

# SOLVENCY AND FINANCIAL CONDITION REPORT 2016

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*If P&C Insurance Company Ltd*



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This is a translation of the official SFCR version in Finnish, approved by the Board of Directors on 4 May 2017.

## Summary

If P&C Insurance Company Ltd (If) conducts property and casualty insurance operations in Finland. If is part of the Sampo Group with Sampo plc as the ultimate parent.

The Insurance operation in If is organisationally divided into business areas by customer segment - Private, Commercial (small and medium sized companies) and Industrial (large corporates). Business areas Private and Commercial dominate new sales.

The new Workers' Compensation Act entered into force on January 1, 2016. The intention is to maintain the basic principles of the system and to retain and confirm the underwriting and claims practices formed during the previous Act. The new Act increases the insurance companies' obligations in order to further improve the system's transparency and to expedite the claims handling.

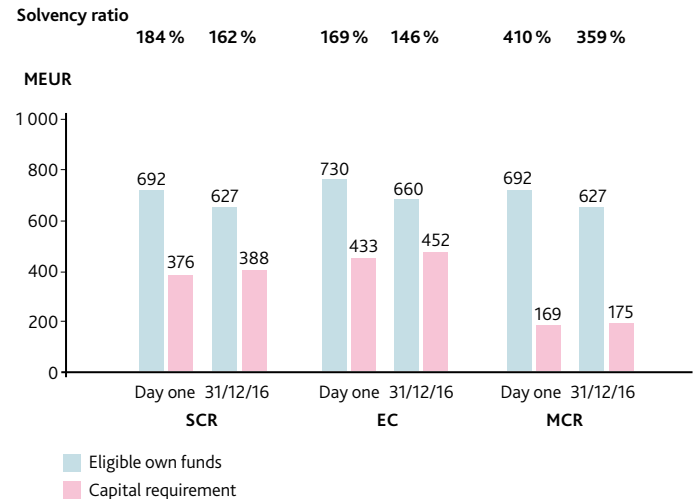
The regulation on equalisation provision was adapted to Solvency II regime. If applied for an approval from the Finnish Financial Supervisory Authority to new calculation bases for the equalisation provision.

The technical result before the change in equalisation provision increased to 142.4 MEUR (17.1 MEUR) and combined ratio (excluding unwinding of discount) improved to 82.8% (95.1%). Gross written premiums decreased by 4.0% compared to last year. Decline in gross written premium in all business areas was mainly due to the slow growth in the Finnish economy and strong competition in non-life insurance. The improved result was mostly an effect of a non-recurring effect in the comparison year. The discount rate used in discounted annuity provisions was changed from 2.0% to 1.5% with a negative effect on combined ratio of 10.7%-points in 2015.

At full market value, return on investment assets rose to 73.4 MEUR (27.2 MEUR) and the total return ratio was 2.1% (0.7%). The year-on-year increase in the result of the investment portfolio was mainly attributable to significantly improved results for credit-risk papers in the fixed income portfolio. The equity result was almost unchanged.

If's strategy for capital management focuses on capital efficiency and sound risk management by keeping its capital resources at an appropriate level in relation to the risks taken over its business planning horizon. The regulatory Solvency Capital Requirement (SCR) sets the level of capital at which If is able to conduct its business without regulatory intervention and is the starting point when the needed level of capital is considered. In addition, the internal measure economic capital is considered. Economic capital is used for internal risk management and decision-making. Economic capital is arrived at by using internal model to calculate all major quantifiable risks components including their diversified aggregation while the remaining risks are calculated by using the Standard Formula. In addition, the regulatory Minimum Capital Requirement (MCR) is calculated. Available capital is referred to as eligible own funds. A sufficient capital buffer is further required in order to be solvent at all times.

FIGURE 1 – Solvency position overview, at 1 January 2016 and at 31 December 2016

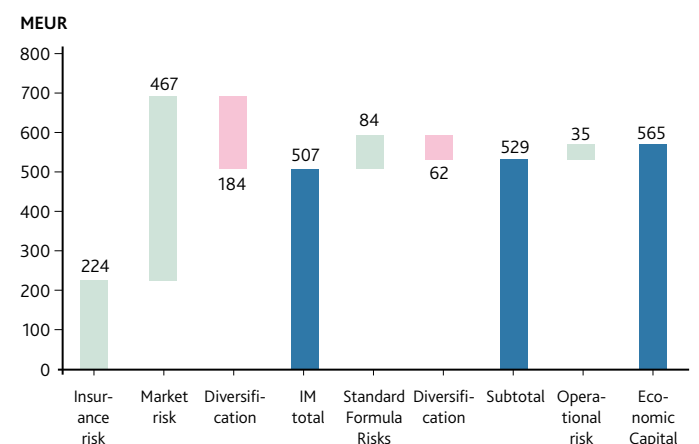


The rise in SCR and MCR is mainly due to an increase of market risk driven by higher spread risk, and due to higher underwriting risks following an increase in technical provisions. The decrease in own funds is mainly explained by the proposed dividend of MEUR 150.

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

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

FIGURE 2 – Economic Capital, pre-tax, split by risk type, 31 December 2016



## SUMMARY

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

Within this framework, processes are implemented and activities are undertaken to ensure that the strategic and business objectives are met and that If abides by the applicable external rules. If applies three lines of defense model to address how specific duties within the risk, control and reporting area are assigned and coordinated within the organisation. Each of the three lines plays a distinct role within the governance framework.

Following the If Group's intentions to consolidate the insurance business carried out by the Swedish insurance company If P&C Insurance Ltd (publ) and If P&C Insurance Company Ltd, the Boards of Directors of the two companies adopted a joint Merger Plan in February 2017. The merger is subject to the approvals by relevant authorities and is expected to be effective at 1 September 2017. This is a natural step in delivering on the If Group's pan-Nordic strategy and will simplify the corporate governance and legal structure within the group.

## 1 Business and Performance

### 1.1 Business

#### 1.1.1 Legal structure and the group

If P&C Insurance Company Ltd (If) is a wholly owned subsidiary to If P&C Insurance Holding Ltd (publ) (If Holding), whose registered office is in Stockholm, Sweden. If Holding in turn is a wholly owned subsidiary of Sampo plc, a Finnish listed company, whose registered office is in Helsinki. The Sampo Group conducts property and casualty insurance operations through the If P&C Insurance Holding Ltd (publ) group (If Group): If P&C

Insurance Ltd (publ) (If Sweden) in Sweden, Norway and Denmark, If P&C Insurance Company Ltd in Finland and If P&C Insurance AS in Estonia, Latvia and Lithuania. The Mandatum Life Group conducts life insurance operations and Sampo plc has also has a substantial holding in Nordea Bank AB (publ) and Topdanmark A/S. If Group's property and casualty insurance operations and the holding in Topdanmark constitute a segment within Sampo Group. Sampo plc is the ultimate parent for which the group rules in Solvency II applies.

The average number of If's employees was 1,657 in 2016 and 1,707 in 2015.

FIGURE 3 – Owner and group structure, 31 December 2016

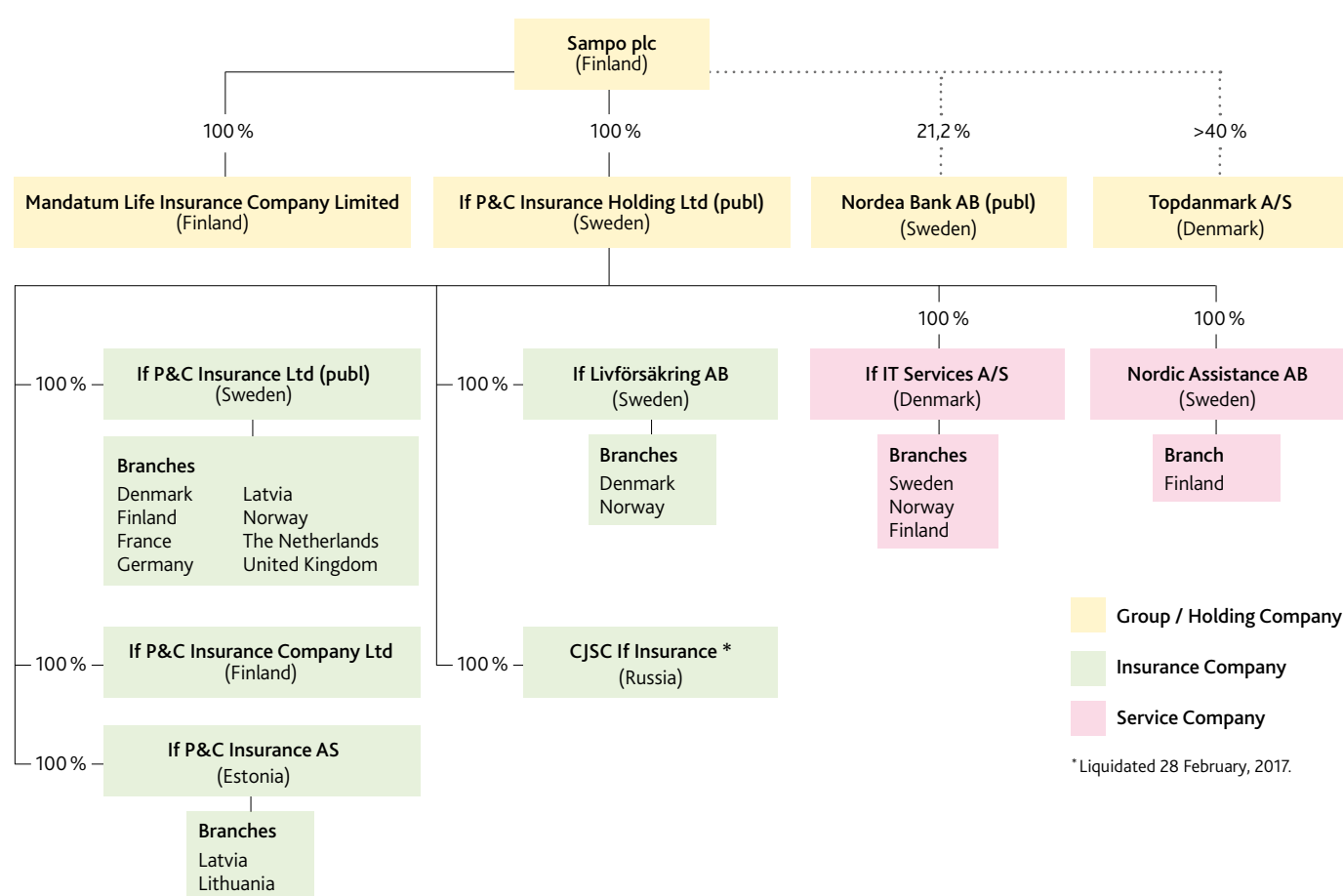
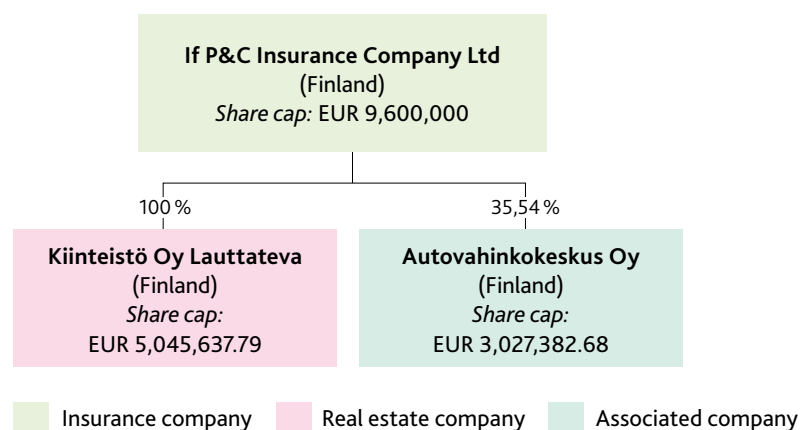


FIGURE 4 – If legal structure, 31 December 2016



### 1.1.2 Significant events over the reporting period

The new Workers' Compensation Act entered into force on January 1, 2016. The intention is to maintain the basic principles of the system and to retain and confirm the underwriting and claims practices formed during the previous Act. The new Act increases the insurance companies' obligations in order to further improve the system's transparency and to expedite the claims handling.

In Finland the regulation on equalisation provision was adapted to Solvency II regime. If applied for an approval from the Finnish Financial Supervisory Authority to new calculation bases for the equalisation provision.

If had a registered supplementary pension cover TEL-L for its employees. Due to its reduced significance, the TEL-L pension

cover was, based on a change in legislation, removed at 31 December 2016. The company paid a lump-sum to compensate for the lost benefit for all the applicable employees.

### 1.1.3 Financial supervisory authority's contact information for If and Sampo

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

### 1.1.4 External auditors contact information

Ernst & Young Oy  
Alvar Aallon katu 5 C  
FI-00100 Helsinki, Finland

TABLE 1 – Total underwriting performance by Solvency II lines of business (MEUR)

Medical expense insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	General liability insurance and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Total
<b>Gross premiums written</b>									
114	125	177	195	19	290	67	-	-	<b>987</b>
<b>Gross premiums earned</b>									
120	125	181	197	19	292	67	-	-	<b>1 001</b>
<b>Gross claims incurred</b>									
66	57	81	127	7	174	33	50	35	<b>630</b>
<b>Operating expense</b>									
29	28	44	39	4	60	10	-	-	<b>214</b>
<b>Reinsurers share per LoB</b>									
0	0	-0	0	2	11	2	-	-	<b>15</b>
<b>Total underwriting performance direct insurance and assumed reinsurance</b>									
25	40	56	31	6	47	22	-50	-35	<b>142</b>

## 1.2 Underwriting Performance<sup>1</sup>

The technical result before the change in equalisation provision increased to 142.4 MEUR (17.1 MEUR) and combined ratio (excluding unwinding of discount) improved to 82.8% (95.1%).

Gross written premiums decreased by 4.0% compared to last year. Negative growth in all business areas was mainly due to the slow growth in the Finnish economy and strong competition in non-life insurance.

The improved result was mainly an effect of a non-recurring effect in 2015. The discount rate used in the annuity provisions was changed from 2.0% to 1.5% with a negative effect on combined ratio of 10.7%-points in 2015.

The Insurance operation in If is organisationally divided into business areas by customer segment - Private, Commercial (small and medium sized companies) and Industrial (large corporates). Business areas Private and Commercial dominate new sales.

### 1.2.1 Result by Solvency II lines of business

If's four major lines of business (LoB) are Motor vehicle liability insurance, Other motor insurance, Fire and other damage to property insurance and Workers's compensation insurance. The table on page 6 presents the development of If's premiums, claims incurred, operating expenses, reinsurer's share and underwriting performance per lines of business (LoB) at 31 December 2016.

### 1.2.2 Operations by geographical area

If mainly underwrites insurance policies in Finland. If also issues policies for the foreign operations of the Finnish client companies.

## 1.3 Investment Performance

The year started with turbulence in financial markets and declining share prices caused by, for example, concerns regarding the US Federal Reserve's plans to increase interest rates, falling oil prices and worries about economic development in China. During the second half of the year, markets were affected more by political events, such as the outcome of the UK referendum to exit the EU, the US presidential election, OPEC's decision to curtail oil production and improved economic statistics. The year ended with sharply rising prices on stock markets, generally rising market interest rates and a higher oil price. Overall, 2016 was a year when the return was favorable in most stock markets, with slightly higher market interest rates and lower credit spreads.

At market value, return on investment assets rose to 73.4 MEUR (27.1 MEUR) and the total return ratio was 2.1% (0.7%). The year-on-year improvement in the result was mainly attributable to significantly improved results for credit-risk papers in the fixed income portfolio. The equity result was almost unchanged.

### 1.3.1 Investment result<sup>2</sup>

The investment result shown in the Financial Statements at 31 December 2016 was MEUR 13.6 (43.7 MEUR).

The performance of interest bearing securities increased to 44.0 MEUR (31.2 MEUR) mostly due to the write-down in 2015 being partly reversed. The result of shares and participations decreased to 4.9 MEUR (19.3 MEUR). The major reason was a decrease in capital gains to 3.1 MEUR (14.1 MEUR), but also the dividends decreased by 2.8 MEUR amounting to 3.8 MEUR. There was a major change in the derivative result, which decreased to -35.3 MEUR (-8.8 MEUR). The change is due to

the strengthening of US dollar against euro and resulting in a negative impact on the value of FX derivatives. There was a corresponding increase in the FX valuation differences on investments.

The table below describes investment performance by asset class.

TABLE 2 – INVESTMENT PERFORMANCE,  
31 DECEMBER 2016

Investment performance (MEUR)	2016	2015
<b>Land and buildings</b>	<b>0</b>	<b>-1</b>
Rental income	2	2
Other income / expenses	-2	-2
Unrealised gains / losses	0	-1
<b>Interest bearing securities</b>	<b>44</b>	<b>31</b>
Interest income / expense	39	38
Other income / expenses	0	0
Capital gains / losses	1	4
Unrealised gains / losses	4	-11
<b>Shares and participations</b>	<b>5</b>	<b>19</b>
Dividends	4	7
Capital gains / losses	3	14
Unrealised gains / losses	-2	-2
<b>Derivatives</b>	<b>-35</b>	<b>-9</b>
Interest income	-8	0
Other income / expenses	0	0
Capital gains / losses	1	-11
Unrealised gains / losses	-28	2
<b>Other investment income and expenses</b>	<b>0</b>	<b>4</b>
Exchange rate gains / losses	8	10
Asset management cost	-4	-3
Other interest income / cost (other than interest bearing securities)	-4	-3
<b>Total investment performance</b>	<b>14</b>	<b>44</b>

## 1.4 Performance of other activities

Other income was 12.6 MEUR (13.5 MEUR) and other expenses 12.7 MEUR (13.5 MEUR). They include e.g. commissions from partnership insurance companies for marketing of the counterparty's products in If's distribution networks and reminder fees as well as related costs. For leasing agreement, see section 4.6 Any other information.

## 1.5 Any other information

Following the If Group's intentions to consolidate the insurance business carried out by the Swedish insurance company If P&C Insurance Ltd (publ) and If P&C Insurance Company Ltd, the Boards of Directors of the two companies adopted a joint Merger Plan in February 2017. The merger is subject to the approvals by relevant authorities and is expected to be effective at 1 September 2017. This is a natural step in delivering on the If Group's pan-Nordic strategy and will simplify the corporate governance and legal structure within the group.

<sup>1</sup> The figures in the underwriting performance section are in accordance with the Financial Statements and the lines of business are in accordance with Solvency II.

<sup>2</sup> The figures are in accordance with the Financial Statements

## 2 If's System of Governance

### 2.1 General information on the System of Governance

If's system of governance framework consists of several layers. The organisational set-up, including the legal and operational structures, forms the outermost layer within which the business is run. To govern the business, corporate bodies or individuals have decided a framework of policies and other internal rules and procedures, which must be followed by the employees to which they apply. The system of governance contains the Strategy Process, the Financial Planning Process, and the Internal Control System, including the Risk Management System.

Within this framework, process are implemented and activities are undertaken to ensure that the strategic and business objectives are met and that If abides by the applicable external rules. If applies three lines of defense model to address how specific duties within the risk, control and reporting area are assigned and coordinated within the organisation. Each of the three lines plays a distinct role within the governance framework.

