risk that arises when consolidating the financial statements of branches that have a different base currency than the head office. The translation risk is not hedged.

RISK EXPOSURE

If P&C Insurance Ltd's currency positions against the base currency and the sensitivity of the valuation to changes in exchange rates are shown in Table 12.

TABLE 12 – 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
10% depreciation of foreign currency against SEK, 2018	115	-92	-15	2	4	0	1
10% depreciation of foreign currency against SEK, 2017	103	-77	-7	-1	-2	0	4

CREDIT RISK

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

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

In general, credit risk refers to losses arising from occurred defaults of debtors or other counterparties or from increases in assumed probability of defaults. In the case of default, the final loss depends on the value of the asset less any collateral and recoveries at the time of default.

CREDIT RISK IN INVESTMENT OPERATIONS

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

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

RISK MANAGEMENT AND CONTROL

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.

Before investing, potential investments are analyzed thoroughly. The creditworthiness and future outlook of the issuer are assessed together with any collateral as well as structural details of the potential investment. Internal risk indicators are important factors in the assessment, although macroeconomic environment, current market trends and external opinions of analysts and credit ratings by rating agencies are also taken into account. In addition, portfolio performance and the counterparties' credit standings are monitored continuously.

The development of the portfolios with respect to credit risk is monitored and is reported to the Investment Control Committee on a regular basis. Credit exposures are reported by ratings, instrument types and industry sector.

RISK EXPOSURE

If P&C Insurance Ltd's most significant credit risk exposures arise from fixed income investments. The exposures are shown by sector, asset class and rating category in Table 13.

TABLE 13 – Exposures by sectors, asset classes and rating category 2018

	Fixed income												
MSEK	AAA	AA+ - AA-	A+ - A-	BBB+ - BBB-	BB+ - C	D	Not rated	Total [1]	Equities [2]	Proper-ties	Derivatives (Counter-party risk)	Total [3]	Change compared with 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 Instittions		7,476	12,384	5,033	560		121	**25,573**			14	**25,587**	2,178
Governments	1,366							**1,366**				**1,366**	462
Government Guar-anteed	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 and Electronics	89		26		85		805	**1,006**				**1,006**	190
Telecommunictions				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 with Dec 31, 2017	-3,932	-1,241	6	2,243	2,165	-	1,079	320	-2,831	-77	-44	**-2,632**	

[1] Total fixed income exposure differs by MSEK 89 from the corresponding financial assets and liabilities in Table 6 because other derivatives and collaterals are excluded.
[2] Total equity exposure differs by MSEK -1 from the corresponding financial assets and liabilities in Table 6 because derivatives are exckluded.
[2] Total exposure differs by MSEK 103 from the corresponding financial assets and liabilities in Table 6 because derivatives and collaterals are excluded except for OTC derivatives, for which only the counterparty risk is taken into account.

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

RISK MANAGEMENT AND CONTROL

To limit and control credit risk associated with ceded reinsurance, If has a Reinsurance 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.

RISK EXPOSURE

The distribution of recoverables concerning ceded reinsurance is presented in Table 14. In the table, MSEK 1,448 (1,653) is excluded, which mainly relates to captives and statutory pool solutions.

TABLE 14 – Reinsurance recoverables

MSEK Rating (S&P)	2018	%	2017	%
AAA	-	-	-	-
AA	520	63.7	344	63.2
A	290	35.4	187	34.2
BBB	6	0.7	11	2.0
BB - CCC	-	-	-	-
Not rated	1	0.1	3	0.5
Total	**818**	**100**	**545**	**100**

The distribution of ceded treaty and facultative premiums per rating category is presented in Table 15.

TABLE 15 – Ceded treaty and facultative reinsurance 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**

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.

RISK MANAGEMENT AND CONTROL

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.

In the accounts, most of the technical provisions are nominal, while a significant portion, namely the annuity and annuity IBNR reserves, is 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, wherein the technical provisions are discounted using prevailing interest rates, If is exposed to changes in inflation and nominal interest rates.

To maintain the ALM risk within the overall risk appetite, the technical provisions may be matched by investing in fixed income instruments and by using currency derivatives.

LIQUIDITY RISK

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

RISK MANAGEMENT AND CONTROL

In P&C insurance, premiums are collected in advance and large claims payments are usually known long before they fall due, thus limiting the liquidity risk.

The Cash Management unit is responsible for liquidity planning. To identify liquidity risk, expected cash flows from investment assets and technical provisions are analyzed regularly, taking both normal market conditions and stressed conditions into consideration. Liquidity risk is reduced by having investments that are readily marketable in liquid markets. The available liquidity of financial assets, meaning the part of the assets that can be converted into cash at a specific point in time, is analyzed and reported continuously.

RISK EXPOSURE

The maturities of cash flows for technical provisions, financial assets and liabilities are presented in Table 16. 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 16 – Maturities of cash flows for financial assets and liabilities and net technical provisions

				Cash flows						
2018 MSEK	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

				Cash flows						
2017 MSEK	Carrying amount	*of which without maturity*	*of which with contractual maturity*	2018	2019	2020	2021	2022	2023-2032	2033-
Financial assets	122,764	*16,807*	*105,957*	27,663	19,987	21,737	22,163	12,644	5,598	-
Financial liabilities	7,212	*147*	*7,065*	5,950	72	70	1,151	-	-	-
Net technical provisions	86,038			28,870	10,087	6,041	4,869	2,990	19,877	18,441

CONCENTRATION RISK

Concentration risk is all risks towards a single counterparty, industry sector or geographic region with a material loss potential that is not captured by any other risk type.

RISK MANAGEMENT AND CONTROL

In If's Underwriting Policy, Investment Policy and Reinsurance Policy, limits are set for maximum exposures towards single issuers and per rating class. Risk concentrations are actively monitored and controlled by the respective committee and reported quarterly to the ORSA committee.

RISK EXPOSURE

Investments are mainly concentrated to the financial sector in the Scandinavian countries.

The ten largest individual reinsurance recoverable balances amounted to MSEK 1,528 (MSEK 1,625), representing 67% (74%) of the total reinsurance recoverable. Of If P&C Insurance Ltd's non-captive reinsurers, Munich Re (AA-) is the largest and accounts for 33% (42%) of such recoverables.

The largest market and credit risk concentrations related to individual counterparties and asset classes are shown in Table 17.

TABLE 17 – Concentration of market and credit risks in individual counterparties and asset classes 2018

MSEK Fair value	Equities	Covered bonds	Other long-term fixed income	Short-term fixed income	Positive fair values of derivatives	Total
Nordea Bank Oyj	-	4,733	2,088	316	-	7,137
Svenska Handelsbanken AB	-	5,362	699	-	-	6,061
Swedbank AB	-	2,916	1,659	6	-	4,580
Kingdom of Norway	-	-	4,075	-	-	4,075
Kingdom of Sweden	-	-	3,825	-	-	3,825
DnB ASA	-	1,568	1,336	-	-	2,904
Skandinaviska Enskilda Banken, Stockholm	-	2,116	595	54	-	2,765
Landshypotek Bank AB	-	1,964	405	-	-	2,369
Danske Bank A/S, Copenhagen	-	988	1,242	-	-	2,230
Volvo AB	1,072	-	856	-	-	1,928
Total top ten exposures	**1,072**	**19,647**	**16,779**	**376**	**-**	**37,874**

The ten largest exposures amount to MSEK 37,874 (37,208), representing 36 percent (35) of the investment assets under active management.

OPERATIONAL RISKS

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

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

RISK MANAGEMENT AND CONTROL

Operational risks are identified and assessed through the Operational and Compliance Risk Assessment (OCRA) process. Self-assessments to identify, measure, monitor and manage operational risks are performed and reported by the line organization periodically. Identified risks are assessed from a likelihood and impact perspective. The residual risk for each risk is assessed using a traffic light system. The process is supported by an operational risk coordinator network and the results are challenged and aggregated by the Risk Management function. The most significant risks are reported to the Operational Risk Committee (ORC), the ORSA committee and to the Board of Directors.

A system is implemented for incident reporting procedures and follow up. Incident data is used to analyse risk and severe incidents are tracked to ensure proper actions are taken.

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

OTHER RISKS

STRATEGIC RISK

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

RISK MANAGEMENT AND CONTROL

Strategic risk relates to changes in the operational environment and the capability to adjust to the changes in relation to the strategy and financial planning process. For If, the most likely strategic risks are related to competition, economic, regulatory and other external factors. These risks are controlled and mitigated through continuous monitoring of peers, as well as the market and regulatory environment.

The Corporate Control and Strategy unit is responsible for coordinating and facilitating strategic risk assessments within the Group. If's strategy process takes place annually and includes setting high-level objectives and translating these into detailed short-term business plans. The strategy process also includes a risk assessment update whenever larger changes occur. An overall assessment by the Corporate Control and Strategy unit is reported to ORSA committee at least twice a year.

COMPLIANCE RISK

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

RISK MANAGEMENT AND CONTROL

A long-term strategic objective is to achieve a fully integrated compliance culture. The Compliance function is responsible for ensuring that there are effective processes for identifying, assessing, monitoring and reporting compliance risk exposure. Compliance risks identified by the business areas and corporate functions are reported to the Compliance function via business area leaders and IT function twice a year and by Corporate functions once a year. Compliance risks are also reported when deemed necessary. The risks are signed-off by the Head of business areas/corporate functions in accordance with the OCRA process.

REPUTATIONAL RISK

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

A good reputation is vital for an insurance company, which means that trust is an important factor in If's relationship with its customers, investors, employees and other stakeholders. If's reputation is determined by how stakeholders perceive the company in all aspects.

RISK MANAGEMENT AND CONTROL

When assessing operational and compliance risks, the reputational consequence of a materialized risk is taken into account. Reputational risk is assessed from an overall view by the Head of Communication Department. An aggregated reputational risk assessment is reported to the ORC twice a year.

Some processes are especially sensitive to reputational risk, such as marketing and claims handling. Individual incidents can also receive high attention in media. Professional handling and communication are key to mitigate the risk. There are established procedures for customer complaints and incident reporting. The company also provides training for employees in ethical guidelines and how potential reputational risks should be handled. What is written about If in media is continuously monitored.

EMERGING RISK

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

RISK MANAGEMENT AND CONTROL

The main principle is that each business area is responsible for identifying and taking action with regard to potential emerging risk exposures in its portfolios. Due to the large accumulation of potential emerging risks and thus the risk to the long-term solvency of the company, Risk Management has established the Emerging Risk Core Team, consisting of key persons from the various business areas who meet regularly. This group follows up and analyzes important emerging risks factors for If and suggests possible actions. The risks assessed as being most serious are reported twice a year to the ORSA committee by the Emerging risk coordinator.

RISK EXPOSURE

The risks that are under extra observation are cyber risks, lack of adaptation to climate changes and electromagnetic fields.