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

#### 2.1.1 Legal structure

As If is a subsidiary of If Holding which in turn is owned by Sampo plc, the overall principles and divisions of responsibilities are defined on the Sampo Group level. If organises its operations in accordance with these principles while taking into account the specific characteristics of the business areas.

#### 2.1.2 Operational structure

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

#### 2.1.3 Decision making bodies

##### 2.1.3.1 General meeting

The general meeting, the forum for the owners of If to assert their authority, is the highest deciding body in If. Its decision powers are set out in law. Among other issues, the general meeting decides on the articles of association and appoints members to the Board of Directors.

##### 2.1.3.2 Board of Directors

The Board of Directors is in accordance with the law responsible for ensure that the business is organised in an appropriate way. The Board of Directors is also the corporate body overall responsible for internal control, risk control, and that the company has appropriate risk management systems and processes. The Board of Directors establishes policy framework since the Board of Directors are the primary deciding body for If's policy framework. The Board of Directors approves strategic decisions, establishes appropriate boundaries, oversees execution and ensures accountability, fairness and transparency.

The Board of Directors reviews and decides annually the Rules of Procedure for its work. The Rules of Procedure states how the board's work is allocated between the members of the board, how often the board meets and to what extent the deputy board

members participate in the board's work and are summoned to its meetings. Furthermore, the Board of Directors has adopted an instruction for the CEO specifying the CEO's responsibilities.

The Board of Directors in If has not appointed any formal committees within the Board's responsibilities.

##### 2.1.3.3 CEO

The CEO is responsible for aligning strategy, processes, people, reporting and technology. The CEO has the possibility to delegate decision authority concerning the daily business activities to other persons within If, but retain the ultimate responsibility for decisions made. The CEO is the deciding body for a number of instructions within If's policy framework.

The CEO shall supervise that the internal control within the organisation is effectuated in accordance with If's steering documents. He also discusses these matters with the key function holders and the external auditors.

#### 2.1.4 Key functions

##### *Risk Management function*

The Risk Management function is organised with the overall responsibility of the legal and operational structure. The function is headed by the Chief Risk Officer (CRO). The function consists of a Risk Control unit and a Capital Management unit. The function facilitates the implementation and development of the Risk Management System in If. The Risk Management function reports to the CEO and to the Board of Directors.

##### *Compliance function*

The Compliance function is organised with the overall responsibility of the legal and operational structure. The function is headed by the Chief Compliance Officer (CCO). The Compliance function performs operationally independent analyses and monitors activities. The function reports to the CEO and the Board of Directors.

##### *Internal Audit function*

If has an Internal Audit function organised with the overall responsibility of the legal and operational structure. The function is headed by the Chief Audit Executive (CAE). The Internal Audit function evaluates the effectiveness of the control systems and reports to the CEO and Board of Directors.

##### *Actuarial function*

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

#### 2.1.5 The Remuneration System in If

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

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

##### 2.1.5.1 Principles of the Remuneration Policy

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

**Fixed compensation** affects If's financial stability. Therefore, a prudent setting of salary levels is crucial. Fixed salaries shall follow market practice. Changes in salaries and setting of salaries



when hiring people shall be based on facts, such as market data.

**Variable compensation** systems shall be designed to create long-term financial stability and value for If.

Variable compensation programs shall always include triggers and caps on the payment. The total variable compensation may not be of a size that it threatens or limits the ability to maintain If's capital base. The Board of Directors has the right to determine the variable compensation to zero if necessary due to the company's financial situation.

If an employee's remuneration includes a variable component, there shall be an appropriate balance between the fixed and variable compensation. The fixed and variable remuneration components must be balanced so that the fixed compensation represents a sufficiently high proportion of the total remuneration to avoid employees being overly dependent on variable compensation to allow If the possibility of paying no variable compensation. Employees in control functions<sup>3</sup> are not entitled to variable compensation.

The Remuneration Policy contains specific arrangements applicable to identified staff<sup>4</sup>. Part of the payment of the variable compensation to identified staff shall be deferred for a defined period of time as required in the applicable regulatory framework. After the deferral period, a retrospective risk adjustment review shall be carried out and the Board of Directors decides whether the deferred variable compensation shall be paid out/released in full, partly or cancelled in whole.

#### 2.1.5.2 Individual and collective performance criteria related to variable compensation

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

The goal-setting process for variable compensation programs aims at supporting If's overall goals. Goals shall balance risk and, if possible, be based on public quantitative key indices.

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

#### 2.1.5.3 Supplementary pension or early retirement schemes for key function holders

The CEO and the Finnish key function holders are covered by the statutory Finnish employment pension system. The Finnish pension legislation allows for a flexible retirement age between 65 and 70.

### 2.1.6 Material transactions

During the reporting period, the following material transactions have taken place with shareholders, persons who exercise a significant influence on the undertaking and with members of the AMSB:

- If 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 plc. Compensation for these services is based on a fixed percentage

commission calculated in accordance with market value of the managed investment assets

- If has paid interests on the subordinated loan issued by If and subscribed by Sampo plc;
- If has concluded P&C insurance agreements with Sampo plc; and
- Sampo plc purchases services related to the VAT Group, HR services, as well as, other office services from If.

If did not have any material transactions with its sole owner, If P&C Insurance Holding Ltd (publ).

### 2.1.7 Material changes in the System of Governance during the reporting period

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

## 2.2 Fit and proper requirements

### 2.2.1 If's Fit and Proper Policy

If has adopted the Sampo Group Guidelines for Selecting and Assessing Company Management and Other Key Personnel. The purpose of the Guidelines is to ensure that the companies in the Sampo Group are managed with professional competence and integrity. If has issued the If Fit and Proper Policy to supplement the Sampo Group Guidelines. The Policy describes the principles, criteria and processes for the fit and proper assessments for If personnel. The Policy defines the positions that are subject to the fit and proper assessment which include, inter alia, the persons who are responsible for the key functions. Furthermore, the If Fit and Proper Business Instruction has been established to issue more detailed descriptions of the processes for the assessments of professional competence (fit) as well as good repute and integrity (proper). The Fit and Proper Policy and Business Instruction are reviewed annually.

### 2.2.2 Fitness requirements

Detailed descriptions of professional qualifications, knowledge and experience required for the persons who effectively run the undertaking and the persons who have other key functions have been established. The assessment of whether a person is fit, includes an assessment of the person's professional and formal qualifications, knowledge and relevant experience within the insurance sector, other financial sectors or other business and takes into account the respective duties allocated to that person.

In relation to the AMSB, the fitness assessment takes into account the respective duties allocated to individual persons to ensure appropriate diversity of qualifications, knowledge and relevant experience so that the company is managed and overseen in a professional manner. The members of the AMSB are not each expected to possess expert knowledge, competence and experience within all areas of the company. However, the collective knowledge, competence and experience of the AMSB as a whole have to provide for a sound and prudent management of the company. The members of the AMSB shall collectively possess the appropriate qualification, experience and knowledge about at least insurance and financial markets, business strategy and business model, system of governance, financial and actuarial analysis, as well as regulatory framework and requirements.

<sup>3</sup> Control functions comprise the Risk Management function, the Internal Audit function the Compliance function and the Actuarial function.

<sup>4</sup> Identified staff comprises persons who effectively run the company (members of the administrative, management of supervisory body and staff with management roles which are essential to the operations of If) and risk takers (employees whose professional activities have a material impact on the company's risk profile).

**2.2.2.1 Assessment of reputation and integrity – proper**

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

As a general rule, Assessed persons shall be considered to be of good repute if there is no evidence to suggest otherwise and no reasonable doubts about his/her good repute.

**2.2.3 Description of the process**

The If Fit and Proper Policy describes the situations when a fit and proper assessment shall be made. It is conducted prior to the appointment of a person to a position that is subject to the fit and proper assessment. The fitness assessment includes an assessment of the person's professional and formal qualifications, knowledge and relevant experience. The propriety assessment includes an assessment of the person's honesty and financial soundness.

In addition, the fitness and propriety of all assessed persons shall be reviewed at least every three years to ensure that the persons meet the fit and proper criteria on an on-going basis. A reassessment shall also be conducted if an event occurs that may cast doubt of the fitness or propriety of an assessed person. The If Fit and Proper Policy also covers fit and proper assessments in connection with the outsourcing of key functions.

The If Fit and Proper Policy further contains detailed rules regarding documentation, corrective measures, division of responsibilities and activities related to the process. It also includes details regarding information, documents and requirements to be taken into account in the fit and proper assessment. The documents and information are collected from various sources, including public registers and individual statements by the assessed persons. The fit and proper analysis is presented to the function or leader responsible for the appointment who decides whether the person is considered fit and proper for the position. The required notifications to the supervisory authority are made.

**2.3 Risk Management System including own risk and solvency assessment**

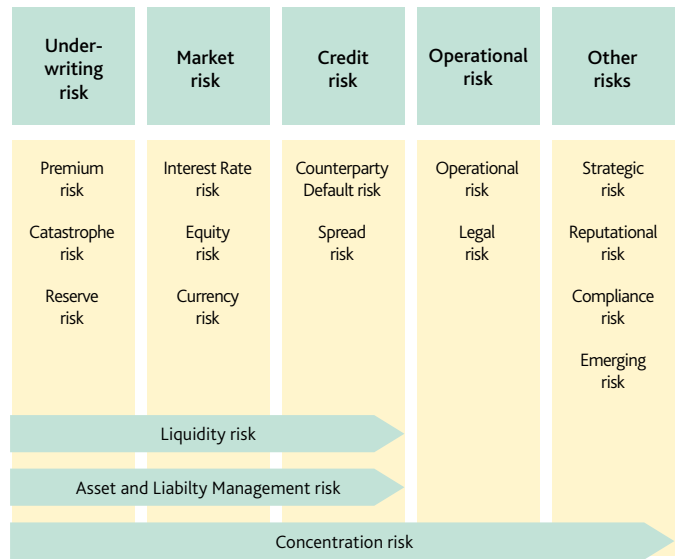
**2.3.1 Description of If's Risk Management System**

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

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

The main risk categories in If are: Underwriting; Market; Credit and Operational risks and Other risks.

**FIGURE 5 – Risks encompassed in the Risk Management System**



**2.3.2 Objectives of the Risk Management System**

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

A high quality risk management process is a prerequisite for running the business and for assuring a stable result and the delivery of the long term return requirements on If Group level being:

- a combined ratio less than 95%
- a return on equity higher than 17.5%

**2.3.3 If's Risk Management Strategy**

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

- 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 in business activities and external risks;
- Limit fluctuations in the economic values of the company; and
- Ensure the overall efficiency, security and continuity of operations.

**2.3.4 The Risk Appetite Framework**

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

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

### 2.3.5 If's Risk Management Process

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



**Risk identification.** Risks are identified by the first line of defence, the line organisation, on an on-going basis for most categories at least quarterly.

**Risk assessment and measuring.** In the next step different methods are used to assess and measure risks, for example stress tests, scenario and sensitivity analyses. Internal model is used for measuring Underwriting and Market risks in the economic capital. Other risks are calculated based on the Standard Formula. For risks, which are not easily measurable a risk assessment method is used which encompasses an assessment of what impact a materialised risk would have on the financial plan and the likelihood that the risk will occur.

**Implementation of risk mitigation actions when deemed necessary.** Should the risk impact threaten to exceed the risk appetite or tolerance level adopted by the Board of Directors, activities for managing the risk will be used.

**Regular monitoring.** For the main risk categories, monitoring of the risks is performed on a regular basis by both first and second line.

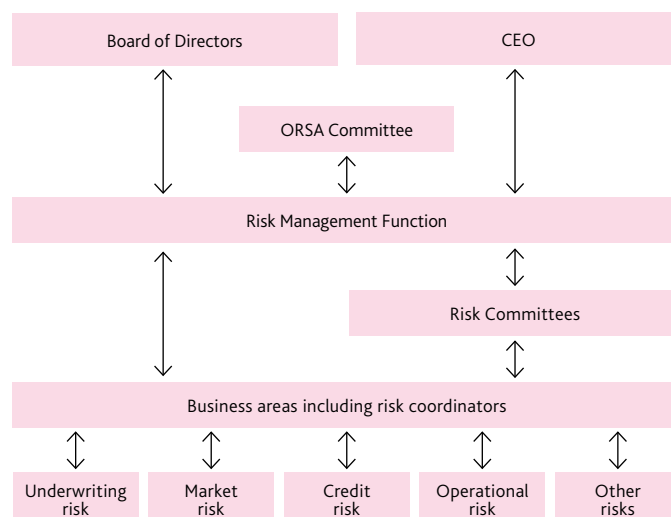
**Reporting.** The ORSA-report is submitted to the Board of Directors once a year. The report contains a three-year forward looking Own Risk and Solvency Assessment. The ORSA is performed in parallel with, and supporting, the financial planning process. Changes in the risk profile could require an update of the ORSA report during the year. Further, an overview of If's risk profile and capital situation is reported quarterly to the ORSA Committee<sup>5</sup> and to the Board of directors.

<sup>5</sup> Own risk and Solvency Assessment Committee

### 2.3.6 Reporting structure in the Risk Management System

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

FIGURE 6 – Reporting structure within the Risk Management System



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

#### 2.3.7.1 Responsibilities within the Risk Management System

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

#### 2.3.7.2 The Board of Directors

The Board of Directors is in accordance with applicable law the corporate body overall responsible for internal control, risk control, and that If has appropriate risk management systems and processes. The Board of Directors decides on the policy framework for the operation on yearly basis.

#### 2.3.7.3 CEO

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

#### 2.3.7.4 Risk committees

##### *Own Risk and Solvency Assessment Committee (ORSAC)*

The ORSAC assists the CEO in fulfilling the responsibility of overseeing If's risk and risk management.

The ORSAC reviews the effectiveness of If's internal control (including compliance), and gives input to, and follows up on coordination of efforts and actions relating to these areas. The committee is the recipient of analyses and reporting of risks in If on a holistic level. In addition, the ORSAC supervises If's solvency position.

### *Other committees in the Risk Management System*

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

### **2.3.7.5 Risk Management function**

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

- Assist the Board of Directors and CEO in the implementation and operation of the Risk Management System by setting requirements on data and processes, and coordinating reporting from the line organisation;
- Review and support the business areas and corporate functions in their work to manage all risks.
- Secure a holistic view of the risks If is exposed to, including monitoring, measuring and follow up on If's aggregated risk exposure, position and risk profile;
- Regularly assess If's own funds position in accordance with both internal and external measurements.
- Manage and develop If's Internal Model for calculating economic capital, including validation of the model and forecasting risk and capital under normal and stressed circumstances; and
- Give advice to Management on risk management matters in strategic decisions, including the possible effect of such decisions on risk and capital.

### *Organisation*

The function is headed by the Chief Risk Officer (CRO) and is constituted by the CRO, the Risk Control unit and the Capital Management unit and organised across the legal and the operational structure. The tasks of the Risk Management function have been partially outsourced to If Sweden.

The Board of Directors has issued an Instruction for the CRO, describing the responsibilities more in detail.

In accordance with the CRO instruction, the CRO is responsible for the risk reporting to the Board of Directors and to the CEO. This includes the following reports:

- The compilation of the annual summary of the risk and solvency assessment;
- The quarterly ORSAC report and;
- The annual risk management activity report and risk management plan.

The units within the function are operationally independent, which is to say not part of the governance of, or the decision making process in, the operations of If's licensed activities.

### *Risk Control unit*

The Risk Control unit within the Risk Management function is responsible for operationally independent risk analyses. The risk control activities include tasks such as risk analyses, monitoring activities, coordinating the ORSA process, validation of internal model, propose updates of the risk related policies and instructions and risk management related training and information. The Risk Control unit is also responsible for If Group's common incident reporting framework.

### *Capital Management unit*

The main responsibility of the Capital Management unit is aggregated risk modeling within If. The work is based on statistical and mathematical modeling of both the insurance and investment operations, and the modeling results are used as input in the work with, for example, If's reinsurance strategy, investment allocation, capital allocation and financial target setting, as well as capitalization. In addition Capital Management is responsible for parts of the risk reporting and various activities related to the Solvency II regulation, including calculation of regulatory solvency capital requirements and maintaining and developing tools for planning of capital and risk.

### **2.3.7.6 The business areas and corporate functions**

The BAs and corporate functions (the line organisation) have the day-to-day responsibility to manage risks within limits and restrictions set by the risk policies, guidelines and instructions. The line organisation shall ensure that it has the resources and tools in place to control and follow up on the risks as well as to report, as required, to the respective risk committee or to the Risk Control unit for analyses.

The line organisation has an obligation to inform the Risk Management function, the Internal Audit function, the Compliance function and the Actuarial function of any risks relevant for the performance of their duties.

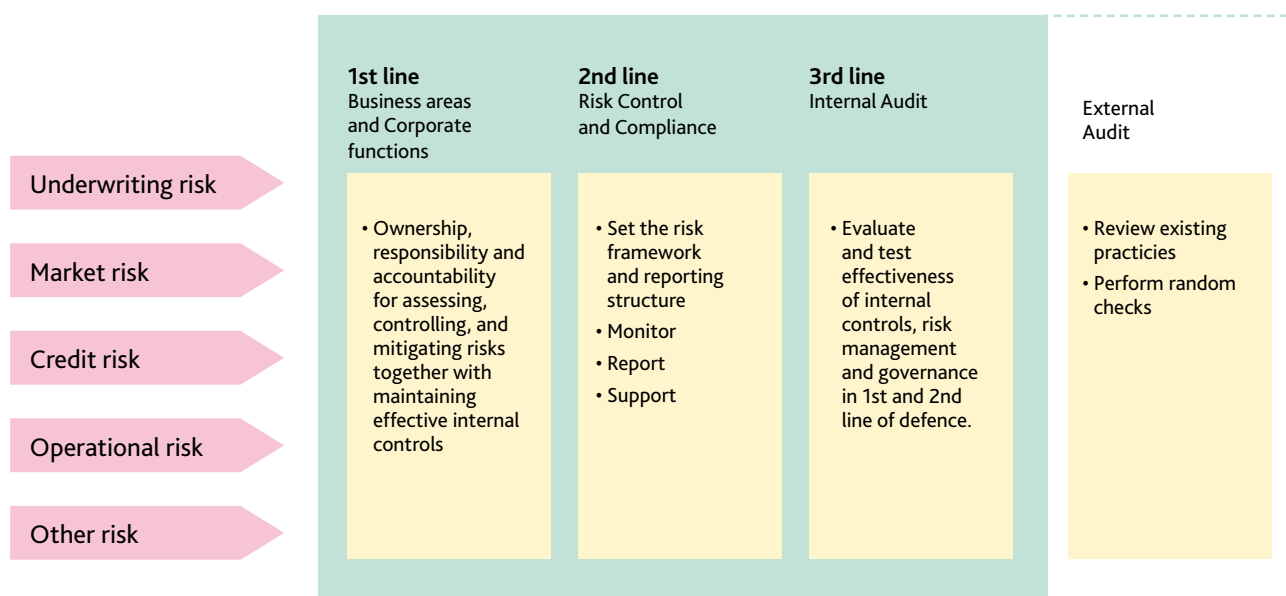
### **2.3.7.7 Risk coordinator structure**

On behalf of the Heads of the Business Areas/Corporate functions, a coordinator structure is established within the first line of defence for the main risk areas; underwriting risk, market risk and operational risk, as well as for anti-money laundering issues. The risk coordinators assist in identifying, assessing and monitoring the respective risks within the first line of defence and report the risk status to the second line and to the respective risk committee at least quarterly. The coordinator structure facilitates the establishment of efficient processes and procedures for managing risks and to ensure information and reporting flows within the Risk Management System. The Head of Risk Control & Reporting issues instructions for coordinators where the responsibilities are described.