NOTES TO THE INCOME STATEMENT

NOTE 6 – Performance analysis per line of insurance

2018 MSEK	Accident and health	Healthcare	Security	Householders and homeowners	Commercial and real estate	Liability	Legal protection	Motor
Premiums earned, net of reinsurance	1 025	143	2	2 391	1 092	509	143	6 712
Allocated investment return transferred from the non-technical account	-	-	-	-	-	-	-	-
Other technical income	-	-	-	-	-	-	-	-
Claims incurred, net of reinsurance	-727	-98	-2	-1 566	-1 160	-843	-68	-4 813
Operating expenses	-143	-23	0	-278	-156	-79	-19	-723
Technical result from property and casualty insurance	**155**	**22**	**0**	**547**	**-223**	**-414**	**56**	**1 176**
Prior-year claims result	21	3	-1	51	4	-489	1	13
Provision for unearned premiums and unexpired risks	472	29	-	1 273	484	280	60	5 161
Provision for claims outstanding	2 740	63	0	957	1 140	2 219	119	673
Technical provisions (gross)	**3 212**	**92**	**0**	**2 229**	**1 624**	**2 499**	**178**	**5 833**
Provision for unearned premiums and unexpired risks	-2	0	-	0	-20	-73	-	-15
Provision for claims outstanding	-4	-1	0	-1	-126	-355	-	-2
Reinsurers' share of technical provisions	**-6**	**-1**	**0**	**-1**	**-146**	**-428**	**-**	**-17**

	Assistance	Motor, third party liability	Marine, air and transport	Other property	Total Swedish direct insurance	Direct insurance abroad	Reinsurance accepted	Total
Premiums earned, net of reinsurance	6	1 760	362	345	14 491	26 727	954	42 172
Allocated investment return transferred from the non-technical account	-	-	-	-	-	126	3	128
Other technical income	-	-	-	373	373	-	-	373
Claims incurred, net of reinsurance	-1	-485	-254	-286	-10 303	-19 391	372	-29 322
Operating expenses	0	-426	-61	-451	-2 360	-4 707	-169	-7 236
Technical result from property and casualty insurance	**5**	**849**	**48**	**-19**	**2 201**	**2 755**	**1 159**	**6 115**
Prior-year claims result	0	798	2	1	403	674	655	1 732
Provision for unearned premiums and unexpired risks	7	862	166	179	8 973	10 828	402	20 203
Provision for claims outstanding	0	17 182	186	21	25 300	42 478	1 674	69 452
Technical provisions (gross)	**7**	**18 044**	**352**	**200**	**34 272**	**53 306**	**2 076**	**89 654**
Provision for unearned premiums and unexpired risks	-	0	-26	-	-136	-203	-86	-425
Provision for claims outstanding	-	-7	-31	-	-527	-633	-519	-1 679
Reinsurers' share of technical provisions	**-**	**-7**	**-57**	**-**	**-663**	**-836**	**-605**	**-2 104**

SUPPLEMENTARY DISCLOSURES TO PERFORMANCE ANALYSIS

2018 MSEK **Premiums earned, net of reinsurance**	Accident and health	Healthcare	Security	Householders and homeowners	Commercial and real estate	Liability	Legal protection	Motor
Premiums written, gross	1 055	144	2	2 479	1 317	749	143	6 870
Premiums ceded	-7	-1	-	-59	-205	-216	-	-26
Change in provision for unearned premiums and unexpired risks	-23	0	-	-29	-32	-17	0	-129
Reinsurers' share of change in provision for unearned premiums and unexpired risks	0	0	-	0	12	-7	-	-2
Total	**1 025**	**143**	**2**	**2 391**	**1 092**	**509**	**143**	**6 712**

	Assistance	Motor, third party liability	Marine, air and transport	Other property	Total Swedish direct insurance	Direct insurance abroad	Reinsurance accepted	Total
Premiums written, gross	10	1 686	521	344	15 320	27 670	1 151	44 141
Premiums ceded	-	-3	-140	-	-657	-943	-187	-1 788
Change in provision for unearned premiums and unexpired risks	-4	76	-2	1	-159	-5	-23	-186
Reinsurers' share of change in provision for unearned premiums and unexpired risks	-	0	-17	-	-14	5	12	4
Total	**6**	**1 760**	**362**	**345**	**14 491**	**26 727**	**954**	**42 172**

SUPPLEMENTARY DISCLOSURES TO PERFORMANCE ANALYSIS, CONTINUED

2018 MSEK Claims incurred, net of reinsurance	Accident and health	Healthcare	Security	Householders and homeowners	Commercial and real estate	Liability	Legal protection	Motor
Claims paid								
Gross	-489	-116	-1	-1 607	-911	-347	-71	-4 859
Reinsurers' share	6	1	-	1	26	17	-	17
Change in provisions for claims outstanding								
Gross	-242	16	0	39	-370	-778	3	30
Reinsurers' share	-2	0	-	0	95	265	-	-1
Total	**-727**	**-99**	**-2**	**-1 566**	**-1 160**	**-843**	**-68**	**-4 813**

	Assistance	Motor, third party liability	Marine, air and transport	Other property	Total Swedish direct insurance	Direct insurance abroad	Reinsurance accepted	Total
Claims paid								
Gross	-1	-1 501	-294	-287	-10 483	-20 268	-477	-31 228
Reinsurers' share	-	3	78	-	150	319	127	596
Change in provisions for claims outstanding								
Gross	0	1 015	-26	1	-313	561	1 215	1 463
Reinsurers' share	-	-2	-12	-	344	-3	-493	-152
Total	**-1**	**-485**	**-254**	**-286**	**-10 303**	**-19 391**	**372**	**-29 322**

The Claims paid item includes portfolio premiums and claims-handling costs. The Change in provisions item also includes the change in the claims-handling reserve.

NOTE 7 – Premiums written

		2018			2017	
MSEK	Gross[1)]	Ceded	Net	Gross[1)]	Ceded	Net
Premiums written	44,141	-1,788	42,353	34,119	-1,419	32,700

[1)] *Of which, insurance agreements for direct property and casualty insurance written in:*

	2018	2017
Sweden	15,711	15,183
Rest of EEA	27,287	18,099
Total	**42,999**	**33,283**

NOTE 8 – Allocated investment return transferred from the non-technical account

The estimated return on the assets that correspond to the technical provisions is transferred from the finance operations (non-technical account) to the technical result. The return is calculated on the basis of net technical provisions. Interest rates corresponding to current discount rates in each country are used for calculating return on annuities. For other technical provisions, interest rates used in the calculation for each currency match the interest rate for government bonds with a maturity that approximates with the technical provisions. Negative interest rates are not used. The transferred investment return is divided into two parts; one part that adds the annuity result by means of a reduction of costs for the upward adjustment of the annuity provision and one part that is reported separately as the allocated investment return.

The following average calculated interest rates have been used for the principal countries/currencies:

	2018 Annuities	2018 Other provisions	2017 Annuities	2017 Other provisions
Sweden/SEK	1.7%	0.0%	1.7%	0.1%
Norway/NOK	2.3%	0.7%	2.1%	0.8%
Denmark/DKK	0.9%	0.0%	0.8%	0.0%
Finland/EUR	1.2%	0.0%	1.3%	0.0%

NOTE 9 – Claims incurred

MSEK	2018 Gross	2018 Ceded	2018 Net	2017 Gross	2017 Ceded	2017 Net
Claims costs attributable to current-year operations						
Claims paid	-17,204	183	-17,021	-13,392	123	-13,269
Operating expenses for claims adjustment	-2,431	-	-2,431	-1,932	-	-1,932
Change in claims reserve for incurred and reported losses	-6,930	331	-6,599	-5,467	262	-5,205
Change in claims reserve for incurred but not reported losses (IBNR)	-5,070	43	-5,027	-3,777	115	-3,662
Change in annuities reserve	-73	-	-73	-21	-	-21
Change in reserves for claims adjustment	98	-	98	47	-	47
			-31,053			**-24,042**
Claims costs attributable to prior-year operations						
Claims paid	-10,239	412	-9,827	-8,706	707	-7,999
Annuities	-1,216	-	-1,216	-569	-	-569
Claims portfolios	-	-	-	0	-	0
Change in claims reserve for incurred and reported losses	5,935	-191	5,744	5,580	-342	5,237
Change in claims reserve for incurred but not reported losses (IBNR)	7,364	-335	7,029	5,069	-119	4,950
			1,731			**1,621**
Total insurance claims	**-29,766**	**444**	**-29,322**	**-23,169**	**746**	**-22,423**
Insurance claims paid						
Claims paid	-27,443	596	-26,847	-22,098	830	-21,269
Annuities paid	-1,355	-	-1,355	-621	-	-621
Claims portfolios	-	-	-	0	-	0
Operating expenses for claims adjustment	-2,431	-	-2,431	-1,932	-	-1,932
	-31,228	**596**	**-30,633**	**-24,652**	**830**	**-23,822**
Change in provision for claims outstanding						
Change in claims reserve for incurred and reported losses	-995	140	-854	112	-80	32
Change in claims reserve for incurred but not reported losses (IBNR)	2,201	-292	1,909	1,394	-4	1,390
Change in claims provision for annuities	159	-	159	-70	-	-70
Change in reserves for claims adjustment	98	-	98	47	-	47
	1,463	**-152**	**1,311**	**1,483**	**-84**	**1,399**
Total insurance claims	**-29,766**	**444**	**-29,322**	**-23,169**	**746**	**-22,423**

The general principles for the valuation of technical provisions are unchanged. The provision for annuities is calculated in accordance with normal actuarial principles taking inflation and mortality into consideration, and discounted to take the anticipated future investment return into account. To cover costs for the upward adjustment of annuity provisions required for the gradual reversal of such discounting, an anticipated return is added to annuity results, refer to Note 8.

NOT 10 – Operating expenses

MSEK	2018	2017
Specification of operating expenses		
External acquisition costs [1]	-1,463	-1,311
Internal acquisition costs	-3,263	-2,531
Change in deferred acquisition costs, gross	-11	10
Administrative expenses, insurance	-2,204	-1,670
Total operating expenses in insurance operations, gross	**-6,941**	**-5,501**
Reinsurance commission and profit participation in ceded insurance	124	96
Change in deferred acquisition costs, ceded	-1	5
Total reinsurance commission and profit participation in ceded insurance	**123**	**101**
Other operating expenses/Other technical expenses [2]	-418	-326
Total	**-7,236**	**-5,726**
[1] *Of which, commissions in direct insurance*	*-1,397*	*-1,260*
[2] *Of which related to Swedish Motor Insurers business*	*-35*	*-64*
Summary of total operating expenses		
Salaries and remuneration	-3,771	-2,910
Social security costs	-795	-741
Pension costs	-663	-540
Other personnel costs	-215	-153
Total personnel costs	**-5,444**	**-4,344**
Premises costs	-413	-317
Depreciation	-139	-89
External acquisition costs	-1,463	-1,311
Other administration costs	-2,529	-1,899
Total	**-9,988**	**-7,960**

MSEK	2018	2017
Distribution of operating expenses in income statement		
Claims-adjustment costs included in Claims paid	-2,431	-1,932
External and internal acquisition costs included in Operating expenses for insurance operations	-4,726	-3,842
Shared administration costs for insurance operations included in Operating expenses in insurance operations	-2,204	-1,670
Administration costs pertaining to other technical operations included in Other operating expenses/ Other technical expenses	-418	-326
Investment costs included in Investment charges	-209	-190
Total	**-9,988**	**-7,960**

MSEK	2018	2017
Other technical expenses related to Swedish Motor Insurers (TFF) business		
If´s share of fees to Swedish Motor Insurers	104	114
If´s share of claims cost	-163	-180
If´s share of operating expenses	-47	-48
If´s share of financial income and other income	54	57
Net expense calculated for TFF current year	**-52**	**-56**
Adjustment due to settlement regarding TFF preceding year [1]	17	-8
Total other technical expenses related to TFF business	**-35**	**-64**

[1] In addition to the adjustment for the previous year, this entry also include repayment of MSEK 6.7 for the years 2015-2016.

NOT 11 – Average number of employees

	2018		2017	
	Average number of employees	*Of whom, women %*	Average number of employees	*Of whom, women %*
Sweden [1]	2,047	*50*	1,881	*49*
Finland	1,712	63	436	63
Denmark	597	*48*	560	*48*
France	6	*33*	6	*33*
Netherlands	6	*51*	6	*53*
Norway	1,297	*48*	1,330	*48*
United Kingdom	6	*51*	6	*54*
Germany	6	*33*	6	*38*
Latvia	137	*26*	111	*24*
Estonia	119	93	0	0
Total	**5,932**	***54***	**4,343**	***46***

[1] Agents are not included. If has 16 (30) spare-time agents in Sweden.

Percentage of women in executive management	2018	2017
Board of Directors	0%	0%
Other senior executives	17%	15%

NOTE 12 – Salaries and other remuneration for senior executives and other employees

MSEK Expensed salaries, remuneration, pension and social security fees	2018	2017
Salaries and remuneration	3,771	2,910
Pension costs	663	540
Social fees	795	741
Total	**5,229**	**4,191**

MSEK Expensed salaries and remuneration	2018	2017
Senior executives [1]	66	142
of which incentive schemes and other variable compensation [2]	*25*	*100*
Other employees	3,705	2,768
Total	**3,771**	**2,910**

[1] Senior executives are defined as board members, presidents and vice president. The amounts for salary and remuneration also include severance pay of MSEK - (2).
[2] Regardless of the earnings year.

PRINCIPLES FOR DETERMINING REMUNERATION OF SENIOR EXECUTIVES

Director fees are not paid to Board members employed in If or other companies within the Sampo Group. Remuneration of the President and other senior executives consists in most cases of fixed salary, annual variable compensation, units in long-term incentive schemes, pension and other benefits. The maximum annual variable compensation payable to the President is 75 % of the annual fixed salary. The maximum annual variable compensation payable to other senior executives is 40-75 % of the annual fixed salary. The annual variable compensation is based on the If Group results, business unit results and individual results. For senior executives who are members of the Sampo Group Executive Committee, the annual variable compensation is also based on Sampo Group results. A substantial part of payments from variable compensation programs is deferred for at least three years. Thereafter, the Board shall evaluate and, if needed, risk adjust the deferred compensation before any payment is made.

More comprehensive information regarding If's remuneration system and principles can be found on If's webpage, https://www.if.se/om-if/om-oss/finansiell-information/arsredovisningar

KSEK Remuneration and other benefits during the year	Basic salary/ Directors Fee	Variable payments	Payments pertaining to incentive schemes [1]	Other benefits	Pension costs	2018 Total	2017 Total
Chairman of the Board Torbjörn Magnusson	6,646	4,785	12,716	18	3,748	27,913	24,400
President Ricard Wennerklint	4,111	2,854	7,630	19	2,321	16,935	17,259
Vice President Måns Edsman	1,591	480	3,052	75	540	5,738	5,083
Board member Jouko Oksanen	63	-	-	-	-	63	59
Board member Dag Rehme	2,488	1,096	5,087	213	1,131	10,015	8,507
Board member Knut Arne Alsaker	2,784	1,702	6,613	195	2,051	13,345	10,547
Senior executives (9 individuals) [2]	19,041	9,265	35,123	1,097	5,368	69,894	60,713
Total	**36,724**	**20,182**	**70,221**	**1,617**	**15,159**	**143,903**	**126,568**

[1] For more information, refer to Long-term incentive schemes below.
[2] Senior executives consist of 9 individuals during 2018, 9 individuals during 2017.

KSEK Provision expensed during the year for disbursement during future years	Variable remuneration	Incentive schemes	2018 Total	2017 Total
Chairman of the Board Torbjörn Magnusson	4,404	-352	4,052	14,873
President Ricard Wennerklint	2,693	-306	2,387	8,745
Vice President Måns Edsman	556	-121	435	2,991
Board member Dag Rehme	1,082	-232	850	5,063
Board member Knut Arne Alsaker	1,799	-1,507	292	7,127
Senior executives (9 individuals) [1]	7,926	-1,601	6,325	37,790
Total	**18,460**	**-4,119**	**14,341**	**76,589**

[1] Senior executives consist of 9 individuals during 2018, 9 individuals during 2017.

PENSIONS

Alongside statutory retirement pension benefits, the Swedish, Norwegian and Danish senior executives are covered by local occupational retirement pension plans. A description of the pension plans can be found below.

SWEDEN

Swedish senior executives are entitled to an individually agreed Defined Contribution pension plan or collectively agreed pension according to FTP2 with an alternative FTP that is defined contribution in nature. The retirement age for all senior executives is 65.

Individually agreed pension plan

The annual premium corresponds to 38% of the annual fixed salary and 25% of paid annual variable compensation.

FTP2

One senior executive is covered by the FTP2 plan with an opt-out model referred to as alternative FTP. On salary levels below 7.5 Swedish income base amount (IBA), the plan is defined benefit in nature and provides a retirement income of 10% of final pensionable salary up to 7.5 IBA, provided the full-service condition of 30 years in the plan has been met. On salary levels between 7.5 - 30 IBA, the plan is defined contribution in nature, with an annual premium corresponding to 32% of pensionable salary.

NORWAY

Norwegian senior executives are covered by defined contribution pension plans, with an annual contribution corresponding to:

- 7% of pensionable salary up to 7.1 G (G = National Insurance basic amount)
- 25.1% between 7.1 and 12 G.

For pensionable salary exceeding 12 G, the Norwegian members are covered by a temporary pension between 67 and 82 years of age and the contribution corresponds to 24% of the annual fixed salary.

Norwegian pension legislation allows for a flexible retirement age between 62 and 75.

DENMARK

The Danish senior executive is covered by a defined contribution pension plan. The contribution corresponds to 21.7 % of the annual fixed salary and 25% of paid annual variable compensation.

The retirement age is flexible.

SEVERANCE PAY

In the event of a termination of employment by the company, the President will be entitled to salary during a 12-month period of notice and severance pay amounting to 18 months' fixed salary.

In the event of a termination of employment by the company, other senior executives are entitled to salary during a period of notice of 6 to 12 months, and in most cases, to severance pay amounting to a minimum of 9 months' and a maximum of 24 months' fixed salary.

LONG-TERM INCENTIVE SCHEMES

A number of senior executives are covered by incentive schemes issued by Sampo Group. There are currently two schemes in force, issued in September 2014 and September 2017 respectively, both covering 60-70 employees. The schemes are subject to performance thresholds and ceilings that cap the size of the payment. The outcome of the schemes is determined over a period of three to five years starting from the issue of the respective scheme and is based on Sampo plc's share-price performance, If's insurance margin and Sampo Group's return on risk-adjusted capital. A number of incentive units have been allocated to each participant in the respective scheme. The incentive unit carries an entitlement to a cash payment, provided that threshold levels are reached. Given that the targets regarding If's insurance margin and Sampo Group's return on risk-adjusted capital have been met, the payment equals the increase in Sampo plc's share price from the issue of the respective scheme up until three defined payment dates. According to the terms and conditions of the schemes, identified staff must buy Sampo A shares with 50 or 60 % of the net amount of the reward. The shares are subject to a formal disposal restriction for three years from the date of payment.

The schemes have been measured at fair value at the grant date and at every reporting date thereafter. The fair value of the units has been estimated using the Black-Scholes pricing model. The terms regarding If's insurance margin and Sampo Group's return on risk-adjusted capital are monitored on an ongoing basis by forecasting the number of units that are expected to vest. The provision recognized in the balance sheet is the vested value on the balance sheet date and any changes in the fair value are recognized in the profit and loss.

For further information on the long-term incentive schemes and full terms and conditions, see http://www.sampo.com/governance/remuneration/long-term-incentives/

KSEK **Outstanding units and their values**	**Number of units**	**Maximum amount**	**Reserved amount**
Chairman of the Board Torbjörn Magnusson	437,500	102,651	8,805
President Ricard Wennerklint	200,000	47,746	4,945
Vice President Måns Edsman	101,000	23,217	2,000
Board member Dag Rehme	115,000	27,770	3,198
Board member Knut Arne Alsaker	39,500	11,342	3,121
Senior executives (7 individuals)	819,000	197,491	22,459
Others covered by the incentive schemes	1,486,650	344,972	30,536
Total	**3,198,650**	**755,189**	**75,064**

The expensed cost of the incentive program during the year amounted to MSEK 16 (126).

NOT 13 – Auditors' fees

MSEK	2018	2017
Ernst & Young AB		
Audit fees	1	14
Audit fees outside the audit assignment	-	0
Tax consultancy fees	1	1
Other consultancy fees	0	0
Total fee to Ernst & Young AB	**2**	**15**

MSEK	2018	2017
KPMG		
Audit fees	13	-
Audit fees outside the audit assignment	-	-
Tax consultancy fees	0	-
Other consultancy fees	0	-
Total fee to KPMG	**13**	**-**

NOTE 14 – Performance analysis per class of insurance

2018 MSEK	Accident and health	Motor, third party liability	Motor, other classes	Marine, air and transport	Fire and other damage to property	Third party liability	Credit and surety
Premiums written, gross	7,521	5,275	13,179	1,062	12,191	2,098	24
Premiums earned, gross	7,454	5,379	13,018	1,068	12,187	2,067	24
Claims incurred, gross	-4,917	-3,066	-9,697	-671	-8,839	-1,968	-4
Operating expenses, gross [1]	-1,289	-1,168	-1,878	-177	-1,743	-294	-3
Profit/loss from ceded reinsurance	-22	-6	-5	-104	-620	106	-
Technical result before investment return transferred from the non-technical account	**1,226**	**1,139**	**1,438**	**116**	**985**	**-89**	**17**

	Legal expenses	Assistance	Miscellaneous	Total direct insurance	Reinsurance accepted	Total
Premiums written, gross	491	6	1,139	42,986	1,155	44,141
Premiums earned, gross	489	6	1,131	42,823	1,132	43,955
Claims incurred, gross	-289	-1	-1,052	-30,504	738	-29,766
Operating expenses, gross [1]	-68	-	-179	-6,799	-187	-6,986
Profit/loss from ceded reinsurance	-1	-	-41	-693	-524	-1,217
Technical result before investment return transferred from the non-technical account	**131**	**5**	**-141**	**4,827**	**1,159**	**5,987**

Allocated investment return transferred from the non-technical account	**128**
Technical result from property and casualty insurance	**6,115**

[1] The item Operating expenses, gross includes other technical income of MSEK 373 (248) and other technical expense of MSEK -418 (-326).

2017 MSEK	Accident and health	Motor, third party liability	Motor, other classes	Marine, air and transport	Fire and other damage to property	Third party liability	Credit and surety
Premiums written, gross	4,807	4,069	10,961	826	9,819	1,608	7
Premiums earned, gross	5,024	4,229	10,711	857	9,967	1,646	7
Claims incurred, gross	-2,932	-2,726	-8,013	-789	-6,379	-815	-
Operating expenses, gross [1]	-816	-1,016	-1,471	-141	-1,516	-256	-1
Profit/loss from ceded reinsurance	-52	2	-7	-50	-585	-174	-
Technical result before investment return transferred from the non-technical account	**1,224**	**489**	**1,220**	**-123**	**1,487**	**401**	**6**

	Legal expenses	Assistance	Miscellaneous	Total direct insurance	Reinsurance accepted	Total
Premiums written, gross	239	5	929	33,270	849	34,119
Premiums earned, gross	256	5	926	33,628	818	34,446
Claims incurred, gross	-138	-1	-682	-22,475	-694	-23,169
Operating expenses, gross [1]	-40	0	-200	-5,457	-122	-5,579
Profit/loss from ceded reinsurance	-1	0	-65	-932	309	-623
Technical result before investment return transferred from the non-technical account	**77**	**4**	**-21**	**4,764**	**311**	**5,075**

Allocated investment return transferred from the non-technical account	**179**
Technical result from property and casualty insurance	**5,254**

[1] The item Operating expenses, gross includes other technical income of MSEK 248 (197) and other technical expense of MSEK -326 (-263).

NOTE 15 – Investment result

MSEK Investment income	2018	2017
Operating surplus, land and buildings		
Rental income	23	6
Operating expenses	-22	-5
Dividend on shares and participations	483	366
Interest income, etc.		
Bonds and other interest-bearing securities	1,567	1,268
Other interest income	84	44
Other interest income, Group companies	8	5
Exchange-rate gains, net	63	6
Capital gains, net		
Land and buildings	37	-
Bonds and other interest-bearing securities	1,104	748
Derivatives	165	416
Other loans	9	-
Total	15	-
Summa	**3,535**	**2,854**

MSEK Unrealized gains on investment assets recognized in the income statement	2018	2017
Land and buildings	-	2
Bonds and other interest-bearing securities	155	-
Derivatives	-	-
Total	**155**	**2**

MSEK Investment charges	2018	2017
Asset management costs	-253	-220
Interest costs, etc.		
Derivatives	-9	-10
Other interest costs	-419	-128
Other interest costs, Group companies	-13	-16
Capital losses, net		
Bonds and other interest-bearing securities	-	-
Derivatives	-	-
Total	**-695**	**-374**

MSEK Unrealized losses on investment assets recognized in the income statement	2018	2017
Land and buildings	-24	-
Shares and participations	-368	-258
of which, impairment losses	*-368*	*-258*
Bonds and other interest-bearing securities	-	-453
of which, impairment losses	*-*	*-453*
Derivatives	-13	-22
Total	**-405**	**-734**

MSEK Reconciliation of financial assets available for sale	2018	2017
Opening balance, financial assets available for sale	**6,492**	**5,102**
Addition due to legal merger	-	736
Unrealized results, financial assets available for sale	-2,357	1,098
Recognized in income statement	-1,056	-459
Translation difference	20	15
Closing balance, financial assets available for sale	**3,100**	**6,492**
Net change, financial assets avaiable for sale recognized in comprehensive income	-3,413	639

	Fair value Dec 31, 2018		Fair value Dec 31, 2017		Return 2018		Return 2017	
Return on investment assets [1]	MSEK	%	MSEK	%	MSEK	%	MSEK	%
Interest-bearing securities	93,043	89	92,675	86	1,069	1.1	1,692	2.3
Equities	11,616	11	14,450	13	-1,364	-10.4	1,079	9.2
Currency (active positions)	-4	0	6	0	102	-	-23	-
Currency (other) [2]	71	0	149	0	-38	-	29	-
Properties	44	0	122	0	13	-	4	-
Other	-	-	-	-	-604	-	-393	-
Total investment assets	**104,770**	**100**	**107,401**	**100**	**-823**	**-0.8**	**2,388**	**3.1**

[1] Accrued interest and the investment operations' bank balances are reported above as part of interest-bearing securities. Derivative and securities settlement claims/liabilities have been reported under the relevant asset item above. The return on active investments has been calculated using a daily time-weighted return calculation method.