### 2.3.7.8 Implementation of the Risk Management System

For effective implementation of the Risk Management System within If, the three lines of defence concept is used:

FIGURE 7 – Three lines of defence



#### First line of defence

- The line organisation has the day-to-day responsibility to manage risks within limits and restrictions set by the risk policies, instructions and guidelines. The Heads of Units shall implement risk mitigation actions. The risk coordinators support the implementation of risk management activities, including reporting to the Risk Management function.

#### Second line of defence

- The Risk Management function performs second line of defence duties by assessing, analysing, monitoring the company level risks independently from the business operations and securing a holistic view of the If risk. Additionally, the second line of defence supports the business in their risk assessment process, gives advice on risk mitigation actions, promotes a sound risk culture and reports regularly risk exposures to the ORSAC and the Board of Directors.

#### Third line of defence

- The Internal Audit function performs third line of defence duties by giving assurance to the Board of Directors whether the internal control including the risk management system within If has been effectively implemented and maintained.

The committee structure together with the coordinator structure, ensures that all material risks are monitored and reported in a clear and consistent way. It also secures that the information originates from the risk owners in the first line of defence and is forwarded to the second line of defence, as well as to the relevant committee.

### 2.3.8 If's Own Risk and Solvency Assessment Process

If's risks are measured, aggregated and reported regularly with the purpose of performing an overall assessment of the risk and capital position. Market risks are followed-up and reported monthly while other risks are followed-up and reported quarterly.

The outcome of these procedures and the follow up of them are documented as part of the quarterly own risk and solvency process. A report is prepared to the committee for own risk and solvency assessment (the ORSA committee), of which a summary is also sent to If's Board of Directors.

If's comprehensive ORSA assessment is normally run at least annually and occurs in Q3 of each year in parallel with, and supporting, the business plan presented to If's Board of Directors. The ORSA assessment focuses on the overall solvency position complemented by a quantitative and qualitative assessment of If's material risks. The quantitative part of the ORSA is run in parallel with the financial planning process. The solvency position is assessed partly in relation to If's own view of risk, quantified by the internal model, and partly in relation to the regulatory capital requirement. A support tool in the ORSA process is If's capital planning model, which forecasts the own funds and capital requirements over the planning period. The model covers the If group with separate projections for its operating insurance companies. The assessment includes a number of scenario analyses, stress tests, sensitivity analyses and reverse stress tests. The stress tests cover the main risk types and simultaneous adverse effects from different risk types. The scenarios are developed in cooperation with the risk owners and management.

In addition to a quantification of If's main risk types, a qualitative assessment of risks is conducted. Consequently, the risk owners' views and assessments of current risks over the forward-looking planning horizon are also captured. The assessments are summarized in heat maps in which the impact is used to indicate the relative severity between the various identified risks and the likelihood with which they could occur during the financial planning horizon. The assessment is conducted according to a common grading scale. The concluding assessment for the group is performed by the Risk Management function and is based on the risk owners' views.

The outcome of the annual ORSA is documented in the ORSA report. The ORSA-report 2017-2019 was approved by the Board of Directors at the board meeting in December 2016. By approving the ORSA Report, the Board accepted it as the basis for deciding on the financial plan. Following approval, the ORSA report was submitted to Financial Supervisory Authority.

## 2.4 Internal control system

### 2.4.1 If's internal control system

#### 2.4.1.1 Definition and Policy

If's Internal Control policy sets a framework for an effective Internal Control System. The purpose of the policy is to ensure that internal control activities are carried out appropriately in accordance with If's nature, size and complexity. This is achieved through a common and consistent approach to internal control activities throughout If. An effective system of internal control provides the Board of Directors and the CEO with reasonable assurance that the company's objectives can be reached. The policy is approved on a yearly basis by the Board of Directors.

Internal control is defined based on the COSO<sup>6</sup> methodology as:

A process effected by the Board of Directors, management and other personnel, designed to provide reasonable assurance regarding achievement of objectives in terms of:

- Efficient and effective operations;
- Accurate reporting;
- Compliance with external and internal regulations; and
- Safeguarding of assets, including sufficient management of risks in operations.

Regarding internal control, If applies the three lines of defence model to address how specific duties related to risk and control are assigned and coordinated within the organisation. For further information see 2.3.7.8.

#### 2.4.1.2 Internal Control Framework.

The framework of internal control outlines the principles necessary for an effectively managed Internal Control System within If. The framework provides three categories of objectives related to operations, reporting, and compliance. These objectives allow If to focus on different aspects of internal control. The Internal Control System within If further ensures the effectiveness and the efficiency of the daily operations taking into consideration If's management's strategic objectives. Furthermore, the framework consists of five components, all required to ensure an effective framework; control environment, risk assessment, control activities, information and communication as well as monitoring.

##### *Control Environment*

The control environment is the foundation for all other components of internal control, providing discipline and structure. Control environment factors within If include the organisational structure, roles and responsibilities, integrity, ethical values, policies and the competence of If's employees.

##### *Risk Assessment*

Risk assessment is the identification and analysis of relevant risks to achieve the objectives related to operations, compliance and reporting, forming a basis for determining how the risks should be managed. If faces a variety of risks which continuously are assessed. Key risks affecting If have dedicated risk management processes within the risk management system. The need for various internal control measures shall be based on risk identification and assessment.

##### *Control Activities*

Control activities are the policies, procedures, and practices that ensure management objectives are achieved and risk mitigation strategies are carried out.

Control activities include a wide range of activities and procedures at all levels within If. Policies and instructions have been issued for all relevant functions, roles and control activities. Authorisation rules and referrals have been implemented according to appropriate roles and according to the grandfather principle. Routines and tasks are handled according to segregation of duties to ensure that employees do not handle transactions alone throughout the entire process. Furthermore, control activities for identification and management of conflicts of interest are performed.

##### *Information and communication*

Information and communication support all other control components by communicating control responsibilities to employees and by providing information in a form and timeframe that allows people to carry out their duties. For example, the Underwriting Policy is linked to Underwriting Guidelines that in turn are linked to instructions, mandates, working routines and IT system solutions. Policies and instructions are regularly updated, approved and communicated.

Within the three lines of defence, reporting lines are established to ensure that the Board of Directors and the CEO are able to fulfil their responsibilities to monitor the Internal Control System of If and to ensure its efficiency and suitability.

On behalf of the Heads of the Business Areas and selected Corporate functions, a coordinator structure is established within the first line of defence for the internal control area. The purpose is to facilitate the establishment of effective processes and procedures for managing and reporting the relevant internal control activities. The aggregated status of the internal control area is then reported by the Risk Control unit in the second line to the ORSA Committee. One of the tasks of the ORSA Committee is to monitor that If has an effective Internal Control System. Information is also provided to other relevant committees according to the dedicated instruction for each committee.

##### *Monitoring*

The monitoring components covers the oversight of internal controls by the three line of defence; which covers evaluations to ascertain whether each of the components of internal control are present and functioning. This is accomplished through ongoing monitoring activities and separate evaluations. Independent monitoring activities are performed by the second and third line of defence.

#### 2.4.1.3 Accounting in If

The internal control linked to the financial reporting process ensures that If's Board of Directors and executive management have available, timely and reliable information supporting their decision making, and that external interest groups can also rely on the financial information.

Policies and instructions are in place for accounting principles and reporting routines. The accounting principles of If are formally decided by the Board of Directors and published in summary as part of the Financial Statements. The Accounting department has the responsibility to follow changes in regulatory requirements affecting the presentation of If in financial reports.

Control activities within the financial reporting process consists of a combination of general controls in such areas as the division of responsibilities and duties and protection against unauthorised access to registers and software, as well as various

<sup>6</sup> Committee of Sponsoring Organizations of the Treadway Commission.

controls incorporated in the systems and procedures. Within each function that is responsible for maintaining current accounts, approved instructions in respect of responsibilities and duties are documented and kept up-to-date by regular reviews, at least once per year. Furthermore, no individual is permitted to independently handle a single transaction throughout the entire process. In accordance with the rules for the division of responsibilities and duties, at least two employees must participate in controls of, for example, invoices or an accounting order, and the execution of this control are documented by means of a signature. To ensure correctness of all reporting, the bookkeeping entries in General Ledger and in the base systems are regularly reconciled. Accounting material is filed in an orderly manner according to internal and external requirements.

## 2.4.2 Compliance function

### 2.4.2.1 Responsibilities

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

To secure effective and purposeful compliance activities, the Compliance function has a right to request and receive all relevant information and documentation as is deemed necessary. All employees further have an obligation to inform the Compliance function of any facts relevant for the performance of the function's duties, such as identified compliance risks or incidents.

The Compliance function is responsible for the tasks within the following categories. A risk-based approach is used in deciding the priorities.

#### *Support activities*

The Compliance function provide advice and support in compliance matters. This may include training, implementation and other relevant activities related to the Compliance function's area of responsibility. The Compliance function also initiate training activities covering the importance of compliance and ethics.

#### *Policies and instructions*

The Compliance function is responsible for ensuring that If has all policies and instructions required by law and that these comply with legal requirements. Board policies and CEO Instructions are published on the policy web to be available to all employees. The work with internal rules is performed in cooperation with the Corporate Legal department.

#### *Regulatory developments*

The Compliance function is responsible for establishing effective processes and routines regarding monitoring of new legislation and rules that apply to If's licensed activities. Through their local presence, the legal departments have the competence required for monitoring new legislation and have effective communication channels towards the business. The Chief Legal Counsel and the Nordic Head of Insurance Legal are therefore co-responsible for monitoring, communicating and initiating implementation of new legislation in If. To this end, the Chief Legal Counsel has established the Legal Committee in accordance with a separate

instruction. The Compliance function participates in the work of the Legal Committee and report material legal development to the Board of Directors and the CEO.

#### *Compliance risk management*

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 by Heads of Business Areas and IT twice a year, and by Heads of Corporate functions once a year. Compliance risks are also reported when deemed necessary. The risks are confirmed by Heads of Business Areas/Corporate functions in accordance with the Operational and Compliance Risk Assessment process.

#### *Compliance incidents*

The Compliance function investigate and report relevant compliance incidents to the Board of Directors and the CEO.

#### *Monitoring compliance with rules*

The Compliance function perform relevant planned and ad hoc monitoring activities to detect non-compliance. In case non-compliance is detected, the Compliance function also follow-up that mitigating activities are implemented by the operations.

### 2.4.2.2 Compliance plan

A risk based Compliance plan is established and approved by the Board of Directors. It summarises the main areas that should be the year's focus, which fall outside of the general, recurring tasks of the Compliance function. Further, a detailed compliance plan is decided by the CCO. The detailed plan includes compliance monitoring and supporting activities that shall be undertaken by the Compliance function during the year in order to fulfil the Compliance plan decided by the Boards of Directors.

FIGURE 8 – Recurring activities within the Compliance function



### 2.4.2.3 Organisation

#### *Chief Compliance Officer*

The Compliance function is organised across the legal and the operational structure and is constituted by the CCO and several Compliance Officers. The tasks of the Compliance function have been partially outsourced to If Sweden and are performed by the Chief Compliance Officer in cooperation with Compliance Officers employed in If. The CCO is overall responsible for the

performance of the responsibilities of the Compliance function throughout If. The Board of Directors has issued an Instruction for the CCO, describing her responsibilities more in detail.

The Compliance function is separate from the business organisation, operationally independent and part of the second line of defence in the internal control system.

The Compliance function shall have sufficient resources and may draw competence from units, departments or persons with the skills and experience necessary to fulfil the tasks assigned to them in relation to compliance activities.

**Compliance Officers**

The CCO has appointed Compliance Officers to perform compliance activities within If.

**Compliance coordinators**

Within the legal departments, the Chief Legal Counsel and Head of Insurance Legal have appointed Legal Compliance coordinators. The Heads of Business Areas Private, Commercial, Industrial and Heads of Corporate functions have appointed Business Compliance coordinators. The coordinators act as a link between the business and the Compliance function.

The coordinators engage in compliance activities in addition to their regular tasks and are not part of the Compliance function.

Compliance coordinators do as a general rule not engage in other monitoring or control activities than those that are part of their own business process.

**2.4.2.4 Compliance Policy**

Sampo plc has issued Compliance Principles setting out the main requirements for how all companies belonging to the Sampo Group should address compliance activities and implement effective compliance programs. If has issued a Compliance Policy including more detailed requirements on goals and principles, responsibilities, organisation, communication and reporting.

The Compliance Policy is decided by the Board of Directors and reviewed annually or when required due to changed legal requirements or changed market conditions etc.

**2.5 Internal Audit Function**

**2.5.1 The Internal Audit function, implementation, independence and objectivity**

The Internal Audit function (IA) in If is organised under the Board of Directors of Sampo plc and reports to the Board of Directors of If and to Sampo's Audit Committee. The function is independent of business operations, and is responsible for evaluating the sufficiency and effectiveness of the internal control system and the quality with which the tasks are performed within If. The IA unit is managed by the Chief Audit Executive (CAE), who is appointed by the Board in Sampo plc. IA is organised to correspond to the business organisation.

**2.5.1.1 The Internal Audit Policy**

The work within IA is carried out in accordance with the Internal Audit Policy, approved by the Board of Directors in all legal entities within If. According to the policy, IA is obliged to comply with the guidelines set out in the International Professional Practices Framework (IPPF – set/defined by the Institute of IA. The policy gives IA the mandate to conduct audits, as well as consultancy work. Further, it gives IA the unrestricted mandate to obtain information and access to management and any minutes regarding decisions made. The policy also outlines the division of responsibilities between IA and External Audit. The two audit functions co-ordinate their work in order to ensure adequate audit coverage and in order to minimise duplicate efforts.

**2.5.1.2 The Internal Audit Plan**

The Audit Committee in Sampo plc and the Board of Directors in If annually approve the IA's three-year audit plan. IA applies a risk based approach, both by reviewing existing material and by gathering information from senior management and the Board of Directors. As the approach is risk based, the amount of audits, the number of countries and the business areas can vary from year to year. Any changes to the audit plan must be approved by the Board of Directors. The external auditors are informed about the internal audit plan and they attend the Audit Committee meetings on the Sampo Audit Committee level.

**2.5.1.3 Reporting**

IA reports on the audits performed to the CEO, the Board of Directors and to the Sampo Audit Committee. The audit observations are reported to If's CEO and management, as well as, to the If Chief Risk Officer and the If Chief Compliance Officer. Before any audit reports are distributed, the reports are discussed with the audit client regarding audit issues, conclusions and recommendations. The final written reports are always approved by the CAE before being distributed.

IA also does follow-up audits to ascertain that appropriate actions are taken on reported audit issues.

The CAE also submits activity reports to the Board of Directors of If twice a year where significant audit findings and recommendations are highlighted. These reports include all potential severe deficiencies which have been detected during the audit work, including any follow-up issues which have not been mitigated or remedied according to agreed-upon action plans.

**2.5.1.4 External reviews of the Internal Audit function**

As stated in the Internal Audit policy, and in compliance with the IPPF, the IA function should be reviewed by an external party in order to evaluate IA's performance in accordance with IPPF. These reviews are performed by external, qualified persons, who are independent from If Group and Sampo Group. These external quality assessment should be performed if possible at least every five years.

In all audits, IA thoroughly assesses the objectivity of the auditor, related to the area which is to be audited. The internal auditors are chosen based on their knowledge, skills and integrity, which are essential to the performance of the internal audits.

**2.6 Actuarial function**

**2.6.1 Implementation of the Actuarial function**

An Appointed Actuary performs the tasks of the Actuarial function for If Finland and reports to the CEO as well as to the If Group Chief Actuary on actuarial matters. The Appointed Actuary is a member of the Actuarial Committee and participates in the work of this committee.

**2.6.1.1 Responsibilities and tasks**

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

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

- Coordinating the calculation of technical provisions including their reliability and adequacy;
- Presenting an opinion on the underwriting policy of the company;
- Presenting an opinion on the adequacy of the reinsurance arrangements;



- Presenting an opinion on the solvency position of the company; and
- Contributing, within the framework, to the risk management system and ORSA reporting.

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

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

### 2.6.2 Reporting

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

The Actuarial function further ensures that a report is submitted to the Board of Directors and to the CEO giving an opinion on the adequacy and appropriateness of the technical provisions as well as other relevant matters after each quarterly book closing.

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

## 2.7 Outsourcing

### 2.7.1 If's Outsourcing Policy

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

In order to ensure effective control of the outsourcing of critical or important functions or activities and manage risks associated with such outsourcing, the policy sets out a process which needs to be observed when setting up new outsourcing arrangements or making material amendments to existing outsourcing arrangements. The outsourcing process consists of risk analysis, counterparty evaluation, agreement drafting, follow-up, reporting and information.

The Board of Directors has established an Outsourcing Committee that serves as a forum and supervises If's outsourcing

activities in accordance with the Outsourcing Policy. Any new or materially amended outsourcing agreements regarding critical or important functions or activities need to be reported to and assessed by the Outsourcing Committee and subsequently approved by the Board of Directors prior to the agreements being notified to the Finnish Financial Supervisory Authority.

### 2.7.2 Outsourcing of critical or important operational functions or activities

In order to make If's insurance business more efficient, If is outsourcing several critical or important operational activities to internal and external service providers.

Asset management is outsourced to Sampo plc in Finland and investment related services are provided by If Sweden. As a consequence of the If Group's operational structure with business areas Private, Commercial and Industrial and Corporate Functions operating through several legal entities and branch offices, a number of additional intra-group outsourcing arrangements have been set up.

If has also outsourced its procurement of IT services to its sister company If IT Services A/S in Denmark, which in turn has entered into agreements with IT service providers.

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

## 2.8 Any other information

### 2.8.1 Adequacy of system of governance

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

### 2.8.2 Any other material information

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

### 3 Risk Profile

#### 3.1 If's measurement of risk

If's overall strategy is to focus on both capital efficiency and a sound risk management. Available capital shall exceed both the Solvency Capital Requirement and the economic capital requirement as well as maintaining an A rating by both Standard & Poor's and Moody's. This means that the risk exposure for If is quantified using different measures<sup>7</sup> for different purposes.

In this chapter, If's risk profile is described as well as If's measurement of risks. The risk profile on an overall level is presented, followed by a more detailed description and analysis of each major component within each risk category. The main risk categories described in this chapter are: Underwriting risk, Market risk, Credit risk, Liquidity risk, Operational risks and Other risks.

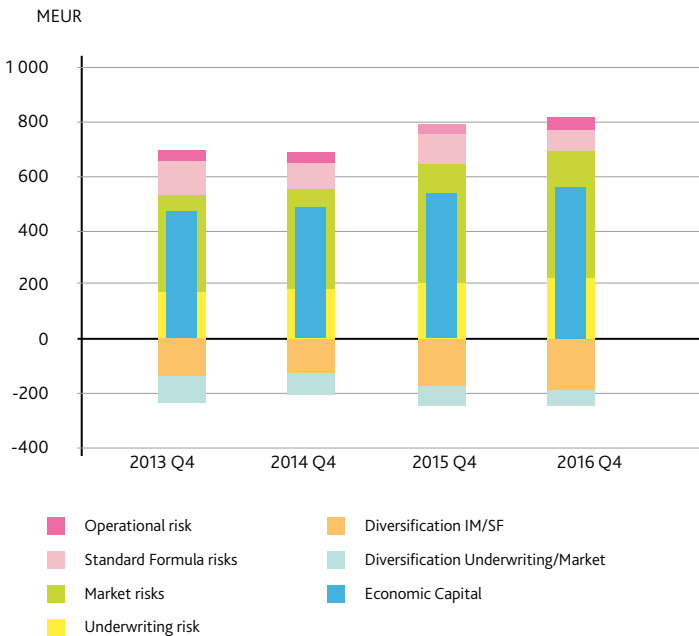
For internal risk measurement and reporting, the measure economical capital is used. Economic capital is arrived at by using internal model to calculate all major quantifiable risk components including their diversified aggregation while the remaining risks are calculated by using the Standard Formula.

In addition to the quantitative measures, qualitative assessments are conducted of all risks including those risks that are not possible to quantify such as: Liquidity risk, Strategic risk, Reputational risks, Compliance risks, Legal risks, Emerging risks and Other concentration risks.

#### 3.2 If's risk profile

The figure below shows EC as per 31 December 2013 to 31 December 2016.

FIGURE 9 – Development of Economic Capital



The main risk types for If are underwriting and market risks. The increase in Insurance risk 2015 (183 MEUR to 202 MEUR) is due to the reclassification of inflation risk from Market risk to insurance risk. However, this reclassification also increased the diversification effects between Underwriting and Market risk. Except from this reclassification, the allocation of EC on different risk categories has been relatively stable over the past four years. The increase in EC in 2016 is due to the increased market risk, mainly driven by higher exposure.

#### 3.3 Underwriting risk

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

In accordance with the EC calculation, premium risk, catastrophe (CAT) risks, reserve risk and inflation risk are included in the Underwriting risk.

##### 3.3.1 Risk exposure

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

If's economic capital for Underwriting risk reflect the exposure to Underwriting risk over a one year horizon increased by 22 MEUR, i.e. from 202 MEUR to 224 MEUR during 2016. This was driven by a 27 MEUR increase in inflation risk due to the calibration in the new nominal interest rate model. However, the economic capital for Underwriting risk at 31 December 2016 is by a good margin within If's risk appetite and tolerance.

##### 3.3.1.1 Premium risk and Catastrophe risk

Premium risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events that have not occurred at the balance date. Catastrophe risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events.

The main premium risks for If are claim volatility risk and accumulation risk. Individual large claims constitute a risk on gross level but it is mitigated by reinsurance. In If, Motor and Property lines of business constitute a major share of the insurance portfolio with two thirds of the premium volume.

<sup>7</sup> Economic Capital (EC), Standard Formula Solvency Capital Requirement (SF SCR), Standard Formula Solvency Capital Requirement with transitional equity measures (SF TEM SCR).

### Main factors affecting Premium Risk

Risk factors underlying premium risk are reviewed twice a year by each business area on an impact and likelihood basis. The analysis of risk factors underlying premium risk is an integral part of the risk management process.

TABLE 3 – Main factors affecting premium risk

Risk factor	Risk description
Claims volatility	Claims volatility is the risk that a higher number of claims occur than expected during a specific time period. This may be caused by e.g. a period of adverse weather conditions that increase the frequency of motor claims.
Risk concentration/accumulation	Concentration risk is the risk that several claims are caused by the same risk event. A risk event such as a fire or a flood might affect several insured objects in the same geographical area, which hence is a concentration risk. Several insured objects within the same geographical area.
Data quality for analysis and pricing/incorrect risk info for UW assessments	Errors in data or lack of data may affect the risk assessment. An incorrect risk assessment might lead to losses due to inadequate pricing.

### 3.3.1.2 Reserve risk and Inflation risk

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

Reserve risk includes revision risk, which is defined as the risk of loss, or of adverse change in the value of insurance and reinsurance 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 main reserve risks for If are stemming from emerging risks, development in medical practice and uncertainty in the claim amounts caused by higher claim inflation. The development in medical practice affects the number of claims for example through more accurate diagnosis of whiplash injuries that can arise long after the actual accident. Reserves in long tailed business are sensitive to assumptions on future inflation as it affects the future claim amount.

The provisions in If are dominated by long tailed business, as Workers' Compensation Insurance and Motor Vehicle Liability Insurance constitute 84% of the Solvency II claims reserve. Due to the long duration of the portfolio, the interest rate risk is substantial. However, the inflation risk is limited in Finland, as index increments for annuities and all medical treatment and medical rehabilitation costs paid after nine years from the beginning of the next year of occurrence are handled through a national pay-as-you-go system, where the yearly increases are included in the insurance premium.

The major part of the technical provisions in statutory accounts consists of claims outstanding pertaining to annuities of WC and MTPL, which are sensitive to changes in mortality assumptions and discount rates. The effect on solvency provisions from an decrease in interest rates is damped for provisions with long duration due to the convergence towards the ultimate forward rate. The longevity risk is reduced by using the revised mortality pattern model developed in the Finnish insurance industry in

2004 and updated in 2011 and 2016. The life expectancy in 2016 update was moderately shorter the life expectancy. For further details on the breakdown of technical provisions, please refer to QRT S.12.01.01, S.17.01.01 and S.19.01.21.

### Main factors affecting Reserve risk

Risk factors underlying reserve risk are reviewed semi annually by the Actuarial Committee on an impact and likelihood basis. The analysis of risk factors underlying reserve risk are an integral part of the risk management processes.

TABLE 4 – Main risk factors affecting reserve risk

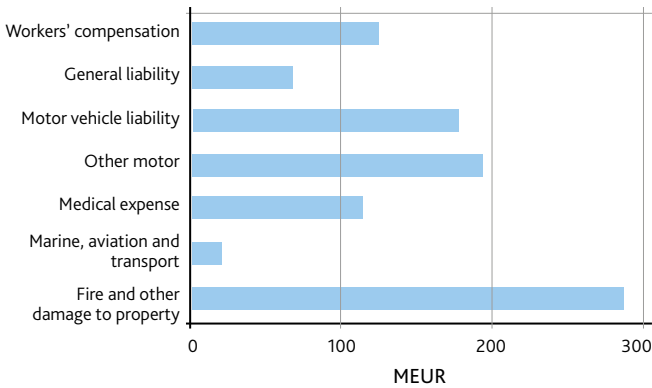
Risk factor	Risk description
Emerging risks	New technology such as nanomaterials and devices emitting electromagnetic fields may cause adverse health effects and impact Workers' Compensation Insurance and General Liability Insurance. Cyber risks in the insureds own operation may materialise as liability claims through e.g. loss of data. The lack of climate change adaption increases the likelihood of severe impact for people and ecosystems.
Claims inflation	The anticipated inflation trend is taken into account when calculating all provisions and is essential for claims settled over a long period of time, such as Motor Vehicle Liability Insurance and Workers' Compensation Insurance. An underestimation of claims inflation can result in inadequate reserves.
Development in medical practice	The development in medical practice affects the number of claims for example through more accurate diagnosis of whiplash injuries that can arise long after the actual accident. New and more expensive treatments might increase the costs of incurred claims.
Increase in life expectancy	The longevity of the population affects both the length of annuities and lump sum amounts. An underestimation of life expectancy may cause run off losses.

### 3.3.2 Risk concentration

The insurance portfolio is well diversified, given the fact that If has a large customer base throughout Finland and across several lines of business.

The gross written premium by SII lines of business is presented in Figure 10.

FIGURE 10 – Premium income by solvency line of business



Despite the diversified portfolio, risk concentrations and consequently severe claims may arise through, for example, exposures to natural catastrophes such as storms and floods. The economic impact of natural disasters and single large claims is managed using reinsurance and through diversification. For further data on If's premium distribution across lines of business, please refer to QRT S.05.01.02.

#### 3.3.2.1 Concentration risk within business areas

One risk event can sometimes affect several risks. Examples of accumulations or risks are typically a shopping center or a major natural catastrophe. Major accumulations identified in If are found within Business Area Industrial. Concentration risks are managed by the reinsurance programs. Accumulation of risks within the BA Industrial portfolio is monitored by detailed latitude/longitude data registration of locations as well as overall portfolio monitoring by underwriting managers.

### 3.3.3 Risk mitigation

#### 3.3.3.1 Premium risk and catastrophe risk Management and Control

The principal methods for mitigating premium risks are by reinsurance, diversification, prudent underwriting and follow-ups on regular basis linked to the strategy and financial planning process. The Underwriting Policy (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.

#### 3.3.3.2 Reserve risk Management and Control

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, the Chain Ladder and Bornhuetter-Ferguson 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 expenses, other possible adjustments and mortality into account. The common pay-as-you-go (PAYG)

system is used for financing index increments of payments related to finalised and non-finalised annuities in Workers' Compensation (WC), Motor Third Party Liability (MTPL) and Statutory Patient Insurance. All companies underwriting these statutory lines are part of the PAYG system and share the cost according to their market share.

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 claim inflation risk in technical provisions is reduced by the fact that all medical treatment and medical rehabilitation costs paid after nine years from the beginning of the next year of occurrence are included in the non-funding pay-as-you-go system. 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's own estimation of costs for various types of claims.

#### 3.3.3.3 Reinsurance

If's Reinsurance Policy stipulates guidelines for the purchase of reinsurance. The need and optimal choice of reinsurance is evaluated by comparing the expected cost versus the benefit of the reinsurance, the impact on result volatility and decreased capital requirement. The main tool for this evaluation is If's internal model used for economic capital in which small claims, single large claims and natural catastrophes are modelled.

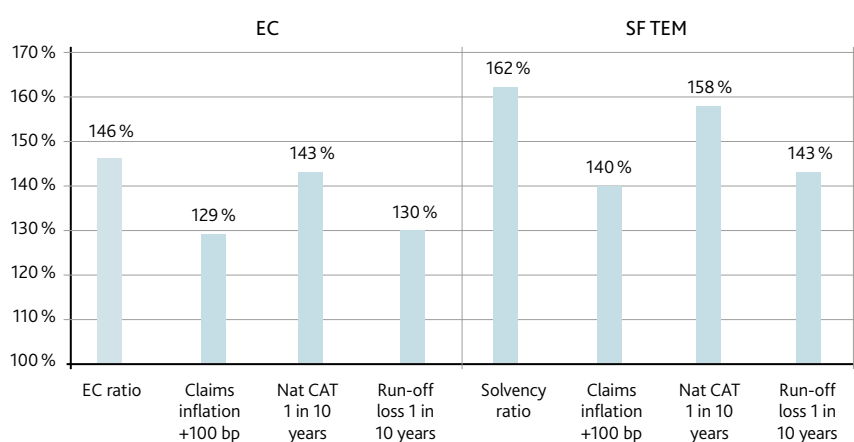
In the Reinsurance Policy, there are limitations regarding allowed reinsurers and their ratings for each line of business, as well as limits relating to concentration risk, single reinsurance counterparty exposure, counterparty exposure within a program or captive retrocession. In addition, the reinsurers are continuously assessed and evaluated through own financial and qualitative pre-defined analyses. If has no special purpose vehicles.

To mitigate the inherent uncertainty in EML calculations, If has an EML break through reinsurance cover floating on top of treaties and facultative covers and EML stress tests are regularly performed.

### 3.3.4 Risk sensitivity

To test sensitivity for major risk factors, equity and interest rate stresses have been performed showing the effect on the Solvency II ratios at 31 December 2016 in table below. In each sensitivity test, If maintains a solvency ratio above 100%.

FIGURE 11 – Solvency II Sensitivity Underwriting risk



#### 3.3.4.1 Claims inflation stress

##### Stress description

The claims inflation stress estimates an impact on the economic capital as well as on the solvency ratio for Standard Formula with transitional equity measures (SF TEM) for a 100 basis points increase in the expected future claims inflation.

##### Key assumptions

- Technical provisions increase which decreases eligible own funds;
- The increase of technical provisions increase inflation risk, reserve risk and interest rate risk;
- The increase in interest rate risk is due to higher expected future cash flows from technical provisions although the discount rate is assumed unchanged; and
- Due to the pay-as-you-go system there is no inflation risk for the Finnish annuities and they are not affected in the stress.

#### 3.3.4.2 Natural catastrophe stress

##### Stress description

The natural catastrophe stress estimates an impact on the economic capital as well as on the solvency ratio for Standard Formula with transitional equity measures (SF TEM) for a 1 in 10 year catastrophe claims costs.

##### Key assumptions

- The increase in technical provisions decreases eligible own funds and increase inflation risk, reserve risk and interest rate risk; and
- The magnitude of the run-off loss is based on the reserve risk module in the internal model and measured from the expected run off loss at the 90th percentile.

#### 3.3.4.3 Run-off loss stress

##### Stress description

The run-off loss stress estimates an impact on the economic capital as well as on the solvency ratio for Standard Formula

with transitional equity measures (SF TEM) for a 1 in 10 year run-off loss.

##### Key assumptions

- The increase in technical provisions decreases eligible own funds and increases inflation risk, reserve risk and interest rate risk; and
- The magnitude of the run-off loss stress is based on the internal model.

### 3.4 Market risk

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

#### 3.4.1 Risk exposure

Market risk, in accordance with the calculation of EC, consists of currency-, equity-, interest rate- and spread risk. Spread risk is included when calculating market risk but its exposure, concentration, mitigation and sensitivity are described in section 3.5, since If views spread risk as being part of credit risk together with the counterparty default risk. Asset and Liability Management (ALM) risk is not calculated separately but is comprised in the interest rate and currency risk figures. The figure below shows the quantitative EC measure for market risk. The main risk component is the interest rate risk. If benefits from diversification effects through its well-diversified portfolio. Compared to 31 December 2015, the market risk has increased mainly due to increased interest rate risk and spread risk.

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

The market risks related to investment are typically non-complicated since If applies mark-to-market procedures to most of its investments, there are a limited number instruments that require mark-to-model procedures. If pledges collateral for letters of

credit (in the insurance operations) and for cleared derivatives. Major factors affecting Market risk:

TABLE 5 – Factors affecting Market risk

Risk factors	Risk description
Renewed Eurozone turbulence.	There is a clear uncertainty on the Eurozone development after the Brexit vote and the coming referendums in the EU. Markets have now however had some time to digest the outcome of Brexit but the political insecurity remains.
Equity markets down.	The US economy continues to improve and monetary policy is being reconsidered. At some stage, European rate policies will follow which means less support for risky assets.
Concentration towards Nordic financials.	The banking sector is in good shape but consequences would be substantial in case of a banking crash.
Low interest rate over long period.	The interest rates have stabilised, but low yield environment will give low returns over the medium term.

3.4.1.1 Currency risk

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

If’s business activities and investment decisions create currency exposure. Compared to Q4 2015, the currency risk has been stable.

3.4.1.2 Equity risk

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

The equity portfolio consist of Nordic shares and a diversified global funds portfolio. At year-end 2016, If’s exposure amounted to 257 MEUR. Compared to 31 December 2015, the equity risk has increased slightly due to a similar increase in exposure.

3.4.1.3 Interest rate risk

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

The duration of fixed income investments was 1.8 years at year-end 2016. Compared to 31 December 2015, the interest rate risk has increased mainly due to increased exposure and increased interest rate volatility.

3.4.1.4 Spread risk

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

Compared to 31 December 2015, the spread risk has increased mainly due to more credit exposure. For information on spread risk exposure, concentration, mitigation and sensitivity, see 3.5, Credit risk.

3.4.1.5 Asset and Liability Management (ALM) risk

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

The Asset and Liability Management risk consists of interest rate risk and currency risk. In the accounts, less than half of the

technical provisions are nominal, while the annuity and annuity IBNR reserves, are discounted. The discount rate is affected by the prevailing interest rate environment and the demands set by the Insurance Companies Act and the related Statutory Order. Accordingly, from an accounting perspective, If is mainly exposed to changes in inflation and the discount rate. From an economic perspective, whereby the technical provisions are discounted using prevailing interest rates, If is exposed to changes in both inflation and nominal interest rates.

3.4.2 Risk concentration

The figures below show the market risk concentration of the investment portfolio (excluding real estate) in If. Figure 12 shows the market values per type of asset whereas Figure 13 shows how much EC they contribute with to the total undiversified market risk.

FIGURE 12 – Market values per type of asset, 31 December 2016

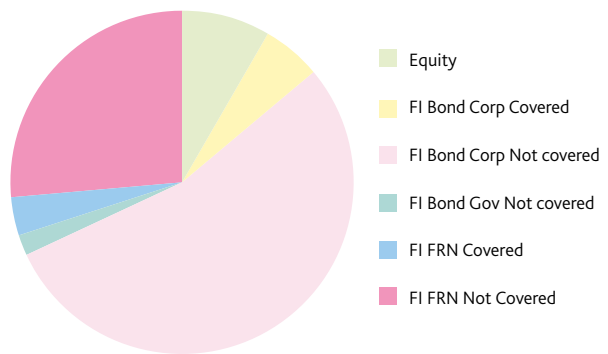
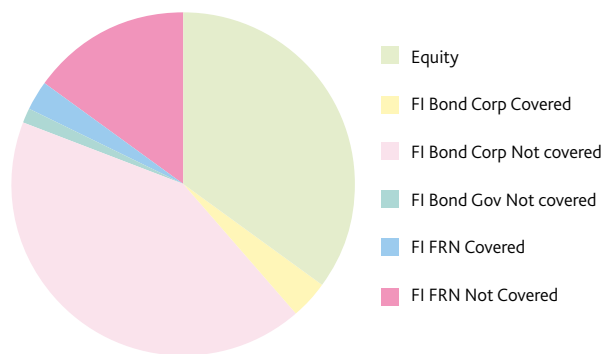


FIGURE 13 – Economic Capital per type of asset, 31 December 2016



3.4.2.1 Currency risk

If’s currency positions against the base currency are shown in Table 6.

TABLE 6 – Currency risk

MEUR	USD	GBP	SEK	NOK	DKK	OTHER
Open position (EUR), 2016	2	-1	-3	2	0	-4

3.4.2.2 Equity risk

The total investment portfolio of If consisting mainly of fixed income 92% and equities 7%. The majority of equity investments are located in equity funds.

TABLE 7 – Breakdown of equity investments excluding private equity funds by geographical regions

MEUR	2016		2015	
	Fair value	%	Fair value	
Scandinavia	20.4	8.5	11.8	5.3
Western Europe	161.8	67.9	161.3	73.0
Far East	52.4	22.0	46.9	21.2
Finland <sup>1</sup>	1.0	1.6	1.0	0.5
<b>Total</b>	<b>235.6</b>	<b>100.0</b>	<b>221.0</b>	<b>100.0</b>

<sup>1</sup> Difference compared with the statutory account related to shares of Auto-vahinkokeskus Oy which are included in the FAS accounts but are not included in this table

### 3.4.2.3 Interest rate risk

The duration of fixed income investments was 1.8 years at year-end 2016. The duration of fixed income investments is shown in Table 8.