[2] IIn the asset category Currency (other), the fair value of held currency derivatives is presented. The reported return on the same line includes, in addition to the return from currency derivatives, currency effects recognized in the income statement from the revaluation of items in the income statement and balance sheet.

NOTE 16 – Interest expense, subordinated debt

MSEK	Interest rate	2018	2017
Subordinated loan, issued in 2011	6.00%	-69	-65
Total		**-69**	**-65**

NOTE 17 – Goodwill amortization

MSEK	2018	2017
Amortization of goodwill attributable to assets and liabilities arising from the formation of If (Amortization is based on an useful life of 20 years)	-288	-277
Total	**-288**	**-277**

NOTE 18 – Taxes

MSEK	2018	2017
Current tax	-1,781	-1,877
Deferred tax	24	-24
Total tax in the income statement	**-1,757**	**-1,901**
Specification of current taxes		
Swedish entities	-766	-504
Non-Swedish entities	-1,015	-1,373
Total current tax	**-1,781**	**-1,877**
Specification of deferred tax		
Temporary differences pertaining to goodwill	61	61
Other temporary differences	-37	-85
Total deferred tax	**24**	**-24**

MSEK	2018	2017
Specification of taxes related to other comprehensive income		
Related to financial assets available-for-sale	750	-151
Other	-72	-118
Total current and deferred tax	**678**	**-269**
Difference between reported tax and tax based on current Swedish tax rate		
Profit before taxes	7,888	8,780
Tax according to current tax rate, 22%	-1,735	-1,932
Permanent differences, net	-29	-30
Adjustment of prior-year taxes	3	5
Different tax rates in foreign units	8	56
Changes in tax rates	-4	-
Reported tax in the income statement	**-1,757**	**-1,901**

NOTES TO THE BALANCE SHEET

NOTE 19 – Intangible assets

MSEK	Goodwill 2018	Goodwill 2017	Other intangible assets 2018	Other intangible assets 2017
Accumulated acquisition value	6,089	5,918	395	305
Accumulated amortization	-6,037	-5,606	-165	-128
Closing carrying amount	**52**	**312**	**230**	**177**

An amount corresponding to the carrying amount for other internally generated intangible assets capitalized from 2016 is presented as a fund within restricted equity (Fund for costs of development).

NOTE 20 – Land and buildings

	Carrying amount MSEK	Carrying amount per leasable sq.m., SEK	Total area sq.m.	Vacancy rate	Direct yield
Office and commercial properties	43	2,310	18,684	19.2 %	16.2%
Industrial properties and warehouses	1	225	2,890	-	76.0%
Other properties	0	1,783	230	-	5.8%
Total	**44**	**2,028**	**21,804**	**16.5 %**	**17.1 %**
Preceding year	122	3,543	34,340	35.2%	5.0%

MSEK Geographical distribution, carrying amount	2018	2017
Finland	44	121
Norway	1	1
Total	**44**	**122**

MSEK	2018	2017
Rental income during the fiscal year	**23**	**25**
Costs pertaining to land and buildings		
Operating expenses pertaining to premises that generated income during the fiscal year	14	11
Operating expenses pertaining to premises that did not generate income during the fiscal year	4	6

MSEK	2018	2017
Carrying amount, opening balance	**122**	**2**
Due to merger	-	116
Supplementary capitalizations	-	-
Sales and scrappage	-95	-
Net changes in current value	12	1
Translation differences	6	2
Carrying amount, closing balance	**44**	**122**

Total future minimum rents	2018	2017
<1 year	12	13
1–5 years	9	10
> 5 years	-	-

NOTE 21 – Other financial investment assets and derivative liabilities

THE CLASSIFICATION OF OTHER FINANCIAL INVESTMENT ASSETS AND DERIVATIVE LIABILITIES IN ACCORANCE WITH IAS 39

The recognition of financial assets and liabilities depends on their classification.

The classification of assets and liabilities categorized in accordance with IAS 39 is shown below.

	Acquisition value		Fair value		Carrying amount	
MSEK	2018	2017	2018	2017	2018	2017
Financial assets, mandatory at fair value through profit or loss (trading)						
Derivatives	13	6	94	242	94	242
Financial assets available for sale						
Shares and participations	10,260	10,477	11,561	14,427	11,561	14,427
Bonds and other interest-bearing securities	90,672	89,186	90,289	89,199	90,289	89,199
Total financial assets, at fair value	**100,945**	**99,669**	**101,944**	**103,868**	**101,944**	**103,868**
Loans [1]						
Other loans	995	811	1,001	815	995	811
Total financial investment assets	**101,940**	**100,480**	**102,945**	**104,682**	**102,939**	**104,679**
Financial liabilities, mandatory at fair value through profit or loss (trading)						
Derivatives	-	-	45	107	45	107
Total financial liabilities, at fair value	**-**	**-**	**45**	**107**	**45**	**107**

[1] Loans are in accordance with the If's application of IAS 39 accounted for at amortized cost. The fair value is only shown for information.

Financial instruments with fair value given for information are classified in three different hierarchy levels depending on their liquidity and valuation methods. All loans are classified in level 3 and the fair value of these loans are based on cash-flow valuations.

THE CLASSIFICATION OF OTHER FINANCIAL INVESTMENT ASSETS IN ACCORDANCE WITH IFRS 9

In accordance with the requirements of IFRS 4, insurance companies that have decided to delay the implementation of IFRS 9 until 2022 must provide certain disclosures regarding fair value and changes in fair values. These disclosures are to be divided into two groups of financial assets.

Since such a grouping presupposes that an assessment of the company's future business model for the administration of financial assets is to be anticipated, If has chosen to assume for this purpose that the business model will be such that nearly all assets are measured at fair value through profit or loss. This does not rule out the possibility that another assessment may be made upon the initial application of IFRS 9.

Based on these circumstances, the following presents the fair value of financial assets at the end of the reporting period and the change in fair value during the period, which according to IFRS 9, have been classified in one of the following categories; financial assets measured at fair value through profit or loss or financial assets measured at amortized cost.

	Fair value		Change in
MSEK	2018	2017	fair value
Financial assets, at fair value through profit or loss			
Shares and participations	11,561	14,427	-2,866
Bonds and other interest-bearing securities	90,289	89,199	1,090
Derivative assets	94	242	-148
Total	**101,944**	**103,868**	**-1,924**
Financial investment assets at amortized cost			
Deposits with credit institutions	-	-	-
Other loans	1,001	815	186
Total	**1,001**	**815**	**186**
Total financial investment assets	**102,945**	**104,682**	**-1,738**

If has only minor holdings in financial investment assets at amortized cost. These holdings are assessed to have a credit rating of between B and BB.

SPECIFICATION OF OTHER FINANCIAL INVESTMENT ASSETS AND DERIVATIVE LIABILITIES

BONDS AND OTHER INTEREST-BEARING SECURITIES

If's bonds and other interest-bearing securities by type of issuer at 31 December, 2018 are shown below.

MSEK Type of issuer	Nominal value		Fair value		Carrying amount	
Swedish government	724	1%	912	1%	912	1%
Swedish public sector, other	3,590	4%	3,613	4%	3,613	4%
Swedish mortgage companies	5,388	6%	5,554	6%	5,554	6%
Swedish financial companies	17,070	19%	17,435	19%	17,435	19%
Other Swedish companies	9,720	11%	9,725	11%	9,725	11%
Foreign governments	755	1%	789	1%	789	1%
Foreign public sector, other	3,298	4%	3,360	4%	3,360	4%
Foreign financial companies	27,355	30%	27,176	30%	27,176	30%
Other foreign companies	22,005	24%	21,725	24%	21,725	24%
Total	**89,906**	**100%**	**90,289**	**100%**	**90,289**	**100%**

Years to maturity [1]	<1	1-2	2-3	3-4	4-5	5-6	6-7	7-8	8-9	9-30	Total
Fair value %, 2018	14	20	27	20	11	4	2	1	0	-	**100**
Fair value %, 2017	13	19	23	24	14	3	2	0	0	-	**100**

[1] The maturity period is not adjusted to take into account the possibility of premature redemption of bonds.

DERIVATIVES

MSEK Derivative assets	2018 Fair value	2018 Carrying amount	2018 Nominal amount	2017 Fair value	2017 Carrying amount	2017 Nominal amount
Equity derivatives						
Options	0	0	4	3	3	4
Total equity derivatives	**0**	**0**	**4**	**3**	**3**	**4**
of which, cleared by clearing house	-	-	-	-	-	-
Fixed income derivatives	-	-	-	-	-	-
Currency derivatives						
Options	2	2	195	1	1	108
Futures	92	92	19,902	238	238	22,012
Total currency derivatives	**94**	**94**	**20,097**	**239**	**239**	**22,120**
of which, cleared by clearing house	-	-	-	-	-	-
Total derivative assets	**94**	**94**		**242**	**242**	
Derivative liabilities						
Equity derivatives	-	-	-	-	-	-
Fixed income derivatives						
Swaps	18	18	500	23	23	500
Total fixed income derivatives	**18**	**18**	**500**	**23**	**23**	**500**
of which, cleared by clearing house	*18*	*18*	*500*	*23*	*23*	*500*
Currency derivatives						
Options	-	-	-	-	-	-
Futures	27	27	19,876	84	84	21,789
Total currency derivatives	**27**	**27**	**19,876**	**84**	**84**	**21,789**
of which, cleared by clearing house	-	-	-	-	-	-
Total derivative liabilities	**45**	**45**		**107**	**107**	

NOTE 22 – Financial investment assets and derivative liabilities at fair value

DETERMINATION OF FAIR VALUE OF FINACIAL ASSETS AND LIABILITIES

A careful process is followed and controls are performed in order to ensure correct fair values of financial assets and liabilities. For example, controls are made by several different external sources and assessments of abnormal price changes are performed when necessary.

Different valuation methods are used to determine the fair value depending on the type of financial instruments and to what extent they are traded on active markets. In order to evaluate the activity in a market with respect to frequency and volume If mainly uses information compiled by Bloomberg. Quoted shares are valued on the basis of latest trade price on stock markets and are obtained by Bloomberg. The valuation of bonds is also usually based on prices from Bloomberg. Quoted bonds are valued on the basis of last bid price. For modelvalued interest bearing instruments, yield curves based on last mid prices are used.

Level 1 – Financial assets and liabilities with values based on quoted prices in active markets for identical assets or liabilities.

Quoted prices in active markets are considered the best estimate of an asset/liability's fair value. 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.

Assets and liabilities in the category include shares, listed funds (ETF), equity and interest rate funds and interest-bearing assets that have quoted prices in an active market at the time of valuation. The category also includes derivatives with a daily fixing.

Level 2 –Financial assets and liabilities with values based on quoted prices or valuation based on directly or indirectly observable market data.

In the level 2 hierarchy all essential inputs are observable either directly or indirectly. The large majority of the instruments in level 2 are traded in a market with daily quoted prices and regularly occurring market transactions but where the market is not considered to be active enough regarding frequency and volume and/or when the standard deviation of the prices is high. A very limited part of the instruments are model valued with the help of market data that is indirectly observable, meaning that prices can be derived from observable markets where market interest rates and underlying rates normally are updated daily or, in exceptional cases, at least on a monthly basis.

Instruments which are valued at level 2 include interest-bearing assets where the market is not active enough. Most OTC derivatives, standardized derivatives as well as currency derivatives are also included in this level.

Level 3 - Financial assets and liabilities that are traded on an illiquid market, with non-observable market data or indications of trading levels without any actual trade.

When neither quoted prices in active markets nor observable market data is available, the fair value of financial instruments is based on valuation techniques which are based on non-observable market data.

Level 3 comprises private equity, unlisted shares, certain high-yield assets and distressed assets encountering financial difficulties where the trade has more or less ceased to exist.