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

MEUR	2016		
	Fair value	%	Duration
Scandinavian government and credit securities	966	30.0	1.5
Euro government and credit securities	1,024	31.8	2.3
Short-term fixed income	491	15.3	0.4
US government and credit securities	566	17.6	2.4
Global government and credit securities	172	5.3	3.1
<b>Total</b>	<b>3,219</b>	<b>100</b>	<b>1.8</b>

IR Derivatives are included  
Figures in table 8 include cash and cash equivalents.

### 3.4.2.4 Spread risk

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

### 3.4.3 Risk mitigation

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

The structure of the legal entity'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 at least once a year. The Investment Policy is supplemented with guidelines defining mandates and authorisations and guidelines on the use of derivatives.

The Market risks actively monitored, controlled and reported.

#### 3.4.3.1 Currency risk

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.

#### 3.4.3.2 Equity risk

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

#### 3.4.3.3 Interest rate risk

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

#### 3.4.3.4 Spread risk

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

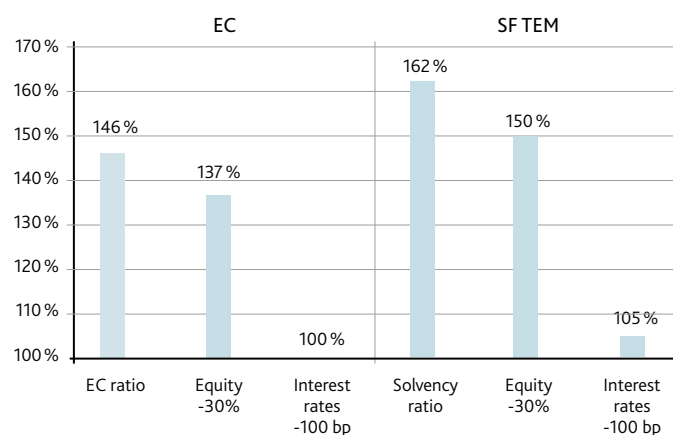
#### 3.4.3.5 Asset and Liability Management (ALM) risk

The ALM risk in If is managed in accordance with Sampo's Group-wide principles. ALM is taken into account through the risk appetite framework and is governed by If's Investment Policy. To maintain the ALM risk within the overall risk appetite, the cash flows of insurance liabilities may be matched by investing in fixed income instruments and by using currency derivatives.

### 3.4.4 Risk sensitivity

To test sensitivity for major risk factors, equity and interest rate stresses have been performed showing the effect on the Solvency II ratios at 31 December 2016 according to the table below. In both stresses, If maintains a solvency ratio of at least 100%.

FIGURE 14 – Solvency sensitivity Market risk



#### 3.4.4.1 Equity stress

##### Stress description

The equity stress estimates an impact on the solvency ratio for economic capital as well as on the solvency ratio for Standard Formula with transitional equity measures (SF TEM) for a 30 per cent decrease in the market value for equities.

##### Key assumptions

The equities in the investment portfolio and the equity risk decrease with the same proportion as the market value.

#### 3.4.4.2 Interest rate stress

##### Stress description

The interest rate stress estimates an impact on the solvency ratio for economic capital as well as on the solvency ratio for Standard Formula with transitional equity measures (SF TEM) for a 100 basis points decrease in the interest rates.

**Key assumptions**

- The decrease of interest rates increases the investment assets and technical provisions;
- Due to a longer duration the increase of technical provisions is larger than increase of investment assets, which is mainly reflected in a decrease of eligible own funds and also an increase of solvency capital requirement; and
- The interest rate stress is based on parallel shift of the market rates used as input to the calculation of the Solvency II yield curves. The effect is then dampened for the highest maturities due to convergence to the unstressed ultimate forward rate used in the long end.

**3.5 Credit risk**

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

**3.5.1 Risk exposure**

Credit risk, or spread risk as it is referred to within If, is measured as economic capital calculated by If's internal model as seen under section 3.4 Market risk. The Standard Formula is used for the calculation of concentration risk and counterparty default risk. Credit risk refers to the sensitivity of the values of assets and liabilities to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure.

**3.5.1.1 Credit risk in Investment Operations**

Credit risk in the investment operations can be measured as counterparty default risk and spread risk. In most cases part of

the credit risk is already reflected by higher spread and thereby the asset has a lower market value, even in the case of no default. Therefore, the spread is in essence the market price of credit risk.

The additional risk, stemming either from lack of diversification in the asset portfolio or from large exposure to default risk by (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.

The economic capital for credit risk is to be found under section 3.4, Market risk.

**3.5.1.2 Credit risk in Reinsurance Operations**

In addition to the Credit risk associated with investment assets, credit risk arises from insurance operations, most importantly through ceded reinsurance. Credit risk related to reinsurers arises through reinsurance receivables and through the reinsurers' portion of claims outstanding. Credit risk exposure towards policyholders is very limited.

**3.5.2 Risk concentration****3.5.2.1 Concentration in Investment Operations**

A large part of If's fixed income investments is concentrated to financial institutions, whereof the main part is in the Nordic area.

If's most significant credit risk exposures arise from fixed income investments.

The exposures are shown by sector, asset class and rating category in Table 9.

TABLE 9 – Exposure by sector, assets classes and rating 2016.

MEUR Branch	AAA	AA+ - AA-	A+ - A-	BBB+ - BBB-	BB+ - C	Not rated	Total <sup>1)</sup>	Equities	Properties	Total <sup>2)</sup>	Change Dec 31, 2015
Basic Industry			15		3	4	22	4		26	3
Capital Goods		13	59	11		21	104			104	31
Consumer Products		120	135	93	33	27	408	16		424	166
Energy		45	30		12	28	115			115	38
Financial Institutions		580	833	193	15	25	1,647			1,647	-111
Governments	38						38			38	38
Government Guaranteed		24					24			24	24
Health Care	7		42	25		3	76			76	47
Insurance		10		7			18			18	-20
Media			2			17	19			19	4
Packaging						6	6			6	-
Public Sector, Other		8					8			8	-
Real Estate				21		97	117		21	139	82
Services				54			54			54	15
Technology and Electronics		38	21				59			59	39
Telecommunications				24		7	31			31	15
Transportation			4	14	11	29	58			58	17
Utilities				48	3	15	66			66	16
Others		15					15			15	15
Covered Bonds	301						301			301	9
Funds							-	237		236	13
<b>Total</b>	<b>345</b>	<b>843</b>	<b>1,152</b>	<b>491</b>	<b>78</b>	<b>278</b>	<b>3,186</b>	<b>257</b>	<b>21</b>	<b>3,464</b>	<b>441</b>
<b>Change compared to Dec 31, 2015</b>	<b>54</b>	<b>-280</b>	<b>378</b>	<b>218</b>	<b>-37</b>	<b>86</b>	<b>419</b>	<b>23</b>	<b>-</b>	<b>441</b>	

<sup>1)</sup> Total exposure excluding derivatives, except for OTC derivatives where only counterparty risk is taken into account.

<sup>2)</sup> Total fixed income exposure excluding derivatives



### 3.5.2.2 Concentration in Reinsurance Operations

The distribution of reinsurance recoverable is presented in Table 10.

TABLE 10 – Reinsurance recoverables

MEUR Rating (S&P)	2016	%	2015	%
AA	1.8	18.6	2.1	26.6
A	2.2	22.7	1.7	21.5
BBB	0.1	1.0	0.3	3.8
Not rated	0.0	0.0	0.1	1.3
Captives and statutory pool solutions	5.6	57.7	3.7	46.8
<b>Total</b>	<b>9.8</b>	<b>100.0</b>	<b>7.9</b>	<b>100.0</b>

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

TABLE 11 – Distribution of ceded treaty and facultative premiums per rating category

MEUR Rating (S&P)	2016	%	2015	%
AA	4.2	53.5	5.2	56.2
A	3.7	46.5	4.0	43.8
BBB	-	-	0.0	0.0
<b>Total</b>	<b>7.9</b>	<b>100.0</b>	<b>9.2</b>	<b>100.0</b>

### 3.5.3 Risk mitigation

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

#### 3.5.3.1 Risk mitigation in Investment Operations

Credit risk in the investment operations is managed by specific limits stipulated in If's Investment Policy. In the policy, limits are set for maximum exposures towards single issuers, type of debt category and per rating class. The Spread risk is further limited by sensitivity restrictions for instruments sensitive to spread changes. When investment decisions are taken the prudent person principle is followed in accordance with If's Investment policy.

The default risk of derivative counterparties is a by-product of managing market risks. The risk is mitigated by careful selection of counterparties, diversification of counterparties to prevent risk concentrations and by using collateral techniques.

Credit exposures are reported by ratings, instruments and industry sectors.

#### 3.5.3.2 Risk mitigation in Reinsurance Operations

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

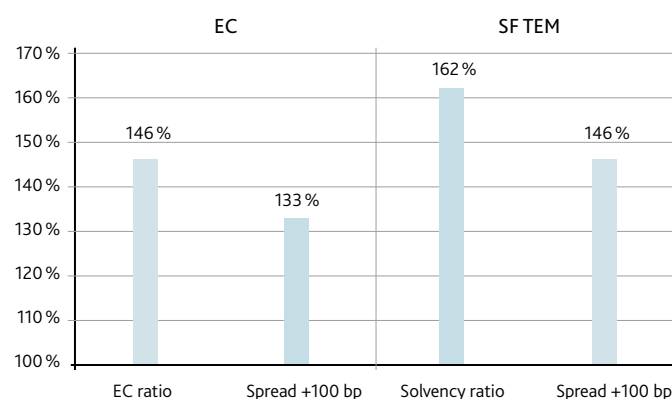
The Reinsurance Security Committee (RSC) shall give input and suggestions to decisions in respect of various issues regarding reinsurance default risk and risk exposure, as well as proposed deviations from the Reinsurance Security Policy. The Chairman is responsible for the reporting of policy deviations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

### 3.5.4 Risk sensitivity

#### 3.5.4.1 Risk sensitivity in Investment Operations

To test sensitivity for major risk factors, a credit spread stress have been performed showing the effect on the Solvency II ratios at 31 December 2016 in table below. If maintains a solvency ratio above 100% after the stress.

FIGURE 15 – Solvency II Sensitivity Credit risk, Economic capital and Standard formula included with transitional equity measures.



#### Spread stress

##### Stress description

The spread stress estimates an impact on the solvency ratio for economic capital as well as on the solvency ratio for Standard Formula with transitional equity measures (SF TEM) for a 100 basis points increase in the spreads.

##### Key assumptions

This stress does not have an impact on technical provisions.

#### 3.5.4.2 Risk sensitivity in Reinsurance Operations

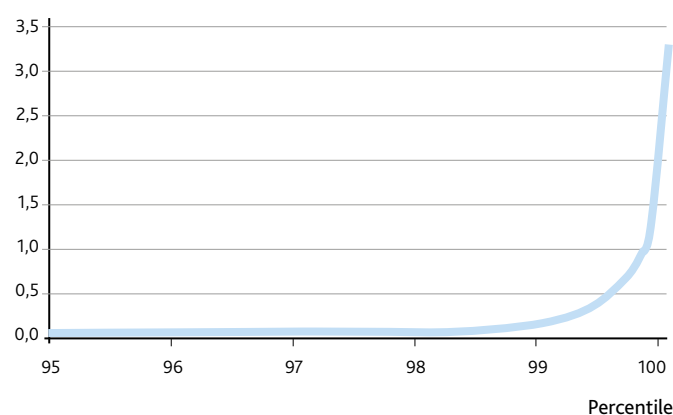
The simulated credit loss due to counterparty default gives a view of the risk profile. Non-rated captives and pools are treated as BBB rated. Based on an assumption that the recovery rate in case of a counterparty default can be approximated with a probability distribution with a 50 % mean, the estimated credit loss is simulated using 50,000 simulations.

TABLE 12 – Risk sensitivity

MEUR Probability	Q4 2016
5.0%	0.0
2.5%	0.0
1.0%	0.1
0.5%	0.4
0.03%	2.6

FIGURE 16 – Risk sensitivity

Credit loss in MEUR



Assumptions: 1 year horizon, correlations between recoverables assumed to be 0.5, a probability distribution for the recovery rate, with a mean of 50 %, is used and the calculations are based on discounted values in line with SII (from 31 December 2016).

### 3.6 Liquidity risk

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

#### 3.6.1 Risk exposure

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

#### 3.6.2 Risk concentration

The maturities of cash flows for technical provisions, financial assets and liabilities are presented in Table 13. In the table, financial assets and liabilities are divided into contracts with a contractual maturity profile, and other contracts. Only the carrying amount is shown for the other contracts. The table also shows expected cash flows for net technical provisions, which are inherently associated with a degree of uncertainty.

#### 3.6.3 Risk mitigation

The Investment Policy and Guidelines, such as the prudent person principle, and the Instruction for the Investment Control Committee establishes strategies, objectives, processes and reporting procedures for the liquidity risks that If takes, and the procedure to manage those risks. The Cash Management function manages the liquidity risk on a day-to-day basis. The risk is actively monitored and controlled by the Investment Control Committee and reported to the ORSAC.

### 3.6.4 Risk sensitivity

To identify the liquidity risk exposure, expected cash flows from investments assets and technical provisions are analysed regularly. Cash flows from investment assets shall be measured both from availability and maturity point of view. When measuring availability, normal market conditions as well as stressed and extreme conditions shall be taken into consideration. When deemed necessary, the analysis shall cover identification and costs of alternative financing tools and consideration of the effect on the liquidity situation of expected new business. The expected cash flows from investment assets and technical provisions shall also be compared to measure the level of mismatch.

#### 3.6.5 Expected profit included in future premiums

The total amount of the expected profit included in future premiums was 39 MEUR at 31 December 2016.

### 3.7 Operational risk including Legal risks

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

The definition includes legal risk that can be described as the risk of loss due to unpredictable or unknown legal development or uncertain interpretations of regulations as well as defective documentation.

#### 3.7.1 Risk exposure

Operational risk is included in the EC measure calculated in accordance with the SF which means that changes in the risk exposure are not reflected in the quantitative measure. Therefore, the main focus to assess operational risk is through the qualitative Operational and Compliance Risk Assessment (OCRA) process. Through this process, operational risk is identified, assessed, mitigated and reported through different

TABLE 13 – Maturities of cash flows for financial assets and liabilities and net technical provisions Q4 2016

MEUR	Carrying amount			Cash flows						
	Carrying amount	Without maturity	With contractual maturity	2016	2017	2018	2019	2020	2021–2030	2031–
Financial assets	3,842	428	3,414	1,085	333	701	516	645	277	-
Financial liabilities	332		332	245	94	-	-	-	-	-
Net technical provisions	2,717		2,717	602	218	155	139	142	818	1,110

self-assessment processes. The OCRA process is supported by an operational risk coordinator network.

Identified risks are assessed from a likelihood and impact perspective. The control status for each risk is assessed using a traffic light system. Risks identified by the business are aggregated and reported into five different categories. The five operational risk categories are: process execution failure; business disruption and system failures; customer, products and business practices; employment practices; and internal and external fraud. The risks that are assessed to be the most important and the ones that presently are assessed to be the highest are reported to the Operational Risk Committee (ORC).

Various risk indicators are used in order to both identify and follow the development of various risks, where incident reporting and quality assurance reviews are two important examples.

Possible external and internal cases of fraud are identified and reported via dedicated processes.

External operational risk is mainly identified via the processes for identifying Strategy risk and Emerging risk, see sections 3.8.1 and 3.8.4.

The Legal risk exposure can mostly be identified in advance, e.g. in conjunction with new regulations or ongoing litigation. The legal risk identification and assessment process is a self-assessment process performed by the legal risk co-ordinators each quarter. Identified risks are discussed in the Legal Committee and reported to the ORC and the ORSAC.

Material risks for If within Operational risk are insufficient IT and data quality. These areas include for example IT disruptions and data quality issues in key processes.

During the reporting period, there have been no material changes of the risk exposure.

### 3.7.2 Risk mitigation

The internal control system encompasses a range of various mitigating techniques used for both addressing identified weaknesses, proactively lower the likelihood of non-desirable risks materialising and for monitoring the development of the risks.

Examples of key techniques are clear and implemented instructions, set mandates, four-eyes- and grandfather principles, clear roles and divided responsibilities, employee training, proactive and reactive key controls in processes, both automated and manual. To further strengthen key processes and to increase the efficiency, new IT systems including automated support functions, are being developed.

In addition to the key steering documents for operational risks, If has dedicated guidelines addressing how to manage possible external and internal cases of fraud. Internal training on ethical rules and guidelines is a continuous process.

In order to manage legal risks, If's Chief Legal Counsel has issued an instruction for the Legal risk co-ordinators and legal risks are regularly discussed in the Legal Committee.

The mitigating techniques are being monitored and evaluated by second and third lines of defense in order to assess their effectiveness.

### 3.7.3 Risk sensitivity

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

## 3.8 Other material risks

### 3.8.1 Strategic risks

Strategic risk is the risk of losses due to changes in the competitive

environment, changes in the overall economic climate, technology development or internal inflexibility.

#### 3.8.1.1 Risk exposure

Strategic risks are identified by the business in the yearly financial plan process and is reported to the Corporate Control and Strategy unit. The risks are aggregated and assessed by impact and likelihood. In the assessment external changes affecting the current Strategic risks are also taken into account.

Strategic risk relate to changes in the operational environment and the capability to pro-actively adjust to the changes. For If, Strategic risks are related to actions of competitors, mainly market share acquisitions through price reductions or distribution capacity increases. Furthermore recessionary economic conditions and distress in financial markets may have a negative effect on If.

#### 3.8.1.2 Risk mitigation

The development of the identified material Strategic risks are continuously followed up by both the business and the Corporate Control and Strategy unit. The risks are evaluated annually in the yearly financial plan process. In addition the risks are managed by the business regularly.

### 3.8.2 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.

#### 3.8.2.1 Risk exposure

If's long-term strategic objective is to achieve an 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 by Head of BAs and IT twice a year, and by Head of Corporate functions once a year. Compliance risks are also reported when deemed necessary. The risks are signed-off by Head of BA/Corporate function in accordance with the Operational and Compliance Risk Assessment (OCRA) process.

The main compliance risk within If, currently and expected during the business planning time period, is the risk of breaching Data Protection Regulations.

#### 3.8.2.2 Risk mitigation

The internal control system encompasses a range of various mitigating techniques. Examples of key techniques are clear and implemented policies and instructions, employee training and other proactive activities.

To mitigate the risk of breaching Data Protection Regulations, considered as the main compliance risk within If, various activities and projects are ongoing and in pipeline to continuously assess, mitigate, and monitor the risk.

### 3.8.3 Reputational risks

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

#### 3.8.3.1 Risk exposure

Reputational risks from a top-down perspective are being identified in a stand-alone process, in parallel with the OCRA process, see sections 3.7 and 3.8.1. Head of Communication is responsible for identifying and reporting the risks. The risks are identified in close cooperation with the business. Additional, forward looking, risk workshops are held to further strengthen the risk identification. The risks are assessed by impact and

likelihood. Identified root causes are managed by the business and when applicable also by the Communications department. Twice a year the material risks are reported to the ORC by Head of Communication.

One of the most essential measures to strengthen If's reputation is to assure that terms and conditions are correct and clear and that the claims handling is transparent and fair. In case a customer is not satisfied he or she can turn to If's Customer ombudsman or Customer panel.