The types of financial instruments classified as level 3 in the valuation hierarchy are discussed below with reference to type of securities and valuation method:

- Private equity is classified as level 3. The majority of If's investment in Private Equity is made in mutual 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. The last obtained value is used.;
- For some unlisted shares external evaluations are obtained, which are used for valuation. The external valuations are based on models that contain non-observable assumptions; and
- Other assets in level 3 are normally valued at least yearly and the valuation is based either on external estimates, cash-flow analyses or last market transactions.

For more information on the valuation of financial instruments, see Note 1.

FINANCIAL INVESTMENT ASSETS AND DERIVATIVE LIABILITIES IN FAIR VALUE HIERARCHY

	2018				2017			
MSEK	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets, mandatory at fair value through profit and loss (trading)								
Derivatives								
Equity derivatives	-	0	-	0	-	3		3
Foreign exchange derivatives	-	94	-	94	-	239		239
Financial assets, available for sale								
Shares and participations [1]	11,359	-	202	11,561	14,233	-	194	14,427
Bonds and other interest-bearing securities	64,726	25,563	0	90,289	67,716	21,482	0	89,199
Total financial assets, at fair value	**76,085**	**25,657**	**202**	**101,944**	**81,950**	**21,724**	**194**	**103,868**
Financial liabilities, mandatory at fair value through profit and loss (trading)								
Derivatives								
Fixed income derivatives	-	18	-	18	-	23	-	23
Foreign exchange derivatives	-	27	-	27	-	84	-	84
Total financial liabilities, at fair value	**-**	**45**	**-**	**45**	**-**	**107**	**-**	**107**

[1] Mutual equity funds recognized in the above balances totaled MSEK 3,711 (4,151) of which MSEK 3,517 (3,965) was allocated to level 1 and MSEK 194 (186) to level 3.

FINANCIAL INVESTMENT ASSETS IN LEVEL 3

Financial assets presented in level 3 are included in financial instruments carried at fair value on the balance sheet. At December 31, 2018, the assets presented in level 3 amounted to MSEK 202 (194). These financial assets are categorized as available for sale, and unrealized market value changes are, therefore, recognized in other comprehensive income.

			Net gains/losses recorded in:							
MSEK 2018	Carrying amount Jan 1	Addition due to legal merger	income statement	other comprehensive income	Purchases	Sales / maturities	Transfers into/out of level 3	Exchange rate differences	Carrying amount Dec 31	Net gains/losses in income statement that are attributable to assets held at end of period
Financial assets, available for sale										
Shares and participations	194	-	0	-18	25	-6	-	8	202	-18
Bonds and other interest-bearing securities	0	-	-	0	-	-	-	-	0	-
Total financial assets, at fair value	**194**	-	**0**	**-18**	**25**	**-6**	**-**	**8**	**202**	**-18**

MSEK 2017										
Financial assets, available for sale										
Shares and participations	8	197	-	-7	-	-8	-	3	194	0
Bonds and other interest-bearing securities	0	-	17	0	-	-17	-	0	0	-
Total financial assets, at fair value	**8**	197	**17**	**-7**	**-**	**-26**	**-**	**3**	**194**	**0**

SENSITIVITY ANALYSIS OF THE FAIR VALUES OF FINANCIEL ASSETS IN LEVEL 3

The sensitivity of the fair value of level 3 instruments to changes in key assumptions, by category and financial instrument is shown below.

The following changes in key assumptions have been used:
- A 1% increase in the yield curve for bonds and other interest-bearing securities;A 20% decrease in prices for equity related securities and real estate.

MSEK	2018 Carrying amount	2018 Effect of reasonably possible alternative assumptions	2017 Carrying amount	2017 Effect of reasonably possible alternative assumptions
Financial assets, available for sale				
Shares and participations [1]	202	-40	194	-39
Bonds and other interest-bearing securities	0	0	0	0
Total financial assets, at fair value	**202**	**-40**	**194**	**-39**

[1] Includes holding in equity funds.

NOTE 23 – Financial instruments set off in the balance sheet or subject to netting agreements

MSEK Assets	2018	2017
Derivatives		
Gross amount of recognized assets	94	242
Gross amounts of recognized liabilities offset against assets	-	-
Net amount presented in the balance sheet	**94**	**242**
Amounts not set off but subject to master netting agreements and similar agreements [1]		
Financial instruments	-27	-46
Cash collateral received	12	34
Net amount	**79**	**230**

MSEK Liabilities	2018	2017
Derivatives		
Gross amount of recognized liabilities	45	107
Gross amounts of recognized assets offset against liabilities	-	-
Net amount presented in the balance sheet	**45**	**107**
Amounts not set off but subject to master netting agreements and similar agreements [1]		
Financial instruments	-27	-46
Cash collateral pledged	107	182
Net amount	**125**	**243**

[1] Subject to a legally binding offsetting agreement, enforceable master netting arrangement or similar agreements. If has ISDA agreements with all derivative counterparties. Offsetting take place in case of the counterparty's bankruptcy but not in running business.

NOTE 24 – Reinsurers' share of technical provisions

MSEK Change during the year	2018 Provision for unearned premiums and unexpired risks	2018 Provision for claims outstanding	2017 Provision for unearned premiums and unexpired risks	2017 Provision for claims outstanding
Opening balance	**386**	**1,726**	**379**	**1,741**
Addition due to legal merger	-	-	67	128
Change in provision	4	-152	-51	-84
Translation differences	36	105	-9	-60
Closing balance	**425**	**1,679**	**386**	**1,726**

A specification of the reinsurers' share of technical provisions is presented in Note 33 Technical provisions.

NOTE 25 – Debtors arising out of direct insurance

MSEK	2018	2017
Receivables from policyholders	13,311	11,933
Receivables from insurance brokers	-12	0
Receivables from insurance companies	58	57
Bad-debts provision	-279	-276
Total [1]	**13,078**	**11,713**

[1] Of which, MSEK 7 (1) is expected to be received later than 12 months after the closing date.

MSEK Age analysis	Not due and younger than six months	Older than six months	Total
Debtors	12,831	526	13,357
Of which, provision	-11	-267	-279
Total	**12,820**	**258**	**13,078**

Generally, provision is made on a standard computation base, the amount includes individual provision of negative MSEK -6 (-4).

NOTE 26 – Debtors arising out of reinsurance

MSEK	2018	2017
Receivables from reinsurers	460	469
Bad-debts provision	-4	-4
Total [1]	**456**	**465**

[1] Of which, MSEK 0 (4) is expected to be received later than 12 months after the closing date.

MSEK Age analysis	Not due and younger than six months	Older than six months	Total
Debtors	433	27	460
Of which, provision	0	-4	-4
Total	**433**	**23**	**456**

Bad-debt provisions are entirely calculated on an individual basis.

NOTE 27 – Other debtors

MSEK	2018	2017
Receivable from Group companies	1,214	1,564
Debtor, patient-insurance pool for the public sector	1,224	1,125
Bad-debt provision	-	-
Other	109	92
Total [1]	**2,546**	**2,781**

[1] Of which, MSEK 1,167 (1,069) is expected to be received later than 12 months after the closing date.

NOTE 28 – Tangible assets

MSEK	2018	2017
Closing accumulated acquisition value	452	408
Closing accumulated depreciation	-267	-242
Closing planned residual value	**185**	**167**

MSEK Operational leasing agreements (lessee) Due dates	Operational leasing agreements 2018	 2017
< 1 year	256	252
1-5 years	766	863
> 5 years	360	481
Total	**1,382**	**1,596**

The company's operational leasing pertains mainly to premises and vehicles.

MSEK	2018	2017
Total lease payments during the period	**298**	**302**
Of which, minimum lease payments	*288*	*297*
Of which, contingent rents	*10*	*5*

Operational leasing where If acts as lessor pertains to income from the leasing out of premises and was only insignificant amounts. The carrying amount of leased-out land and buildings is MSEK 44 (121).

NOTE 29 – Deferred acquisition costs

MSEK	2018	2017
Opening balance	**1,137**	**985**
Addition due to legal merger	-	165
Net change during the year	-11	10
Translation difference	30	-24
Closing balance	**1,156**	**1,137**

Acquisition expenditure during the year amounted to MSEK 4,726 (3,842). The item pertains to accrued sales costs that have a distinct connection to the writing of insurance contracts. The sales costs include operating expenses such as commission, marketing expenses, salaries and the cost of salespeople, which vary according to, and have a direct or indirect relationship with, the acquisition or renewal of insurance contracts. The sales costs are expensed in a manner that matches the amortization of unearned premiums, normally not more than one year.

NOTE 30 – Other deferred costs and accrued income

MSEK	2018	2017
Accrued income	273	262
Deferred costs	320	324
Total	**593**	**587**

NOTE 31 – Untaxed reserves

MSEK	2017	Change recognized in income statement	Translation difference	2018
Contingency reserve	6 957	-	86	7 043
Closing balance	**6 957**	**-**	**86**	**7 043**

Through the Norwegian branch, If provides property insurance that also includes protection against damage caused by natural events. As a consequence, the branch is a member of the Norwegian Natural Peril's Pool and is obliged to reserve Natural perils capital. The contingency reserve includes an amount reported in NOK corresponding to Natural perils capital in the Norwegian branch.

NOTE 32 – Subordinated debt

				2018		2017	
MSEK	Original nominal value	Maturity	Interest rate	Fair value [1]	Carrying amount	Fair value [1]	Carrying amount
Subordinated loan, issued 2011	MEUR 110	30 years	6.00%	1,200	1,124	1,165	1,078
Total				**1,200**	**1,124**	**1,165**	**1,078**

[1] According to If's application of IAS 39, subordinated debt is carried at amortized cost. Fair value is only given for information purposes. Financial instruments with fair value given for information purposes are classified in three different hierarchy levels depending on their liquidity and valuation methods. The subordinated loan is classified in level 3 and the fair value is based on cash-flow valuations.

The loan is issued with fixed interest rate terms for the first ten years. After that period it will become subject to variable interest rate but it also include terms stating the right of redemption at this point in time. The loan is listed on the Luxembourg Stock Exchange (BdL Market). The loan and terms of the loan are approved by the supervisory authority as being utilizable for solvency purposes.

MSEK Changes in liabilities arising from financing activities	2018	2017
Opening balance	**1,078**	**1,045**
Cash flows	-	-
Non-cash changes - Translation difference	45	32
Non-cash changes - Other	1	1
Closing balance	**1,124**	**1,078**

NOTE 33 – Technical provisions, gross

MSEK Change during the year	2018 Provision for unearned premiums and unexpired risks	2018 Provision for claims outstanding	2017 Provision for unearned premiums and unexpired risks	2017 Provision for claims outstanding
Opening balance	**19,355**	**68,795**	**15,851**	**46,257**
Addition due to legal merger	-	-	4,111	24,487
Unwinding of discounted annuities	-	320	-	148
Change in provision	186	-1,463	-327	-1,483
Translation differences	662	1,799	-280	-614
Closing balance	**20,203**	**69,452**	**19,355**	**68,795**

MSEK Technical provisions and reinsurers' share	2018	2017
Technical provisions, gross		
Unearned premiums and unexpired risks	20,203	19,355
Provision for incurred and reported claims	16,059	14,674
Provision for incurred but not reported claims	28,506	30,134
Provision for annuities	22,463	21,521
Provision for claims-settlement costs	2,422	2,466
Total	**89,654**	**88,150**
Reinsurers' share of technical provisions		
Unearned premiums and unexpired risks	425	386
Provision for incurred and reported claims	1,240	1,040
Provision for incurred but not reported claims	439	686
Provision for annuities	-	-
Provision for claims-settlement costs	-	-
Total	**2,105**	**2,112**
Technical provisions for own account		
Unearned premiums and unexpired risks	19,777	18,969
Provision for incurred and reported claims	14,820	13,634
Provision for incurred but not reported claims	28,067	29,448
Provision for annuities	22,463	21,521
Provision for claims-settlement costs	2,422	2,466
Total	**87,550**	**86,038**

VALUATION OF TECHNICAL LIABILITIES

Technical liabilities must reflect the liability If has for its insurance undertakings, meaning the insurance contracts underwritten. This may be divided into two parts; firstly, provisions for unearned premiums and, secondly, provisions for unsettled claims. The provisions for unearned premiums pertain to current contracts for which the contractual period has not expired. The dominant component, provisions for unsettled claims, pertains to future claims payments for the claims associated with all insurance contracts underwritten by If.