The reputational risks are being well-controlled and no material changes have occurred during the reporting period.

#### 3.8.3.2 Risk mitigation

Reputational risk is often an effect of a materialised operational or compliance risk. When assessing the possible consequences of these two risk types, the business takes reputation impairment into consideration. Mitigating techniques used to minimise the operational and compliance risks also have a positive effect on the reputational risk.

Additional mitigating techniques are:

- Clear and implemented steering documents, e.g. Ethics policy and Social media instructions, as well as an internal Whistle-blowing process;
- Close monitoring of all types of media in order to identify possible negative trends at an early stage; and
- Trainings in media communication.

#### 3.8.4 Emerging risks

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

##### 3.8.4.1 Risk exposure

When new risks materialise or old risks change, this is primarily identified, assessed and managed by the underwriting and claims teams in the different business areas as part of the regular risk assessment processes. However, in order to capture cross BA risks and in order to additionally proactively identify Emerging risks, If has established an Emerging Risks Core Team (ERCT) with expert members from all business areas. The team meets on a regular basis and discusses emerging risks. The aim with the Core Team is to facilitate work in If's underwriting units in identifying risks, collecting and sharing information about the risks, to evaluate the significance and to arrange further studies or workshops and to suggest actions if necessary. The risks are assessed by impact and likelihood. The actions needed to control the exposures and accumulations are carried out in the underwriting units. The major risks that have been under continuous observations during 2016 are cyber risks and the potential lack of climate change adaptation.

##### 3.8.4.2 Risk mitigation

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

#### 3.8.5 Risk sensitivity Other material risks

Strategic, Compliance, Reputational and Emerging risks are not included in the quantitative risk measures. The sensitivity of these risks is equal to the loss of a possible risk event. Such a risk event would therefore result in a one-off effect on own funds but would not have any impact on the EC or solvency requirement. For Reputational risks and Emerging risks, due to their nature, the sensitivity is difficult to evaluate.

## 4 Valuation for Solvency Purposes

### 4.1 Introduction

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

The accounting standards used for statutory accounts have not been subject to any significant amendments in 2016 causing new divergences to occur between Solvency II and the FAS accounts.

#### 4.1.1 Summary of adjustments affecting using Solvency II valuation

Chapter 4 details the adjustments made to the statutory accounts due to Solvency II valuation. Overall, as an effect of the Solvency II revaluations per year end 31 December 2016, the excess of assets over liabilities is 268.7 MEUR higher in the Solvency II balance sheet compared to the statutory accounts.

The table below provides an overview of the effect of Solvency II balance sheet adjustments using the Solvency II balance sheet captions. More detailed comments are included in 4.2-4.5.

## 4 VALUATION FOR SOLVENCY PURPOSES

TABLE 14 – Balance sheet adjustment for solvency II purpose

Classification	Solvency II value	Statutory accounts value	Adjustments MEUR
<b>Assets</b>			
Intangible assets	0.0	3.9	-3.9
Deferred tax assets	0.0	9.8	-9.8
Property, plant & equipment held for own use	3.5	3.5	0.0
Investments (other than assets held for index-linked and unit-linked contracts)	3,272.5	3,134.4	138.2
<i>Property (other than for own use)</i>	21.3	11.6	9.7
<i>Holdings in related undertakings, including participations</i>	2.8	1.1	1.7
<i>Equities</i>	21.4	9.8	11.6
<i>Bonds</i>	2,990.9	2,928.5	62.4
<i>Collective Investments Undertakings</i>	235.8	183.3	52.4
<i>Derivatives</i>	0.3	0.0	0.3
Loans and mortgages	57.3	57.3	0.0
Reinsurance recoverables :	9.7	11.3	-1.6
<i>Non-life and health similar to non-life</i>	9.7	11.3	-1.6
Insurance and intermediaries receivables	36.0	344.7	-308.7
Receivables (trade, not insurance)	3.4	1.6	1.8
Cash and cash equivalents	170.7	170.7	0.0
Any other assets, not elsewhere shown	37.2	37.2	0.0
<b>Total assets</b>	<b>3,590.3</b>	<b>3,774.3</b>	<b>-184.0</b>
<b>Liabilities</b>			
Total TP	2,629.4	2,845.6	-216.2
<i>Technical provisions – non-life (excluding health)</i>	631.3	922.4	-291.1
<i>Technical provisions - health (similar to non-life)</i>	425.4	413.6	11.8
<i>Technical provisions - life (excluding index-linked and unit-linked)</i>	1,572.8	1,509.6	63.2
Other technical provisions	0.0	296.0	-296.0
Provisions other than technical provisions	1.7	1.7	0.0
Deferred tax liabilities	57.0	0.0	57.0
Derivatives	31.8	31.8	0.0
Insurance & intermediaries payables	30.4	30.4	0.0
Reinsurance payables	2.2	2.2	0.0
Payables (trade, not insurance)	26.8	26.8	0.0
Subordinated liabilities in Basic Own Funds	92.8	90.3	2.5
Any other liabilities, not elsewhere shown	33.7	33.7	0.0
Total liabilities	2,905.8	3,358.5	-452.7
<b>Excess of assets over liabilities</b>	<b>684.5</b>	<b>415.8</b>	<b>268.7</b>

## Solvency II valuation

Intangible assets for which there is a market value would be recognised at fair value, any other intangible assets should be valued at zero.

Adjustment reflects netting with deferred tax liabilities related to the SII entries resulting from SII revaluations and eliminations.

In FAS the book value for property is the acquisition cost less depreciation or fair value, when lower. The Solvency II treatment of property other than for own use is to fair value.

In FAS the book value for If's participations is acquisition cost or fair value when lower. As no fair value is available for Autovahinkokeskus Oy, for Solvency II purposes the IFRS equity method is used. This serves as an approximation of the adjusted equity method.

In FAS equities are recognised at acquisition cost or fair value, when lower. The treatment of equities for Solvency II purposes is to fair value.

In FAS bonds are recognised at their acquisition cost, and subsequently accrued acquisition value with effective interest method is used to recognise differences between par value and acquisition cost over the term of the debt security. The treatment of bonds for Solvency II purposes is to fair value.

Mutual funds are valued similarly to equities in FAS. The treatment of mutual funds for Solvency II purposes is to fair value.

Treatment of derivatives in FAS depends on whether the value change of a contract is negative or positive when compared to book value. The negative value change is recorded as an expense. The positive value change for open derivatives is not recorded; instead the result is recorded first at expiry. For closed contracts also positive valuation are recorded. The treatment of derivatives for Solvency II purposes is to fair value, both for assets and liabilities side.

Reinsurers' share of the best estimate, less expected counterparty default. Consistently with technical provision, these amounts are calculated in line with the SII requirements.

The remaining balance in SII relates only to the amounts due for payment by policyholders, insurers, and others linked to If's insurance business.

Receivables balances "not yet due" of -188.5 MEUR at the balance sheet valuation date are instead considered in the cash-in flows of the best estimate technical provisions.

An adjustment of -120.2 MEUR relates to netting of premium receivables amounts and promissory notes forming receivable amounts in relation to the MMP public sector.

The adjustment relates to netting of receivables amounts in relation to the MMP public sector.

In Solvency II the "market value" of technical provisions (including premium provisions) is equal to the sum of a best estimate and a risk margin. Consideration is also taken of future cash inflows, meaning the best estimate provision should include amounts not yet due for payment by policyholders, insurers, and others linked to If's insurance business as part of the best estimate, and not forming part of the "premium receivables".

The best estimate is arrived at by discounting the future cash flows and the risk margin is calculated with the cost of capital method.

Part of the change of technical provisions also results from the treatment of MMP public sector for SII purposes. In SII, premium receivables relating to the pool of -117.8 MEUR are revalued as an expected future cash inflow and included in the SII best estimate technical provisions.

In FAS, equalisation provision is treated as part of the technical provisions in the financial statements. The classification of equalisation provision in Solvency II follows the Finnish supervisory authority's guidance given in April 2016.

Changes mainly reflect the tax value implications of SII revaluation/elimination of assets and liabilities in the statutory accounts.

Subordinated liabilities are valued by calculating the spread at the time of inception and thereafter at each reporting date discounting the future cash flows with government yields plus the spread at inception.

As stated above, the methods for valuing assets and liabilities (other than technical provisions) are disclosed in below sections separately for each material class of assets or liabilities. The level at which assets and liabilities are aggregated into “material classes” is based on the nature and function of the assets and other liabilities and with consideration to their materiality for solvency purposes.

## 4.2 Assets

### 4.2.1 Introduction

Asset adjustments are explained by four large adjustments:

- The solvency valuation impacts the carrying value of If’s Investment Assets, which amounts to an increase in assets carrying value of 138.2 MEUR (pre-tax);
- Assets which have no carrying amount recognised in Solvency II, e.g. intangibles, which amount to 3.9 MEUR being de-recognised (pre-tax) from the Solvency II balance sheet;
- Assets related to the technical provisions, which are reinsurance recoverables adjusted with 1.6 MEUR and premium receivables and the MMP public sector receivables, which decrease (pre-tax) with 306,3 MEUR when they are netted with the best estimate; and
- Movements in the carrying amount of deferred tax assets and liabilities discussed below in the reconciliation of deferred tax assets and liabilities.

If’s investment assets can be classified according to the valuation hierarchy in the Delegated Regulation.

The below qualitative comments are given separately for each material class of assets; the bases, methods and main assumptions used for valuation for solvency purposes as well as a quantitative and qualitative explanation of any material differences between those used for the valuation for solvency purposes and those used for valuation in the statutory accounts.

### 4.2.2 Valuation used for solvency purposes compared to valuation in the financial statements

#### 4.2.2.1 Intangible assets

In If’s statutory accounts, intangible assets of 3.9 MEUR was recognised for the year end 2016, relating to capitalised costs for the development of an insurance system, developed by the company itself.

These intangible assets are valued at zero value for solvency purposes as the intangible assets in the statutory accounts do not have a market value hence do not fulfill the requirements for recognition in the Solvency II balance sheet.

#### 4.2.2.2 Property, plant and equipment (PPE)

In FAS all tangible assets are recognised at the acquisition cost less planned depreciation or fair value, whichever is lower.

The balance under this caption relates to plant and equipment, which is carried at cost, less planned depreciation and any accumulated impairment losses (this valuation treatment applies mainly to machinery and equipment). The treatment of property, plant and equipment in the statutory accounts is applicable also in the Solvency II balance sheet as the carrying amount is considered to be a reasonable approximation for the fair value.

If has got only operative lease arrangements. Further disclosure in relation to If’s leased assets is included in section 4.6.

### 4.2.2.3 Solvency II Investment assets (corresponding broadly to If’s Investment Assets and Participations)

#### Introduction FAS

Given the differences between valuation of investments in FAS and IFRS / Solvency II treatment, a number of adjustments take place with regards to Investment Assets.

The following subsections set out the high-level treatment for different classes of investment assets in the statutory accounts and in the Solvency II balance sheet.

#### Property (other than for own use)

Real-estate shares are presented in FAS at the acquisition cost or fair value, whichever is lower. Buildings and structures are presented at the acquisition cost less planned depreciation or the fair value, whichever is lower. Write-downs on real-estate investments classified as fixed assets are entered on the basis of their significance and permanency.

For Solvency II purposes, all properties are treated as investment assets (property, other than for own use), fair valued pursuant to IAS 40. The same fair values are used in the financial statements. The fair value of real estate and real-estate shares are reviewed quarterly. Both in-house expertise and outside information is used in this assessment. Each site is assessed separately. The fair value consists of the net realisable value and is set annually by using acknowledged and accepted valuation methods. Accepted methods consist of comparable sales method (current prices paid for comparable properties in the same location/area) and cash flow models applying current real estate market return requirement for the calculation of the present value of the property.

#### Participations

If’s holding in its associated company Autovahinkokeskus Oy is presented under this line item (holding 35.54%). In FAS, this participation is recognised at acquisition cost or fair value when lower. The value derived from equity method (IFRS) is used as the fair value of the shares. The same fair value is used for Solvency II purposes

#### Equities

In FAS, equities (including both listed and unlisted equities) are recognised at acquisition cost or fair value, where lower. If the fair value increases earlier write-downs are reversed with an impact on results up to the original acquisition cost.

In Solvency II equities are recognised at fair value.

#### Bonds

In FAS, bonds are recognised at their acquisition cost, and subsequently amortised cost (effective interest method) is used to recognise differences between par value and acquisition cost over the term of the debt security. The amortised cost is reduced only with impairments other than those resulting from fluctuations in the general level of interest rates. If the fair value increases earlier write-downs are reversed with an impact on results up to the accrued acquisition cost.

In Solvency II interest-bearing securities are at fair value.

#### Investment Funds

This balance relates to undertakings of which the sole purpose is the collective investment in transferrable securities and/or in other financial assets. The treatment for valuation of investment funds in the financial statements is commensurate with the treatment of equities above.

In Solvency II investment funds are recognised at fair value.



**Derivatives (assets and liabilities)**

All derivatives are treated as non-hedging derivatives in the FAS accounts. Derivative contracts are valued at the lower of the cost or market value on the date of the closing the accounts. The negative difference between the fair value of a derivative and a higher book value is charged as an expense, while the positive difference related only to closed derivative contracts is entered as income. If the fair value increases earlier write-downs are reversed with an impact on results up to the original acquisition cost. The interest rate gains and losses on foreign currency derivatives are always recognised in FAS accounts.

In Solvency II derivatives are recognised at fair value.

**Loans and Mortgages**

In FAS, loans and mortgages are valued at amortised cost or probable value, whichever is lower.

The FAS treatment of Loans and Mortgages is applicable also for solvency valuation.

**Other Receivables**

In FAS, receivables are presented at the par value or probable value, whichever is lower.

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

This means that receivables are effectively carried at the amounts at which they are expected to be received.

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

The exception to this is those assets specifically listed below as being affected by TP valuation in the Solvency II framework.

**Cash and cash equivalents**

Cash and cash equivalents are treated consistently between statutory accounts and for Solvency purposes. Cash and bank balance consists of bank balances in insurance operations and funds transferred to asset management that have not been yet invested in investment assets.

**Deposits other than cash equivalents**

In line with the Solvency II CIC classification, these balances relate to cash equivalents that cannot be used to make payments and that are not exchangeable for currency or transferable deposits without any kind of significant restriction or penalty. In the FAS accounts deposits other than cash equivalents are recognised at nominal value (accrued interest is in prepayment and accrued income).

For cash, cash equivalents and deposits, there are no differences between the valuation in the statutory accounts and the Solvency II balance sheet.

**4.2.2.4 Assets in the FAS balance sheet which are linked to the calculation of If's Solvency II technical provisions****Insurance and intermediaries receivables**

In line with Solvency classification, this balance relates to receivables amounts due by policyholders, other insurers, and those linked to insurance business.

Under a full Solvency II classification, the technical provisions should fully take account of all cash in- and outflows. Therefore, rather than recognise a receivables amount in relation to future premiums expected on policies in force but not yet due, as is done in the FAS treatment of premium receivables, the future

premiums are instead fully considered within the Solvency II best estimate premium provision in the Solvency II balance sheet. Receivables of 188.5 MEUR are reclassified from premium receivables to the insurance obligations.

Also, as a result of the treatment of MMP public sector for Solvency II purposes, a reclassification effect occurs for premium receivables relating to the pool of 120.2 MEUR carried under this balance in the FAS accounts as 117.8 MEUR of the amount is netted against liabilities in the technical provisions. This also affects balances carried in the Solvency II balance sheet under line item Receivables Trade, not insurance where a reclassification effect occurs for receivables carried, which similarly relate to the pool, of 2.4 MEUR. These changes are explained in further detail in section 4.5 below.

The remaining balance in Solvency II relates only to the amounts past-due for payment by policyholders, insurers, and other receivables linked to If's insurance business. These are treated consistently with the equivalent receivables as recognised in the FAS accounts, as other receivables (refer above comments).

**Reinsurance recoverables**

The movements in the Reinsurers' share of Technical provisions is covered in more detail under section 4.3 for technical provisions.

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

As a result of applying a Solvency II consistent valuation of technical provisions, the reinsurance recoverable assets are reduced by 1.6 MEUR.

**4.2.2.5 Other Assets not shown separately**

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

No differences arise in the treatment of these balances between the statutory accounts and for Solvency purposes, as such assets are considered to be valued in a consistent manner.

**4.2.3 Treatment of deferred tax liabilities and assets**

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

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

If's deferred tax assets and liabilities in the closing 31 December, 2016 have been calculated with the tax rate of 20.0%.

For the year end 2016, If recognised a DTA position of 9.8 MEUR in the FAS accounts. Subsequent to Solvency II valuation adjustments occurring, the DTL position was decreased to a position of -57.0 MEUR meaning the total net adjustments due to Solvency II valuation were -66.8 MEUR for the year end 2016.

TABLE 15 – Reconciliation of net DTA position in Solvency II balance sheet, December 31, 2016

Reconciliation of net DT position	MEUR
<b>Financial statements, FAS (DTA position)</b>	<b>9.8</b>
Investments, revaluation	-27.2
Subordinated loan, revaluation	0.5
Derecognition of other intangibles assets	0.8
Technical provisions, revaluation (incl. reins rec)	18.3
Equalisation provision	-59.2
<b>Solvency II position (DTL position)</b>	<b>-57.0</b>

As can be seen from the table above, the main drivers for the movement between the FAS accounts and the Solvency II balance sheet are the differing treatment of investment assets, technical provisions (including reinsurance recoverables) and the recognition of the DTL component of the equalization provision.

### 4.3 Technical Provisions (including treatment of reinsurance recoverables)

#### 4.3.1 Introduction

Section 4.3 sets out If's comments to its solvency valuation for technical provisions. Different principles are used for calculating the technical provisions in Solvency II and in the statutory accounts of If, the latter of which rely on requirements as defined in national law and regulations. As a result, material valuation differences mainly exist with regards to:

- Unearned premium provision is replaced with Premium provision with significantly different valuation approach, including netting of expected future premium payments.
- All technical provisions are on discounted basis.
- In addition to the best estimate calculation of the provisions an explicit risk margin is introduced. It is based on a projection of future Solvency Capital Requirement.
- As discussed above in Section 4.2, assets linked to the technical provisions in the financial statement balance sheet are also affected by changes to Solvency II technical provisions, reinsurance recoverables and premium receivables.

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

Some of the more important changes affecting If's business as a result of using these different principles are included below:

- Movement to a cash flow basis for valuation of both gross and ceded business.
- The technical provisions should give a "true best estimate", defined as the mean of the full range of possible future outcomes, meaning the removal of existing statutory or other legal requirements to include explicit risk margin/other safety margins within the technical provisions.
- The requirement to hold a provision for unearned premiums using an accounting recognition basis is replaced by a Solvency II premium provision valued on a best estimate basis. This also includes a requirement to take account of future premium cash inflows when calculating the best estimate provisions and reinsurance recoverables. In the financial statements, the provision for unearned premiums is equal to the part of the writ-

ten premium which is not yet recognised as premium earned. In Solvency II the premium provision is cash-based and in line with a best estimate only includes the part of written premiums which are dedicated to cover future claims and other expenses stemming from present insurance policies, which are included in the premium provision best estimate. The remaining cash flows are considered to be the "expected future profits" of the undertaking and therefore released from the technical provisions and instead included in the capital base.