PROVISIONS FOR UNEARNED PREMIUMS AND UNEXPIRED RISK

Provisions for unearned premiums correspond to the value of If's aggregate liability for current insurance policies and are calculated using a generally accepted method. This involves taking into consideration how large a share of the premium is attributable to the period following the accounting period. The provision is subsequently tested to ensure it is sufficient to cover anticipated claims and operating expenses. If the provision is deemed to be insufficient, a provision is made for the unexpired risk corresponding to the calculated deficit.

PROVISIONS FOR UNSETTLED CLAIMS

The provisions for unsettled claims correspond to the value of all anticipated claims payments and related claims settlement costs, including those reported to If and those that have probably occurred but have not yet been reported.

The provisions for unsettled claims are calculated using statistical methods and/or through individual assessment of a particular claim. Usually, the cost of major claims is estimated individually. Minor claims that occur more frequently (frequent claims) as well as the provisions for claims that have yet to be reported are assessed using statistical methods.

Apart from provisions for claims-related annuities and provisions for unknown but probable claims that pertain to Finnish annuities, the provisions for unsettled claims are not discounted. Provisions for claims-related vested annuities are discounted in accordance with current practice, taking into account inflation and mortality.

DESCRIPTION OF METHOD

If uses a number of statistical methods to determine the final claims cost that If must pay. The most common methods are Chain-ladder and Bornhuetter-Ferguson. The Chain-ladder method may be based on various types of data such as outgoing payments, claims costs or number of claims. Historical claims trend factors and a selection of estimates of future development factors are analyzed. The selection of development factors is subsequently applied to the known costs to date for claims (which are not yet fully developed) for each claims year that is to be estimated. This provides an estimate of the anticipated claims costs for each claims year. The Chain-ladder methodology is most suitable for insurance portfolios that have a relatively stable progression. The method is less applicable in cases that lack sufficient historical data, such as in the case of new insurance products or portfolios with a long lag in claims reporting. In the case of such portfolios, the Bornhuetter-Ferguson method is most frequently used. This is partly based on a combination of claims history and exposure data, such as the numbers of insured parties or premiums written. The actual claims history is given greater weight for older developed claims years while for more recent years, the known exposure is weighted to a greater degree towards experience from similar portfolios and product areas.

ASSUMPTIONS AND SENSITIVITY

The assumptions and parameters used in determining the provisions to be posted are adjusted each quarter. A more in-depth analysis is implemented on an annual basis.

If is considerably exposed to personal claims primarily arising from obligatory Motor Third-party Liability and Workers' Compensation policies. Of the total claims reserve, about 70% is attributable to these two insurance categories. If issues Motor Third-party Liability insurance throughout the Nordic region. Workers' Compensation is issued in Norway, Denmark, and Finland. From a customer perspective, the scope of obligatory insurance is essentially similar. However, the portion covered by personal insurance and the portion financed through the state social security system differs among the various countries.

There are a number of factors affecting reserves and their uncertainty. The most important assumptions for portfolios dominated by personal claims are:

- inflation
- discount rate
- mortality
- effect of legislative amendments and court practice

INFLATION

The anticipated inflation trend is observed in all provisions, but is primarily important in claims settled over a long period of time. For long-term business, such as Motor Third-party Liability and Workers' Compensation, assessments are made in-house regarding the future cost trend. This is based on external assessments of the future inflation trend in various areas, such as the consumer price index and payroll index, combined with If's own evaluation of cost increases for various types of compensation. Compensation can rise due to new or amended legislation or practices, for example. Various national rules mean that the sensitivity implications of the assumptions underlying inflation differ quite substantially among countries.

A large share of the claims cost in obligatory insurance consists of compensation for loss of income, which in terms of legislation is usually associated with a pre-defined index for the value adjustment of compensation. In Finland, compensation is paid out in the form of vested annuities and value adjustments are dealt with off the balance sheet in a non-funded pool system. This limits the inflation risk.

In Sweden, compensation is paid out in the form of vested annuities over a long period and provisions must cover future value adjustments. The same also applies to Danish Workers' Compensation insurance. This entails substantial sensitivity to changes in inflation. In Norway and in Danish Motor Third-party Liability insurance, compensation is paid as a lump sum. Since in this case, the duration is relatively short, the inflation risk is reduced. Refer to Note 5 Risks and risk management, for a sensitivity analysis of inflation.

DISCOUNT RATE

With the exception of the compensation paid in the form of vested annuities, provisions for claims- and premium reserves are presented as nominal value (undiscounted).

The discount interest rate for vested annuities is mainly determined with guidance from the now repealed Swedish Financial Supervisory Authority's regulations and general recommendations on the selection of interest rates for calculating technical provisions (FFFS 2013:23). For the operations conducted in If P&C Insurance Ltd, branch in Finland, however, technical provisions are recognized in accordance with the Finnish Insurance Companies Act. This means that provisions for vested annuities are discounted using a flat interest rate and not the interest-rate curve. If considers that control and follow-up of the Finnish business are facilitated by the recognition complying with standard practices in the Finnish insurance sector.

The rates given below are the weighted averages for If's annuities.

The presentation below shows discounted reserves and discount rate by country:

MSEK	2018	2017
Denmark		
Amount vested annuities	1,360	1,183
Discount rate	0.77%	0.83%
Finland		
Amount vested annuities	15,830	15,269
Amount IBNR	2,696	2,710
Discount rate	1.20%	1.20%
Sweden		
Amount vested annuities	5,132	4,977
Discount rate	1.57%	1.70%
Norway		
Amount vested annuities	141	92
Discount rate	2.16%	2.08%

Refer to Note 5 Risks and risk management, for a sensitivity analysis of the discount interest rate. Discounted vested annuities in Finland would have been recognized in an amount of MSEK 16,707 (15,886), discounted IBNR would have been recognized in an amount of MSEK 2,745 (2,765)) and the average discount interest rate would have been 0.84% (0.96) if FFFS 2013:23 had also been applied for the Finnish business. The company's recognized technical result and the technical result for direct insurance abroad (see Note 6) would have deteriorated by about MSEK 225.

MORTALITY

The provision risk for mortality is also related to vested annuities, since actual mortality may be lower than the mortality assumptions made in conjunction with the assessment of provisions. The model used for mortality complies with the practices observed in the various countries. It is usually based on population death rates and/or specific joint-company analyses. The assumptions for mortality are generally differentiated in terms of age and gender. Refer to Note 5 Risks and risk management, for a sensitivity analysis of mortality.

EFFECTS OF LEGISLATIVE AMENDMENTS AND COURT PRACTICES

When setting provisions, it is virtually impossible to take into account amendments to legislation and practices that affect future costs. However, there are methods for managing uncertainty. Firstly, as noted earlier, the inflation assumptions are adjusted to take into account historical experience of the various insurance categories. In cases where individual claims issues are subject to legal examination and for which there is a risk of a prejudicial decision that will affect other claims, the provisions for similar claims are adjusted.

CHANGES IN 2018

No significant changes in methods were implemented during the year.

During the year, the reported increase in gross claims provisions amounted to SEK 0.7 billion. Effects of exchange rate changes amounted to an increase of 1.8 billion, while the real change in gross claims reserves adjusted for currency effects amounted to a decrease of SEK 1.1 billion. By geographical area, the major reserve changes were as follows:

- Claims provisions in the Swedish operation, including branches of the Industrial business area, decreased by more than SEK 0.5 billion. The largest decrease was seen in reserves for Motor third party liability insurance, which were reduced by more than SEK 0.9 billion. Reserves for Property insurance increased by SEK 0.4 billion while reserves in other lines of business showed only modest changes;
- Claims provisions in the Norwegian operation decreased by SEK 0.5 billion. Reserve reductions were seen in all lines of business except Accident insurance, but the largest decreases were in reserves for Liability insurance by almost SEK 0.2 billion and reserves for Workers' Compensation insurance by more than SEK 0.1 billion;
- Claims provisions in the Danish operation increased by SEK 0.2 billion. Reserves increased for all lines of business except Workers' Compensation, but the largest increases were seen in reserves for Property insurance and Marine insurance; and
- Claims provisons in the Finnish operation decreased by almost SEK 0.3 billion, of which SEK 0.2 billion in reserves for Workers' Compensation insurance and SEK 0.1 billion in reserves for Liability insurance. Other lines showed less changes.

The reinsured share of the claims provision decreased by less than SEK 0.1 billion; the real change adjusted for currency was a decrease in total ceded claims reserves of close to SEK 0.2 billion and the effect of currency exchange rates amounted to an increase of SEK 0.1 billion. The main driver was a decrease in ceded reserves for Liability insurance and to a lesser extent also a decrease in ceded reserves for Workers' Compensation insurance.

SIGNIFICANT EVENTS

This year's outcome for large claims was significantly worse than expected on a Nordic level. The largest single claim in 2018 was a fire claim in Sweden estimated at more than SEK 0.2 billon.

CLAIMS COSTS TREND

In addition to the sensitivity analysis, prior-year estimates of the claims costs for individual claims years also represent a measure of If´s ability to foresee final claims costs. The tables below show the cost trend for the claims years 2009-2018, before and after reinsurance. For claims years 2008 and earlier, the information is aggregated to one column and includes only payments made after 2002, i.e. the starting point is the closing balance for claims provisions in 2002 as well as the complete claims years 2003-2008.

The upper part of the table shows how an estimate of the total claims costs per claims year evolves annually. The lower section shows how large a share of this is presented in the balance sheet. Since If has operations in various countries, the portfolio is exposed to a number of currencies. To adjust for currency effects, the local reporting currency has been translated to SEK at the closing rate at December 31, 2018. Consequently, the table is not directly comparable with the corresponding table reported in previous years or with the income statement since all claims years contain translated data based on closing rates.

As of October 1, 2017, If P&C Insurance Company Ltd, containing almost all of If's Finnish business, was merged into If P&C Insurance Ltd. In order to present an informative claims cost triangle, the entire triangle has been updated for all claims years to also include the historical development of the acquired business. The triangle thus presents the development of claims cost for the two companies viewed together both before and after the formal merger.

MSEK Claims cost, gross Claims year	2008 and prior years	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estimated claims cost												
at the close of the claims year	188,898	25,308	26,473	27,367	27,805	26,815	26,631	26,781	27,122	27,541	28,933	
one year later	188,282	24,875	26,876	28,455	27,685	27,054	26,552	26,956	27,430	27,926		
two years later	187,419	24,628	26,355	28,414	27,839	27,067	26,614	26,828	27,453			
three years later	185,965	24,265	26,347	28,322	27,759	27,131	26,732	26,574				
four years later	184,605	24,099	26,288	28,067	27,483	27,186	26,798					
five years later	184,406	23,892	26,267	27,923	27,159	27,056						
six years later	184,270	23,883	26,119	27,701	26,978							
seven years later	185,494	23,622	26,054	27,647								
eight years later	184,816	23,515	25,893									
nine years later	184,419	23,364										
ten years later	183,055											
Current estimate of total claims costs	183,055	23,364	25,893	27,647	26,978	27,056	26,798	26,574	27,453	27,926	28,933	
Total disbursed	155,177	21,637	23,915	25,487	24,844	24,363	23,498	23,298	23,208	22,285	16,935	
Provision reported in the balance sheet	27,878	1,727	1,978	2,160	2,134	2,693	3,300	3,276	4,244	5,641	11,998	67,029
Of which annuities	*16,256*	*643*	*756*	*759*	*773*	*876*	*884*	*674*	*513*	*256*	*73*	*22,463*
Provision for claims-settlement costs												2,422
Total provision reported in the balance sheet												**69,452**

MSEK Claims cost, net of reinsurance Claims year	2008 and prior years	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estimated claims cost												
at the close of the claims year	177,065	24,210	25,174	25,862	25,911	26,343	26,256	26,331	26,538	26,945	28,380	
one year later	176,314	23,942	25,635	26,563	25,766	26,584	26,142	26,471	26,627	27,378		
two years later	175,652	23,680	25,227	26,433	25,918	26,623	26,050	26,310	26,611			
three years later	174,383	23,442	25,173	26,410	25,943	26,702	26,159	26,150				
four years later	173,217	23,288	25,151	26,124	25,721	26,726	26,180					
five years later	173,101	23,074	25,133	26,022	25,398	26,609						
six years later	173,087	23,073	24,976	25,787	25,247							
seven years later	174,194	22,841	24,899	25,671								
eight years later	173,485	22,734	24,745									
nine years later	173,149	22,583										
ten years later	172,038											
Current estimate of total claims costs	172,038	22,583	24,745	25,671	25,247	26,609	26,180	26,150	26,611	27,378	28,380	
Total disbursed	144,409	20,889	22,812	23,628	23,131	23,986	23,027	22,935	22,730	21,938	16,759	
Provision reported in the balance sheet	27,629	1,695	1,933	2,044	2,116	2,623	3,152	3,215	3,881	5,440	11,621	65,350
Of which annuities	*16,256*	*643*	*756*	*759*	*773*	*876*	*884*	*674*	*513*	*256*	*73*	*22,463*
Provision for claims-settlement costs												2,422
Total provision reported in the balance sheet												**67,772**

COMMENTS

In 2018, If had reinsurance coverage with self-retention of MSEK 250 per event and between MSEK 100 and 250 per risk depending on the line of business.