- Introduction of discounting for all technical provisions.
- Introduction of the principle of a market consistent basis and calculation of a Solvency II defined risk margin, in addition to the best estimate provisions.
- Liabilities are segmented in accordance with Solvency II requirements. This applies for example in the solvency reporting by Solvency II, which occurs according to defined lines of business, as opposed to current insurance class segmentation according to FAS requirements.

The total effect of revaluation of net technical provisions for Solvency II purposes, including the effects of netting the premium receivable discussed in section 4.2, add up to an increased liability by 92 MEUR (decreased liability of 204 MEUR including the effect of reclassification of equalisation provision), which is explained by the following movements:

TABLE 16 – Revaluation of technical provision for solvency II purposes

	MEUR
Change in ceded technical provisions	-2
Change in premium receivable asset	-306
<b>Total change in assets</b>	<b>-308</b>
Change in technical provisions gross (excl. RM)	-390
Introduction of risk margin	174
<b>Total change in liabilities</b>	<b>-216</b>
Overall movement, technical provisions	92
Reclassification of the equalisation provision	-296
<b>Overall movement, technical provisions incl. equalisation provision</b>	<b>-204</b>

Methods, assumptions and techniques for reserving give rise to differences between Solvency II valuation and the statutory accounts. There are also differences when comparing accruals based reserving to reserving based on cash flow projections.

In line with Finnish law the MMP public sector insurance contracts<sup>8</sup> are treated as insurance obligations. While this recognition is consistent between Solvency II and FAS, there is a difference to how the Finnish MMP public sector is presented in Solvency II balance sheet. Differently from FAS where a gross treatment of cash flows is applied in relation to receivables related to the pool, i.e. any receivables owed by policyholders or arising from the promissory notes of the pool<sup>9</sup>, in the Solvency II balance sheet, the receivables and liabilities related to the MMP public sector are mainly recognised within the Solvency II best estimate technical provisions. Under this treatment the receivables balances are netted against the cash outflows in the technical provisions, as they are considered to be positive cash in-flows.

In line with the Finnish industry practice the equalisation provision is recognised in the Solvency II balance sheet report in the statutory column as other technical provisions. In the statutory accounts, the equalisation provision is recognised as a part of technical provisions, within the provision for claims

<sup>8</sup> Recognised as insurance contract in line with the Finnish Patient Injuries Act 25.7.1986/585, paragraphs 4 and 5§.

<sup>9</sup> These receivables are in the statutory accounts recognised in Premium receivables and Other Prepayments and Accrued Income, respectively.

outstanding<sup>10</sup>. For solvency purposes the equalisation provision does not form part of the technical provisions.

#### 4.3.2.1 Main quantitative differences explained

Table 17 displays the material differences arising between differing bases, methods and main assumptions used for the valuation for solvency purposes and those used for valuation of technical provisions in the statutory accounts.

TABLE 17 – Split of technical provisions by solvency II lines of business

Type of technical provisions	Reinsurance share of best estimates			Technical Provisions, gross			Risk Margin
	Solvency II	Statutory accounts		Solvency II	Statutory accounts		Solvency II
<b>Total MEUR</b>	<b>10</b>	<b>11</b>	<b>-1</b>	<b>2,456</b>	<b>2,846</b>	<b>-390</b>	<b>174</b>
<b>Health similar to life</b>	-	-	-	<b>941</b>	<b>923</b>	<b>18</b>	<b>48</b>
Income protection insurance (annuities)	-	-	-	-	-	-	-
Medical expense insurance (annuities)	-	-	-	4	4	-	0
Workers' compensation insurance (annuities)	-	-	-	937	919	18	48
<b>Health similar to non-life</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>378</b>	<b>414</b>	<b>-36</b>	<b>48</b>
Income protection insurance	-	-	-	-	-	-	-
Medical expense insurance	0	0	0	118	152	-34	5
Workers' compensation insurance	0	0	0	260	262	-2	43
<b>Life excluding health</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>558</b>	<b>587</b>	<b>-29</b>	<b>25</b>
Fire and other damage to property insurance (annuities)	-	-	-	1	1	0	0
Life insurance	-	-	-	-	-	-	-
Motor vehicle liability insurance (annuities)	-	-	-	549	556	-7	25
General liability insurance (annuities)	-	-	-	8	30	-22	0
Other motor insurance (annuities)	-	-	-	-	-	-	-
<b>Non-life excluding health</b>	<b>10</b>	<b>11</b>	<b>-1</b>	<b>579</b>	<b>922</b>	<b>-343</b>	<b>53</b>
Fire and other damage to property insurance	3	4	-1	145	226	-81	4
Marine, aviation and transport insurance	1	1	0	11	12	-1	0
Other motor insurance	0	0	0	26	101	-75	2
Motor vehicle liability insurance	0	0	0	271	353	-82	41
General liability insurance	6	6	0	126	230	-104	6
Assistance	-	-	-	-	-	-	-

The largest revaluation effect is due to the inclusion of future cash-inflows for payments not yet due by policyholders in the premium receivables in the statutory accounts instead of the Solvency II premium provision. Discounting also has an effect on the size of technical provisions. The majority of technical provisions (with the exception of vested annuities and the Annuity IBNR Provision in the provision for claims outstanding) are undiscounted in the FAS accounts whereas in Solvency II, all provisions are subject to discounting. Offsetting the positive differences above is the introduction of a risk margin.

#### 4.3.3 Assumptions underlying the calculation of technical provisions

##### 4.3.3.1 Adherence with solvency requirements

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

##### 4.3.3.2 General Provisions

If's technical provisions are calculated within clearly defined lines of business and homogeneous risk groups, and all assumptions are reviewed quarterly and material changes reviewed in

the opinion of each BA actuary. Assumptions are recorded and reviewed in light of data. The methodology is documented in "Guiding Technical Principles Policy" and "General Reserving Policy".

The best estimate is calculated gross, without deduction of the amounts recoverable from reinsurance contracts. The calculation of the technical provisions takes into account the time value of money by using the relevant risk-free interest rate term structure.

The risk margin is calculated by determining the cost of providing an amount of eligible own funds equal to the Solvency Capital Requirement (SCR) necessary to support the insurance and reinsurance obligations over the lifetime thereof. The rate used in the determination of the cost of providing that amount of eligible own funds is called Cost-of-Capital rate. The SCR used in the risk margin calculation is the Standard Formula (SF) SCR.

##### 4.3.3.3 Data quality

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

<sup>10</sup> In the Solvency II QRT balance sheet, the interpretation is that Other technical provisions is not a part of the Solvency II technical provisions in the statutory column.

#### 4.3.3.4 Risk-free interest rate term structure

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

#### 4.3.3.5 Basic risk-free interest rate term structure

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

#### 4.3.3.6 Segmentation and setting up of homogenous risk group

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

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

#### 4.3.3.7 Methods and assumptions

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

#### 4.3.3.8 Assumptions on future management actions

When considering the valuation techniques used for technical provisions, If has considered subject to proportionality, whether the cash-flows are materially affected by any potential future management actions. The only material assumption of future management actions that could be said to affect its net technical provision valuation is that underlying the recognition of existing contracts with regards to reinsurance. This is only relevant for the evaluation of the premium provision since that provision covers claims which have not yet occurred for existing policies and the horizon of the premium provision is beyond the expiry date of present reinsurance contracts in force.

If's existing inwards business is written on the assumption that future reinsurance will be purchased to cover its run-off. Therefore, in calculating the net best estimate, the costs of future reinsurance is included when it represents a reasonable assumption about future management actions.

Applying correspondence between the gross and net best estimates is important in ensuring its calculation of Solvency II net technical provisions remain consistent.

#### 4.3.3.9 Assumptions on policyholder behaviour

Where it can be determined that the policy holders' contractual options have a material impact on If's non-life lines of business, the likelihood of exercising the options is taken into account in the calculation of Solvency II technical provisions. These options include for example cancellations due to lapses.

Policyholder behavior is not assumed to have significant impact on a premium provision. If's assumptions takes into account future policyholder behavior with regards to policy lapse, which is based on an analysis of past policyholder behavior for the relevant line of business.

#### 4.3.3.10 On proportionality and the use of simplifications

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

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

#### 4.3.3.11 Boundary of contract

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

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

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

#### 4.3.3.12 Cash flow projections for the calculation of the best estimate

Cash-flow projections used in the calculation of the best estimate include all claims payments that will be paid to policyholders and beneficiaries as well as expected recoveries from reinsurance contracts. Recoveries and payments for salvage and subrogation are taken into account. In line with previous discussion regarding contract boundaries, cash flows for premium provision will include future premium payments on existing contracts where this has a material effect on the result.

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

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

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

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

#### 4.3.3.13 Derivation of the Risk Margin

The risk margin is calculated at a legal entity level and is based on SF SCR for If.

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

It is assumed that the assets are selected in such a way that the SCR market risk for the reference undertaking is exposed to, is zero, i.e. there is no residual market risk. To calculate the risk margin, cash flows are recalculated to best estimates, which in turn are used to calculate a Basic SCR. The Basic SCR for the relevant risks together with operational risk are discounted and a Cost-of-Capital is introduced to arrive at the final risk margin. The risk margin for the legal entity is then distributed over its corresponding lines of business, reflecting their contribution to the SCR, to arrive at the LOB allocated risk margin.

#### 4.3.3.14 Recoverables from reinsurance contracts and special purpose vehicles

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

If has no special purpose vehicles.

#### 4.3.3.15 Uncertainties connected to the calculations

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

## 4.4 Liabilities (Other than technical provisions)

### 4.4.1 Introduction

Liability adjustments are explained by two large adjustments:

- Financial liabilities are revalued from being recognised at net of par value and amortised cost of the issuance in the finan-

cial statements to being recognised using fair value consistent methods, increasing the subordinated liability by 3 MEUR; and

- Movements in the carrying amount of deferred tax assets and liabilities (discussed above in section 4.2 in the reconciliation of deferred tax assets and liabilities)

The below qualitative comments are given separately for each material class of liability; the bases, methods and main assumptions used for valuation for solvency purposes as well as a quantitative and qualitative explanation of any material differences between those used for the valuation for solvency purposes and those used for valuation in the statutory accounts.

### 4.4.2 Valuation used for solvency purposes compared to valuation in the financial statements

#### 4.4.2.1 Financial liabilities (including payables)

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

Thereafter, financial liabilities are measured at their amortised cost by using the effective interest rate method. Transaction costs are taken into consideration upon calculating the effective interest rate, and charged to expenses over the term of the financial liability. Any expenses related to the financial liability (incl. interest expenses) are charged to the expenses of the period on accrual basis.

Aside from subordinated liabilities included in BOF and Derivatives, If has currently no other material financial liabilities.

#### *Subordinated liabilities*

In the statutory accounts, the subordinated liability is recognised net of par value and amortised capitalised cost of the issuance.

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

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

For the year end 2016, the valuation difference between Solvency II and statutory treatment gives rise to an increase in subordinated liabilities of 3 MEUR (this also gives rise to a change in deferred tax assets).

#### *Derivatives*

Refer treatment of Derivatives as discussed in section 4.2 above (covering both assets and liabilities).

#### 4.4.2.2 Solvency II Other Payables

##### *Insurance & Intermediaries payables*

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

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

##### *Reinsurance payables*

In line with Solvency classification, this balance includes amounts due to reinsurers and business linked to the reinsurance business (however, excluding deposits, which are disclosed separately), but which are not included in reinsurance recoverable.

If has not introduced any adjustments to the statutory accounts in relation to these items upon recognition in the Solvency II balance sheet.

#### *Payables (trade not insurance)*

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

#### 4.4.2.3 If's pension obligation

Pension schemes have been arranged in If in accordance with the employees' statutory pension cover provisions of the Employee's Pensions Act. This cover operates as defined contribution scheme. In the FAS accounts, pension insurance premiums are entered in the Profit and Loss Account on an accrual basis. This treatment is considered to be consistent with treatment of Defined Contribution premiums in IAS 19R. As such, no further pension obligations is recognised in the Solvency II balance sheet.

#### 4.4.2.4 Provisions other than Technical Provisions

In the financial statements, this relates to provisions relating to Claims expenses and Operating expenses in relation to Personnel Restructuring. These provisions are recognised on the basis of the prudence principle. This implies that future expenses or losses whose exact amount or realisation times are unknown are presented as obligatory provisions. When the exact amount and the realisation time are known, these items are presented as accrued expenses.

No difference arises in the treatment of these balances between the statutory accounts and valuation for Solvency II purposes.

#### 4.4.2.5 Other liabilities not shown separately

Similarly to "Any other assets not elsewhere shown" on the assets side of the balance sheet, this caption includes any liabilities not elsewhere included in the Solvency II balance sheet. These liabilities are not material on an individual basis or in aggregation, and therefore not disclosed separately.

#### 4.4.2.6 Contingent liabilities

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

#### 4.4.2.7 Other technical provisions

In the financial statements, the equalisation provision is recognised as forming part of technical provisions, within the provision for outstanding claims.

For Solvency II purposes, the equalisation provision does not form part of the technical provisions recognised in the Solvency II balance sheet.

## 4.5 Alternative Methods for Valuation (AVM)

### 4.5.1 Introduction

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

No major adjustments to IFRS numbers are necessary for investment assets and liabilities. If's recognition of financial assets and liabilities for Solvency II purposes remains close to the methodology for If's inclusion in the If group's consolidated financial statements. In these accounts, as a main principle, financial investment assets are reported in the in the original currency and at fair value with changes in value recognised in other comprehensive income until being realised.

The Solvency II framework bears many affinities and similarities to the identification, measurement and classification of financial assets and liabilities in the IFRS framework including how the fair value hierarchy applies to an undertakings holdings in financial instruments, consisting of:

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

To ensure consistency, If has chosen to base its classification for reporting purposes on the foundation already in place for disclosure on financial instruments in the If group's financial reporting.

Table 18 provides information on how the assets are split between categories QMP/QMPS and AVM for the purposes of the Solvency II valuation. Technical provisions and those classes of assets and liabilities where the carrying value is considered to be a reasonable approximation for the fair value are not included in the table. If assesses the level of uncertainty as immaterial since only a minor part of the investment asset is classified as AVM.

TABLE 18 – Solvency II assets split between QMP and AVM (MEUR)

Type of assets	AVM	QMP/QMPS	IFRS equity method	Total
Government bonds	0.0	88.1	0.0	88.1
Corporate Bonds	0.0	2,902.8	0.0	2,902.8
Derivatives	0.0	0.3	0.0	0.3
Equities	1.0	20.4	2.8	24.2
Investment Funds	21.6	214.2	0.0	235.8
Mortgages and Loans	0.0	57.3	0.0	57.3
Property	21.3	0.0	0.0	21.3
<b>Total</b>	<b>43.9</b>	<b>3,283.1</b>	<b>2.8</b>	<b>3,329.8</b>

#### 4.5.2 Comments to items designated as "AVM" include the following

Property. Investment properties are fair valued pursuant to IAS 40. The fair value consists of the net realisable value and is set quarterly by using in-house expertise and outside information and acknowledged and accepted valuation methods. Accepted methods consist of comparable sales 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.

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

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

#### 4.6 Any other information

##### 4.6.1 Lease arrangements

If has only operative lease arrangements. Main lease agreements relate to Kupittaa office in Turku and Niittykumpu office in Espoo. Other lease agreements relate to e.g. multiprinters, servers and cars.

TABLE 19 – Operating Leases

MEUR Asset class	Total future lease payments			Total	Total lease payments during the period
	<1 year	1-5 years	>5 years		
Property, plant & equipment (PPE)	9.6	26.4	1.8	37.9	9.5

## 5 Capital Management

### 5.1 Own funds

#### 5.1.1 Objectives, policies and procedures for managing own funds

##### 5.1.1.1 Capital management framework

Capital management in If is defined as the process of determining and maintaining the quantity and quality of capital appropriate to support If's business operations. Capital management should ensure financial strength over time and to allow for growth opportunities and to meet other objectives by maintaining a sound risk management and within the business.

The Board of Directors has the overall responsibility for the risk and capital management strategy, which is governed by If's risk management policy, see 2.1.

If's strategy for capital management focuses on capital efficiency and sound risk management by keeping its capital resources at an appropriate level in relation to the risks taken over its business planning horizon. The regulatory SCR sets the level of capital at which If is able to conduct its business without regulatory intervention and is the starting point when the needed level of capital is considered. In addition, other internal and external capital measures might be considered. A sufficient capital buffer is required in order to be solvent at all times. In order to maintain a sufficient level of capital, the following capital management procedures are conducted in If:

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

The risk management function, through its ongoing monitoring, will assess If's own funds position in accordance with both external and internal measurements

If's risks are measured, reported and aggregated in order to perform an overall assessment of risk and capital. Market risks are followed and reported monthly while other risks are followed and reported quarterly. The outcome of these procedures and the follow up of them are documented as part of the quarterly ORSA process. An ORSAC report is prepared to the ORSA committee, of which a summary is also sent to If's Board of Directors.

A key tool in assessing whether own funds will be sufficient in the present time as well as over If's medium term time horizon used for its business planning cycle (three years) is the annual ORSA, which is described in 2.3.8.

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

The combination of the above procedures enables If to effectively monitor and project its capital needs over its business planning period, ensuring that the Board of Directors are provided with relevant input to their strategic management process

and decision-making framework. This takes into account both medium and long term risks, as appropriate, and given the regular updates, accounts for any likely or foreseeable changes to the risk profile and business strategy that could alter previous analysis made over the projection period and/or the sensitivity of the assumptions used.

##### 5.1.1.2 Capital adequacy measures

Under Solvency II the capital requirements for If are the solvency capital requirement (SCR) and the minimum capital requirement (MCR). Available capital is in Solvency II called eligible own funds.

According to the regulation an insurance company must have enough own funds to cover a 99.5% confidence level (1 in 200 year's event) at any time. The SCR reflects a level of own funds that enables an undertaking to absorb significant unforeseen losses and that gives reasonable assurance to policyholders and beneficiaries. A breach in SCR triggers first intervention in the supervision of the entity's solvency. The minimum capital requirement (MCR) reflects a level of own funds where the company in 85 percent of all possible outcomes during a year can meet its commitments and is a solvency level below which policyholders and beneficiaries would be exposed to an unacceptable level of risk if the insurance undertakings is allowed to continue its operations.

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

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

##### 5.1.1.3 Regulatory capital adequacy measures

If applies the Solvency II standard formula with transitional equity measures for calculating its regulatory SCR and MCR. The SCR forms an integral part of the risk based solvency framework and seeks to cover all potential quantifiable risks to which an insurance company may be exposed. The SCR aims for a comprehensive approach, including all relevant quantifiable risks, taking into account diversification between the different risk types.

##### 5.1.1.4 Internal Economic Capital measure

Economic capital is an internal measure showing the deviation from the expected result calculated at a confidence level corresponding to 99.5% over a one-year horizon. If's major quantifiable risks are included in the calculation of economic capital. The calculations are based on an economic, market-consistent valuation, apart from operational risk and less material risks which are quantified using the Solvency II standard formula. Economic capital differs from the Solvency II standard formula in respect of insurance risks and market risks which for economic capital are calculated in accordance with If's internal model.