Provisions for fixed claims-related annuities and related payments are included in the distribution by claims year above. Of the total provisions for claims-related annuities of MSEK 22,463, MSEK 16,256 applies to 2008 and previous years.

NOTE 34 – Deferred tax

MSEK Changes in deferred tax 2018	Opening balance 2018	Addition due to legal merger	Recognized in income statement	Translation difference	Recognized in other comprehensive income	Closing balance 2018
Deferred tax assets						
Provisions	105	-	-37	-	2	69
Other temporary differences	23	-	61	-	-4	79
Accumulated depreciation	6	-	-2	-	-	4
Total deferred tax asset	**133**	**-**	**22**	**-**	**-3**	**152**
Netted deferred tax asset against deferred tax liability	**-133**					**-152**
Deferred tax asset according to balance sheet	**-**					**-**
Deferred tax liability						
Valuation of investment assets at fair value	886	-	-2	4	-649	239
Other temporary differences	-	-	-	-	-	-
Deferred tax attributable to untaxed reserves	94	-	-	4	-	97
Total deferred tax liability	**980**	**-**	**-2**	**8**	**-649**	**336**
Netted deferred tax liability against deferred tax asset	**-133**					**-152**
Deferred tax liability according to balance sheet	**847**					**184**
Deferred tax income according to income statement 2018			**24**			

MSEK Changes in deferred tax 2017	Opening balance 2017	Addition due to legal merger	Recognized in income statement	Translation difference	Recognized in other comprehensive income	Closing balance 2017
Deferred tax assets						
Provisions	104	-	1	-	-	105
Other temporary differences	-	-	18	-	5	23
Accumulated depreciation	8	-	-2	-	-	6
Total deferred tax asset	**112**	**-**	**16**	**-**	**5**	**133**
Netted deferred tax asset against deferred tax liability	**-112**					**-133**
Deferred tax asset according to balance sheet	**-**					**-**
Deferred tax liability						
Valuation of investment assets at fair value	685	68	83	3	47	886
Other temporary differences	43	-	-43	-	-	-
Deferred tax attributable to untaxed reserves	91	-	-	3	-	94
Total deferred tax liability	**819**	**68**	**40**	**6**	**47**	**980**
Netted deferred tax liability against deferred tax asset	**-112**					**-133**
Deferred tax liability according to balance sheet	**707**					**847**
Deferred tax expense according to income statement 2017			**-24**			

NOTE 35 – Other provisions

MSEK	2018	2017
Provision for pensions and similar commitments	251	260
Other	180	344
Total	**432**	**604**

The provision for pensions pertains to unfunded pension obligations in the Norwegian branch, accounted for in accordance with the accounting policies applied since If was established. The Other item pertains to restructuring reserves for approved organizational changes. It also includes a provision for other commitments and uncertain obligations.

NOTE 36 – Creditors arising out of direct insurance

MSEK	2018	2017
Payables to policyholders	1,725	1,698
Payables to insurance brokers	68	79
Payables to insurance companies	18	19
Total [1]	**1,812**	**1,795**

[1] Of which MSEK - (-) to be settled later than 12 months after the closing date.

NOTE 37 – Other creditors

MSEK	2018	2017
Tax debt (current)	564	1,096
Accounts payable	47	57
Payables to Group companies	103	194
Collaterals and settlement liabilities	81	147
Creditor, patient-insurance pool for the public sector	1,200	1,103
Premium Tax	1,786	491
Employee withholding taxes	116	112
Other Tax	44	45
Other	220	209
Total [1]	**4,162**	**3,455**

[1] Of which, MSEK 1 157 (1,079) matures later than 12 months after the closing date.

NOTE 38 – Other accruals and deferred income

MSEK	2018	2017
Accrued interest expense, subordinated debt	4	4
Accrued interest expense, other	1	1
Other accrued expenses	1,537	1,636
Deferred income	99	50
Total	**1,642**	**1,692**

Other accrued expenses consist mainly of personnel-relate provisions, such as for vacation-pay liability, social security fees, commission and other variable compensations but also reserves for uninvoiced other operating expenses.

NOTE 39 – Pledged assets

MSEK **Pledged assets and equivalent securities given for own liabilities and for commitments reported as provisions, each type individually**	2018	2017
Other financial investment assets	2,275	2,309
Cash and bank	23	3
Total	**2,298**	**2,313**
Of which, on behalf of Group companies	-	-

The following assets are registered as assets covering technical provisions. In the event of an insolvency situation, policyholders have a beneficiary right in assets registered for coverage of technical provisions. In normal operating circumstances, If has the right to transfer assets in and out of the register as long as all insurance commitments are covered in accordance with the Insurance Business Act.

MSEK **Pledged assets and the pledging purposes are distributed as follows:**	2018	2017
Financial investment assets		
Collateral for insurance undertakings	2,143	2,164
Collateral for futures trading	132	145
Total	**2,275**	**2,309**
Cash and bank balances		
Collateral for insurance undertakings	1	1
Collateral for permission to conduct insurance operations	1	1
Security for rent	21	1
Total	**23**	**3**
Total	**2,298**	**2,313**

MSEK **Policyholders' beneficiary rights**	2018	2017
Assets covered by policyholders' beneficiary rights	101,974	104,355
Technical provisions, net	-71,946	-72,231
Surplus of registered securities	**30,029**	**32,124**

NOTE 40 – Contingent liabilities and other commitments

MSEK	2018	2017
Surety and guarantee undertakings	25	32
Other commitments	165	111
Total	**190**	**143**

If P&C Insurance Ltd provides insurance with mutual undertakings within the Nordic Nuclear Insurers pool, the Norwegian Natural Perils Pool and the Dutch Terror Pool.

Pursuant to the Swedish Traffic Damage Act and Traffic Damage Ordinance, If, which issues motor insurance in Sweden, is obligated to be a member of the association Swedish Motor Insurers (TFF) and is jointly and severally liable to finance the operations of TFF. This occurs in the form of an annual settlement, whereby TFF's net deficit is divided among the member companies in relation to the various companies' premium volume for motor insurance. Each year, If posts a provision for its anticipated share of TFF's estimated deficit for the year concerned. This joint and several responsibility also entails that If has an obligation to account for costs that could pertain to the cost shares of other member companies, should such companies become insolvent.

In connection with the transfer of the property and casualty insurance business from the Skandia group to the If Group as of March 1, 1999, If P&C Insurance Ltd and If P&C Insurance Holding Ltd issued a guarantee for the benefit of Försäkringsaktiebolaget Skandia (publ) whereby the aforementioned companies in the If Group mutually guarantee that companies in the Skandia group will be indemnified against any claims or actions due to guarantees or similar commitments made by companies in the Skandia group within the property and casualty insurance business transferred to the If Group.

If P&C Insurance Holding Ltd and If P&C Insurance Ltd have separately entered into agreements with Försäkringsaktiebolaget Skandia (publ) and Tryg-Baltica Forsikring AS, whereby, Skandia and Tryg-Baltica will be indemnified against any claims attributable to guarantees issued by Försäkringsaktiebolaget Skandia (publ) and Vesta Forsikring AS, on behalf of Skandia Marine Insurance Company (UK) Ltd (changed name to Marlon Insurance Company Ltd, company dissolved in July 2017), in favor of the Institute of London Underwriters. Marlon was sold during 2007, and the purchaser issued a guarantee in favor of If, for the full amount that If may be required to pay under these guarantees.

If P&C Insurance Ltd has outstanding commitments to private equity funds totaling MEUR 11, which is the maximum amount that the company has committed to invest in the funds. Capital will be called to these funds over several years as the funds make investments. In addition, If P&C Insurance Ltd has outstanding commitments to borrowers totaling approximately MSEK 88.

NOTE 41 – Events after the balance sheet date

Ricard Wennerklint resigned as President on February 7, 2019 and at the same time Torbjörn Magnusson resigned as Chairman of the Board. On the same day, Måns Edsman was appointed new President and Morten Thorsrud was elected as new Chairman of the Board.

NOTE 42 – Appropriation of earnings

Unrestricted funds in the company, including the Fair value reserve, amounts to SEK 18,237,444,906. No allocation to statutory reserves is proposed.

Funds available for appropriation by the Annual General Meeting in accordance with the balance sheet amounts to SEK 18,237,444,906, of which the net profit accounts for SEK 6,131,505,848. The Board of Directors and the President propose that SEK 6,200,000,000 be paid as dividend, SEK 9,614,699,827 be carried forward and that SEK 2,422,745,079 be carried as Fair value reserve.

SIGNATURES

We hereby certify that the Annual Report has been prepared in accordance with generally accepted accounting principles, provides a true and fair view of the company's financial position and results and that the Board of Directors' Report provides a true and fair overview of the development of the company's operations, financial position and result and describes the significant risks and uncertainties facing the company.

Stockholm, February 25, 2019

Morten Thorsrud
Chairman of the Board

Patrick Lapveteläinen
Board member

Jouko Oksanen
Board member

Dag Rehme
Board member

Ingar Brotnov
Board member

Johan Sjöstedt
Board member

Måns Edsman
Board member and President

Our audit report was issued on February 25, 2019

KPMG AB

Gunilla Wernelind
Authorized Public Accountant

AUDITOR'S REPORT

To the general meeting of the shareholders of If P&C Insurance Ltd (publ), corp. id 516401-8102

REPORT ON THE ANNUAL ACCOUNTS

OPINIONS

We have audited the annual accounts of If P&C Insurance Ltd (publ) for the year 2018.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Insurance Companies, and present fairly, in all material respects, the financial position of If P&C Insurance Ltd (publ) as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Insurance Companies. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet.

Our opinions in this report on the the annual accounts are consistent with the content of the additional report that has been submitted to the Board of directors in accordance with the Audit Regulation (537/2014) Article 11.

BASIS FOR OPINIONS

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of If P&C Insuranc Ltd (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

OTHER MATTER

The audit of the annual accounts for year 2017 was performed by another auditor who submitted an auditor´s report dated 1 March 2018, with unmodified opinions in the Report on the annual accounts.

KEY AUDIT MATTERS

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts as a whole, but we do not provide a separate opinion on these matters.

Technical Provision

See Note 33 and accounting principles on page 14 in the annual account for detailed information and description of the matter.

DESCRIPTION OF KEY AUDIT MATTER

Provision for claims outstanding, reported as part of technical provisions, amounts to 69.4 billion SEK as of December 31, 2018 which constitutes 55% of the company's total assets.

Provisions for claims outstanding involve significant judgement of uncertain future outcome, primarily including the timing and size of incurred claims which will be settled with the policyholders.

The company uses established actuarial valuation models to support the calculations of the technical provision. The complexity of the models may cause risk for errors as a result of inadequate/incomplete data and/or incorrect assumptions made and/or incorrect actuarial calculations.

The company's provision for claims outstanding consist of a variety of different products, with different characteristics such as long settlement time, injury patterns, assumptions about morbidity, inflation, discount rate, mortality (life annuities) and overheads.

RESPONSE IN THE AUDIT

We have assessed the actuarial assumptions used by the company in calculating the provisions with the company's own investigations, those required for regulatory purposes as well as industry data.

We have by sample tested the internal controls implemented by management over the calculation of the claims provision including for example internal controls over the extraction of data used as input to the actuarial calculations.

We have involved our internal actuarial specialists in order to challenge the methods and assumptions used in the projections of future cash flows and valuation of the provision. We have also performed recalculations to verify that the provision is reasonable as compared to the expected future claims.

We have also considered the completeness of the underlying facts and circumstances that are presented in the disclosures in the annual report and assessed whether the information is suffi-cient to provide an understanding of the methods and assump-tions used by management.

Other financial investment asset, level 2 and level 3

See Note 22 and accounting principles on page 13 in the annual account for detailed information and description of the matter.

DESCRIPTION OF KEY AUDIT MATTER

The company's financial instruments in Levels 2 and 3 amount-ed to 25.9 billion SEK, as of December 31, 2018, which constitutes 25 percent of the company's financial investment assets.

The valuation of financial assets classified in level 2 according to the IFRS valuation hierarchy is based on observable market data such as not included in level 1. Because representative transactions for those current assets only to a limited extent are available, the estimated value of these assets are difficult to assess.

The valuation of financial assets classified in Level 3 according to the IFRS valuation hierarchy includes significant management judgment as they are valued based on inputs that are not observable by external parties.

The company's assets as described above consist of shares and participations, bonds and other interest-bearing securities.

We have tested key controls in the valuation process including management's determination and approval of assumptions and methods used in model-based calculations, data quality control, change management regarding internal valuation models, as well as management's review of valuations conducted by exter-nal specialists.

We have involved our internal valuation specialists to challenge the methods and assumptions used in the valuation of unlisted financial assets as well as performed an independent valuation.

RESPONSE IN THE AUDIT

We have assessed the methods of valuation models against industry practices and valuation guidelines.

We have compared assumptions used with appropriate reference values and price sources as well as investigated possible deviations.

We have also verified the completeness of the underlying facts and circumstances presented in the disclosures in the annual report and assessed whether the information is sufficiently comprehensive to understand management's assessments as well as applied methods.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE PRESIDENT

The Board of Directors and the President are responsible for the preparation of the annual accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Insurance Companies. The Board of Directors and the President are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts the Board of Directors and the President are responsible for the assessment of the company's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the President intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITY

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the President.
- Conclude on the appropriateness of the Board of Directors' and the President's, use of the going concern basis of accounting in preparing the annual accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINIONS

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the President of If P&C Insurance Ltd (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

BASIS FOR OPINIONS

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of If P&C Insurance Ltd (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE PRESIDENT

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's type of operations, size and risks place on the size of the company's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The President shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

AUDITOR'S RESPONSIBILITY

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the President in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Insurance Business Act, the Annual Accounts Act for Insurance Companies or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

KPMG AB, Box 382, 101 27 Stockholm, was appointed auditor of If P&C Insurance Ltd (publ) by the general meeting of the shareholders on the March 9, 2018. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 2018.

Stockholm 25 February 2019

KPMG AB

Gunilla Wernelind
Authorized Public Accountant

GLOSSARY AND DEFINITIONS

ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT
Net return on average technical provisions, with deductions for deferred acquisition costs, the technical result before allocated interest and average outstanding balances. The allocated investment return is based on risk-free interest.

ALLOCATED INVESTMENT RETURN TRANSFERRED TO THE TECHNICAL ACCOUNT
Allocated investment return transferred from the non-technical account excluding the part added to the annuity result by means of a reduction of costs for the upward adjustment of the annuity provision.

ANCILLARY OWN FUNDS
Ancillary own funds comprises contingent assets that the company has at its disposal but that are not found in its solvency balance sheet. An item that is not included in basic own funds may be included in available own funds in the form of ancillary funds on the condition that such contingent liabilities can be used to absorb losses and approval has been granted by a supervisory authority.

BASIC OWN FUNDS
Basic own funds are derived from the solvency balance sheet in which the undertaking's assets and liabilities are valued in accordance with the solvency regulations. Basic own funds consists of the positive difference between assets and liabilities (including technical provisions), which are reduced by the amount of own shares held. In addition, qualifying subordinated liabilities are included in basic own funds.

CAPITAL BASE (SOLVENCY I)
Reported shareholders' equity after proposed dividend less intangible assets and surplus in funded pensions plans, plus untaxed reserves, subordinated debt (within some limits) and deferred tax liabilities. Major holdings of securities in financial institutions shall also be deducted when these securities constitute risk capital in the institution. The capital base must satisfy the solvency requirement.

CAPTIVE
An insurance company, owned by a non-insurance company, whose principal function is to insure and reinsure part of the parent's risk, or risks of other units within the same group.

CLAIMS FREQUENCY
The observed relationship during a specific period between the number of claims and the number of policies in a certain category of insurance (a certain insurance portfolio). Does not include major claims.

CLAIMS RATIO
Total sum of claims incurred on own account including claims-adjustment costs in relation to premiums earned on own account, expressed as a percentage.

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

COST OF INSURANCE OPERATIONS
Total sum of operating expenses in insurance operations on own account and claims-adjustment costs.

COST RATIO 1)
Total sum of operating expenses in insurance operations on own account and claims-adjustment costs in relation to premiums earned on own account, expressed as a percentage.

CREDIT RISK
Credit risk is the risk of loss or of an adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and other debtors to which insurance undertakings are exposed in the form of counterparty risk, spread risk or market risk concentrations. Credit risk pertains to both reinsurance operations and derivative instruments.

DIRECT INSURANCE
Insurance business that relates to contracts concluded between insurers and insured. The insurance company is directly responsible in relation to the insured.

DURATION
The concept of duration has different definitions within the asset management and insurance operations.

Within asset management, duration is the same as the interest-rate risk and denotes how sensitive a fixed-income portfolio is to changes in average interest rates. Duration may be expressed as number of years, in which case it shows the weighted average maturity of the portfolio, meaning the remaining time until invested capital plus interest is returned to the investor.

Within insurance operations, duration represents the period that starts when an insurance contract becomes effective and ends when it expires.

ECONOMIC CAPITAL
If uses Economic capital in internal management. It is an internal measure describing the amount of capital required in order to bear different kinds of risk. Economic Capital is defined as the amount of capital required to protect the economic solvency over a one-year time horizon with a probability of 99.5%.

ELIGIBLE OWN FUNDS TO COVER THE MINIMUM CAPITAL
The eligible own funds to cover the minimum capital requirement are derived from the same available own fund items as the eligible own funds to cover the Solvency Capital Requirement, but with the difference that additional limits apply as to the eligibility of those own funds items. The level of eligible own funds may not fall below the minimum capital requirement (MCR).

EXPENSE RATIO
Operating expenses in insurance operations on own account in relation to net premiums earned, expressed as a percentage.

GROSS PREMIUMS WRITTEN
Total premiums received during the financial year or taken up as a receivable at the end of the year. In contrast to premiums earned, premiums written are not capitalized; i.e. they are unaffected by opening and closing provisions for unearned premiums.

1) Refers to alternative performance measurements

IBNR PROVISION
Provision for the estimated value of the company's liability for claims that have occurred but are unknown or, in view of the extent of the claim, are insufficiently known. The provision is included in Provision for claims outstanding. IBNR = incurred but not reported.

IMPACT OF CHANGES IN EXCHANGE RATES
Changes in amounts and percentages between the current year and the preceding year adjusted for the impact of changes in exchange rates, whereby amounts in foreign currency have been recalculated using the same exchange rates for the particular years.

INSURANCE MARGIN [1)]
Technical result less other technical income and other operating expense in relation to premiums earned on own account, expressed as a percentage.

INVESTMENT ASSETS
Assets that resemble a capital investment, including real estate and securities, such as shares and participations, bonds and other interest-bearing securities, loans and derivatives as well as all investments in Group and associated companies.

INVESTMENT RETURN
Net of following income and costs: interest income/expense, dividend on shares and participations, surplus/deficits from own properties, management costs, realized and unrealized changes in fair value of real estate, shares and participations and interest-bearing securities, and exchange-rate gains/losses. If recognizes the main part of unrealized value changes on shares and participations and interest-bearing securities in other comprehensive income.

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

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

MINIMUM CAPITAL REQUIREMENT (MCR)
The Minimum Capital Requirement should reflect a level of eligible own funds where the company in 85 percent of all possible outcomes during a year can meet its commitments and is a solvency level below which it is considered unacceptable to continue operating.

NET PREMIUMS WRITTEN
Gross premiums written less ceded reinsurance premiums.

OPERATING EXPENSES IN INSURANCE OPERATIONS
Expenses related to the acquisition or renewal of insurance contracts plus corporate administration costs.

OWN FUNDS (CAPITAL BASE) (SOLVENCY II)
In Solvency II, the solvency capital requirements should be covered with "own funds," which consist of capital items and financial resources of a certain quality in terms of ability to absorb losses. An undertaking's available own funds may consist of basic own funds and ancillary own funds. The part of the undertaking's capital which is eligible to cover the solvency and minimum capital requirements is called eligible own funds. An insurance undertaking must have eligible own funds at least equal to the solvency capital requirement (SCR).

PREMIUMS EARNED
That portion of gross premiums written that pertains to the fiscal year, meaning premiums written adjusted for changes in the provision for unearned premiums.

PRIOR-YEAR CLAIMS RESULT
Profit or loss that arises when claims originating from a prior year are either finally settled or revalued.

PROPERTY AND CASUALTY INSURANCE
Collective term for property insurance, liability insurance and reinsurance.

Property insurance involves the type of insurance that covers the economic value of one or several objects (such as movable property in a home, car, boat, horse, factory building or warehouse). Other types of property and casualty insurance mainly cover various interests (such as, business interruption insurance or liability insurance), where only a specific economic interest is covered, not the economic value of one or several objects.

PROVISION FOR UNEARNED PREMIUMS AND UNEXPIRED RISKS
Liability item in the balance sheet corresponding to the portion of premiums written that, in the financial accounts, pertains to forthcoming periods, and that covers anticipated claims costs and operating expenses for policies in force at the accounting date and up to their next due date.

PROVISION FOR CLAIMS OUTSTANDING
Liability item in the balance sheet consisting of the estimated value of claims incurred but not yet paid and the expected operating expenses for the settlement of the claims.

REINSURANCE
A method of distributing risks whereby an insurance company purchases coverage for a part of its liability based on insurance or reinsurance contracts, so-called ceded reinsurance. Reinsurance accepted pertains to the business one insurance company accepts from other insurance companies in the form of reinsurance.

RETENTION
The highest insured or claims amount relating to the same risk that an insurer retains for its own account, meaning without reinsurance.

RISK RATIO [1)]
Total sum of insurance claims on own account, excluding claims-adjustment costs, in relation to premiums earned on own account, expressed as a percentage.

RUN-OFF BUSINESS
The liquidation of an insurance company or portfolio of insurance business which has been transferred to a separate administrative unit.

SOLVENCY CAPITAL
Shareholders' equity less deferred tax assets plus untaxed reserves, subordinated debt and deferred tax liability.

[1)] Refers to alternative performance measurements

SOLVENCY CAPITAL REQUIREMENT (SCR)
The Solvency Capital Requirement corresponds to a level of eligible own funds that enables an undertaking to absorb significant losses and that provides policyholders and beneficiaries with reasonable certainty to receive their benefits when they fall due. The Solvency Capital Requirement is calculated on the basis of all the quantifiable risks to which the insurance company is exposed. As a minimum, the Solvency Capital Requirement is to cover: insurance risk, market risk, counterparty default risk, and operational risk.

SOLVENCY RATIO
Key ratio representing the relative size of solvency capital. The solvency ratio is calculated as solvency capital in relation to premiums written, net excluding portfolio premiums.

SOLVENCY REQUIREMENT (SOLVENCY I)
The lowest permissible capital required for insurance operations from the viewpoint of the supervisory authorities according to Solvency I-regulations. The requirement is based on the historical claims outcome or gross premiums written, where the highest value is used.

TECHNICAL PROVISIONS
Provisions for unearned premiums, unexpired risks and claims outstanding.

TECHNICAL RESULT
Premiums earned on own account less claims costs and operating expenses on own account, plus the allocated investment return transferred to the technical accounts and other technical income.

TECHNICAL RESULT BEFORE INVESTMENT RETURN
Item in the technical accounts comprising premiums earned on own account less claims and operating expenses on own account in the insurance operations.

TOTAL INVESTMENT RETURN
Investment return in relation to other financial investment assets, land and buildings, cash and bank balances, accrued financial income, securities settlement claims/liabilities and derivative liabilities, expressed as a percentage. The return has been calculated using a daily time-weighted return calculation method.

UNDERWRITING
Includes the risk assessment and pricing conducted when insurance contracts are drawn up. In accounting contexts, the term is also used more broadly to designate the operations of an insurance company that do not have the character of asset management.

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.

CONTACT:

Sweden	+46 771 430 000	if.se
Norway	+47 980 024 00	if.no
Denmark	+45 77 01 21212	if.dk
Finland	+358 105 1510	if.fi