Economic capital is used as a basis for decisions regarding:

- Allocation of capital to business areas and lines of business, ensuring that a risk-based approach is used for target setting and profitability evaluation;
- Evaluation of investment policy and limits;
- Evaluation of reinsurance programs;
- Evaluation of the effect on the risk profile related to changes in the investment portfolio; and
- Evaluation of risks over the business planning horizon.



### 5.1.1.5 Rating agency measures

If is rated A+ by Standard & Poor's and A1 by Moody's. The objective is to retain a single "A" rating, based on requirements from mainly larger corporate customers and the broker sales channel. The If subgroup's Enterprise Risk Management (ERM) is rated "Strong" by Standard & Poor's. The ratings from Standard & Poor's and Moody's are given as part of an interactive rating process, focusing on the If subgroup.

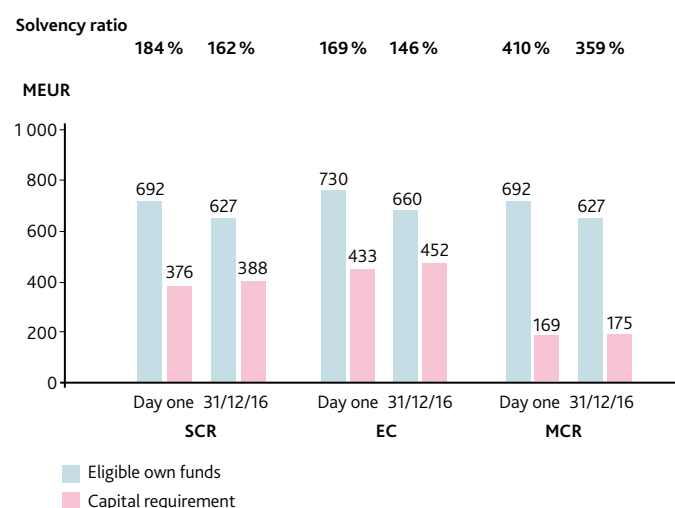
### 5.1.2 If's own funds and solvency position at 31 December 2016

At 31 December 2016, If had a ratio of eligible own funds to SCR of 162% and a ratio of eligible own funds to MCR of 359%. If applies the Solvency II standard formula with transitional equity measures. The solvency position has decreased slightly compared to 1 January 2016 (Day 1 reporting in accordance to Solvency II) when If had a ratio of eligible own funds to SCR of 184% and a ratio of eligible own funds to MCR of 410%.

At 31 December 2016, the ratio of eligible own funds to economic capital was 146%, compared to 169% at 31 December 2015. Economic capital aggregates insurance risk and market risk from If's internal model with the remaining risks calculated according to the Solvency II standard formula. As a different calculation methods is used in deriving economic capital compared to the standard formula SCR, eligible own funds differ between the two measurements as well. This is so since the risk margin related to the technical provisions differ due to different capital requirements used as input to the calculations.

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

FIGURE 17 – Solvency position overview, at 1 January 2016 and at 31 December 2016



### 5.1.2.1 Change in own funds position over the reporting period

Total eligible own funds for SCR coverage has decreased with 65 MEUR over the reporting period. This change is mainly explained by the proposed dividend. There have been no own funds items issued or redeemed over the reporting period.

TABLE 20 – Changes in If's own funds position over the reporting period

	MEUR
<b>Eligible own funds for SCR coverage at 1 January 2016</b>	<b>692</b>
Change in FAS excess of assets over liabilities	101
Change in Solvency II valuation adjustments (excess of assets over liabilities)	-16
Proposed dividend	-150
<b>Eligible own funds for SCR coverage at 31 December 2016</b>	<b>627</b>

TABLE 21 – Changes in tiering for If's own funds over the reporting period

MEUR	31.12.2016	1.1.2016	Change
Tier 1	627	692	-65
Tier 2	0	0	0
Tier 3	0	0	0

### 5.1.2.2 Composition of eligible over own funds for SCR and MCR coverage

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

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

## 5.1.2.3 Tiering of basic own funds items

TABLE 22 – Tiering of own funds according to Solvency II quantitative reporting template S.23.01.01

MEUR	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Ordinary share capital	9	9			
Reconciliation reserve	525	525			
Subordinated liabilities	93		93		
Total own funds, in own funds QRT template S.23.01.01	627	534	93	0	0

At 31 December 2016 If's ordinary share capital of 10 MEUR meets the requirement for inclusion in Tier 1 unrestricted items.

Subordinated debt with a value of 93 MEUR, nominal amount 90 MEUR, is included in If's Tier 1 (restricted) own funds. The 90 MEUR subordinated debt is undated and has limited incentives to repay with a first call option on 26 November 2018 (> 5 years from the date of issuance). This subordinated debt qualifies for (restricted) Tier 1 inclusion through the transitional arrangements. If may, subject to regulatory approval and a sufficient solvency situation, choose to redeem the 90 MEUR subordinated debt on the first call option date or on any semi-annual interest payment date falling after 26 November 2018.

The reconciliation reserve in If amounts to 525 MEUR at 31 December 2016. The reconciliation reserve consists of retained earnings and net income for the year, as well as Solvency II valuation adjustments. The classification of equalisation provision in Solvency II follows the Finnish supervisory authority's guidance

given in April 2016. A proposed dividend of 150 MEUR has been deducted from the reconciliation reserve. The reconciliation reserve meets the requirements for treatment as unrestricted Tier 1 own funds.

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

All items included in Tier 1 own funds items are undated and thus fulfill the permanence requirements. This could be compared to the weighted average duration of If's technical provisions of 10.7 years.

## 5.1.2.5 General eligibility limit application

If has sufficient eligible own funds to meet both with the SCR and MCR capital requirements. All own funds items are included in Tier 1 own funds and no eligibility constraints exist for either SCR or MCR coverage.

TABLE 23 – If's assessment of eligible own funds at 31 December 2016 (including tiering)

MEUR	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Total eligible own funds to meet the SCR	627	534	93		
Total eligible own funds to meet the MCR	627	534	93		
SCR	388				
EOF/SCR ratio	162%				
MCR	175				
EOF/MCR ratio	359%				

### 5.1.2.6 Reconciliation of shareholders' equity in If to its Solvency II excess of assets over liabilities

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

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

Table 24 reconciles shareholders' equity as classified in accordance with FAS with the excess of assets over liabilities as recognised for solvency purposes.

TABLE 24 – Excess of assets over liabilities

	MEUR
<b>Excess of assets over liabilities, FAS</b>	<b>416</b>
a Eliminations for intangible assets	-4
b Changes in deferred taxes	-67
c Changes in net technical provisions	-92
d Revaluation of financial assets and liabilities	138
e Equalisation provision	296
f Change in valuation of other assets and liabilities	1
g Change in valuation, subordinated liabilities	-3
<b>Excess of assets over liabilities, valuation for solvency purposes</b>	<b>684</b>
<b>Sum of all reconciling movements a-g, due to differences in valuation</b>	<b>269</b>

Table 25 provides a further breakdown of shareholders' equity when mapped as a FAS valued excess of assets over liabilities compared to the Solvency II valued excess of assets over liabilities.

TABLE 25 – Excess of assets over liabilities SII

	MEUR
Ordinary share capital	10
Retained earnings and net income for the year	406
<b>Total equity reserves, statutory accounts (corresponding to FAS excess of assets over liabilities)</b>	<b>416</b>
Adjustments for Solvency II purposes	268
<b>Excess of assets over liabilities, valuation for Solvency II purposes</b>	<b>684</b>

Table 26 reconciles the excess (net) of assets over liabilities as recognised for solvency purposes with If's basic own funds.

TABLE 26 – Total basic own funds for solvency purposes

	MEUR
Excess of assets over liabilities, Solvency II, reported in balance sheet template	684
Subordinated liabilities in basic own funds (added back)	93
Proposed dividend	-150
<b>Total available basic own funds</b>	<b>627</b>
Of which:	
Ordinary share capital	10
Subordinated liabilities	93
Reconciliation reserve	525
<b>Total basic own funds for solvency purposes</b>	<b>627</b>

### 5.1.3 Recent and coming developments relevant to the Capital management processes and own funds

The classification of equalization provision in Solvency II follows the Finnish supervisory authority's guidance given in April 2016.

## 5.2 Solvency Capital Requirement and Minimum Capital Requirement

### 5.2.1 Introduction

The SCR, or Solvency Capital Requirement, is calculated by combining a number of separate risk charges, allowing for diversification credits by means of correlation matrices. The SCR is calibrated to the Value-at-Risk of the basic own funds of an insurance or reinsurance undertaking subject to a confidence level of approximately 99.5% over a one-year time horizon.

If applies the SII standard formula with transitional equity measures for its regulatory SCR calculation. For the purpose of this report, the calculation is based on the risk modules as outlined in the SII Directive and in the Delegated Regulation. If does not apply any undertaking-specific parameters in the life, non-life and health underwriting risk modules. Also, If is not applying simplified calculations for any of the risk modules (or sub-modules) of the standard formula.

The standard formula model is based on stress tests and pre-defined risk factors which are common for all undertakings. The SCR for each individual risk is then determined as the difference between the net asset value in the unstressed balance sheet and the net asset value in the stressed balance sheet. These individual risk capital amounts are then combined across the risks within the module, using a specified correlation matrix and matrix multiplication. If's SCR figures pre-tax thus consist of a Basic SCR and an Operational risk charge.

To arrive at If's final post-tax SCR, a tax adjustment is subtracted from the pre-tax SCR figure (observing the loss absorbing capacity of deferred taxes). If's assumption is that the company can fully utilise the tax adjustment using either existing deferred tax liabilities in the SII balance sheet or against future profits after the occurrence of the 200 years stress event.

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

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

The intention is that the MCR is calibrated to the Value-at-Risk of the basic own funds of an insurance or reinsurance undertaking subject to a confidence level of approximately 85% over a one-year time horizon. As If has both non-life and life exposures, its minimum capital requirement (linear formula component) is derived separately for life (this includes If's non-life and health annuities) and non-life exposures. To the linear MCR If applies the floor and cap of 25% and 45% of the SCR respectively. The final MCR computation then takes the 'combined' MCR above, taking into account that the MCR must be in range of minimum 25% and maximum 45% of the SCR, subject to a minimum of 3.7 MEUR (which is the applicable absolute floor for If).

As If's linear MCR is above MCR cap, the MCR is determined to be the MCR cap. The MCR at 31 December 2016 equates to the MCR cap (175 MEUR, or 45% of the SCR). For further detail in relation to If's MCR calculation, this is included in quantitative report S.28.01.01.

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

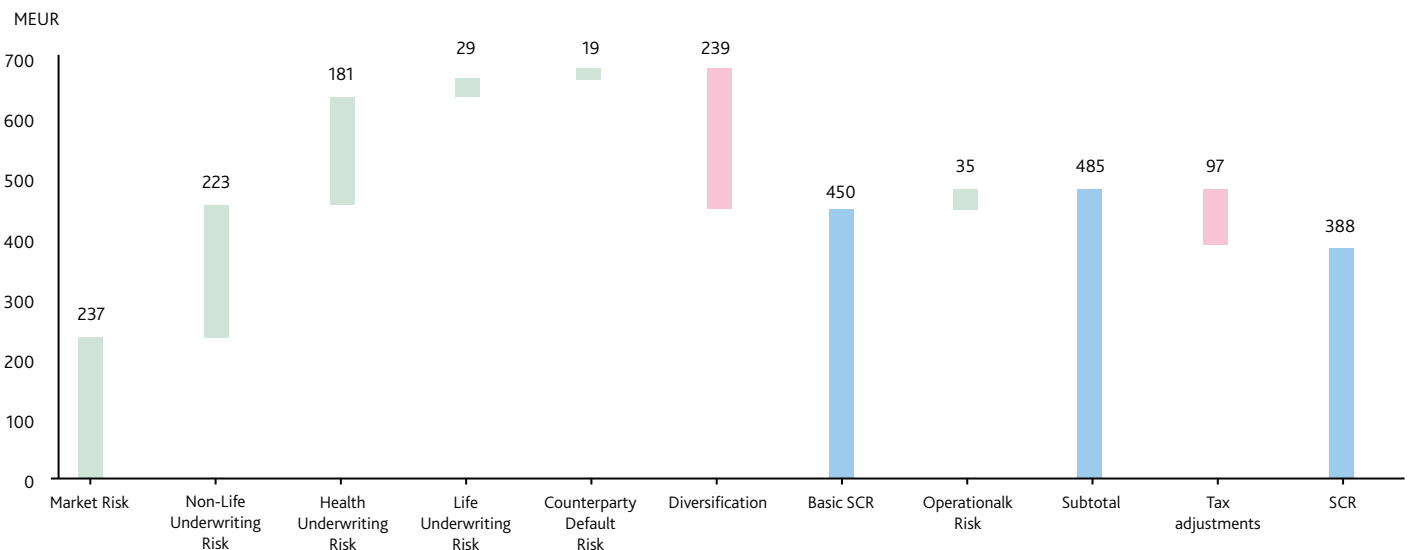
### 5.2.2 Overview of regulatory capital adequacy requirements for Q4 2016

At 31 December 2016, If has, based on the Solvency Capital Requirement a solvency ratio of 359%, and 162% for the Minimum Capital Requirement, the two capital levels at which If are assessed in accordance with the Solvency II framework, see also the analysis of own funds and solvency position in section 5.1.

The figure below summarises If's position based on the standard formula.

Figure 18 below shows that, aside from the underwriting risks, the market risks are predominant in If's calculation of the Basic Solvency Capital Requirement (BSCR).

FIGURE 18 – Solvency Capital Requirement at 31.12.2016



During the year, the SCR has increased from 376 MEUR to 388 MEUR, mainly due to an increase of market risk driven by higher spread risk, and due to higher underwriting risks following an increase in technical provisions. The MCR has increased from 169 MEUR to 175 MEUR during the year, driven by the increase in SCR since the MCR is at the 45% cap of the SCR.

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

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

### 5.4 Any other information

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

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

Measure	Capital base
<p><b>EC (Economic capital):</b> The economic capital is based on If's internal model and is a risk measure used in internal and external risk reporting as well as for supporting decision-making.</p> <p>The economic capital is a method to measure risk and includes the risks calculated in If's internal model and risks captured by the Solvency II standard formula (SF SCR). The economic capital is arrived at by aggregating the insurance risk and the market risk from the internal model with the remaining risks calculated with the standard formula. The internal model part of the economic capital is defined as the difference between the expected result and the simulated result at the 99.5% confidence level over a one year horizon ("the 1 in 200 year event").</p>	<p>The economic capital should be seen mainly as a risk measure and not a capital requirement.</p> <p>The capital base is mainly based on a SII compliant balance sheet, where eligible own funds including the risk margin are based on the EC internal model SCR and not the regulatory SCR (refer also what is said for solvency capital requirements below).</p>
<p><b>Solvency capital requirement (SCR) (Solvency II):</b> The solvency capital requirement is defined as the change in own funds over a one-year horizon, at the 99.5% confidence level ("the 1 in 200 year event").</p>	<p>Solvency II own funds based on a Solvency II valuation of the balance sheet and tiering of balance sheet items.</p> <p>The valuation adjustments applied in deriving the SII economic balance sheets for solvency purposes is further detailed in section 4 of the report.</p>
<p><b>SF SCR:</b> The solvency capital requirement arrived at by using the Solvency II standard formula (also taking the loss absorbing capacity of deferred tax into account). In If's application of the standard formula, the transitional equity measures are taken into account and thus reduce the SF SCR full equity risk charge.</p>	<p><b>SF EOF:</b> The own funds are mainly based on a SII compliant balance sheet, where eligible own funds with risk margin calculated is based on the SF SCR.</p>
<p><b>SF MCR:</b> The use of SF SCR similarly impacts on the MCR level. The level of the minimum capital requirement is linked to the solvency capital requirement, as it should normally be equivalent to 25-45% of the solvency capital requirement.</p>	<p><b>EOF MCR:</b> 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 to also cover the minimum capital requirement.</p>

APPENDIX 2

**QUANTITATIVE REPORTING  
TEMPLATES (QRT)**

## S.02.01.02

## Balance sheet

	Solvency II value
	C0010
<b>Assets</b>	
Intangible assets	R0030
Deferred tax assets	R0040
Pension benefit surplus	R0050
Property, plant & equipment held for own use	R0060 3 496
Investments (other than assets held for index-linked and unit-linked contracts)	R0070 3 272 530
Property (other than for own use)	R0080 21 340
Holdings in related undertakings, including participations	R0090 2 750
Equities	R0100 21 420
Equities — listed	R0110 20 387
Equities — unlisted	R0120 1 033
Bonds	R0130 2 990 949
Government Bonds	R0140 88 114
Corporate Bonds	R0150 2 902 835
Structured notes	R0160
Collateralised securities	R0170
Collective Investments Undertakings	R0180 235 784
Derivatives	R0190 287
Deposits other than cash equivalents	R0200
Other investments	R0210
Assets held for index-linked and unit-linked contracts	R0220
Loans and mortgages	R0230 57 336
Loans on policies	R0240
Loans and mortgages to individuals	R0250
Other loans and mortgages	R0260 57 336
Reinsurance recoverables from:	R0270 9 696
Non-life and health similar to non-life	R0280 9 696
Non-life excluding health	R0290 9 684
Health similar to non-life	R0300 12
Life and health similar to life, excluding health and index-linked and unit-linked	R0310
Health similar to life	R0320

Life excluding health and index-linked and unit-linked	<b>R0330</b>	
Life index-linked and unit-linked	<b>R0340</b>	
Deposits to cedants	<b>R0350</b>	
Insurance and intermediaries receivables	<b>R0360</b>	35 954
Reinsurance receivables	<b>R0370</b>	
Receivables (trade, not insurance)	<b>R0380</b>	3 375
Own shares (held directly)	<b>R0390</b>	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	<b>R0400</b>	
Cash and cash equivalents	<b>R0410</b>	170 704
Any other assets, not elsewhere shown	<b>R0420</b>	37 173
<b>Total assets</b>	<b>R0500</b>	3 590 264
<b>Liabilities</b>		<b>C0010</b>
Technical provisions — non-life	<b>R0510</b>	1 056 629
Technical provisions — non-life (excluding health)	<b>R0520</b>	631 254
TP calculated as a whole	<b>R0530</b>	
Best Estimate	<b>R0540</b>	577 840
Risk margin	<b>R0550</b>	53 414
Technical provisions — health (similar to non-life)	<b>R0560</b>	425 376
TP calculated as a whole	<b>R0570</b>	
Best Estimate	<b>R0580</b>	377 908
Risk margin	<b>R0590</b>	47 468
Technical provisions — life (excluding index-linked and unit-linked)	<b>R0600</b>	1 572 805
Technical provisions — health (similar to life)	<b>R0610</b>	989 696
TP calculated as a whole	<b>R0620</b>	
Best Estimate	<b>R0630</b>	941 293
Risk margin	<b>R0640</b>	48 403
Technical provisions — life (excluding health and index-linked and unit-linked)	<b>R0650</b>	583 110
TP calculated as a whole	<b>R0660</b>	
Best Estimate	<b>R0670</b>	558 290
Risk margin	<b>R0680</b>	24 819
Technical provisions — index-linked and unit-linked	<b>R0690</b>	
TP calculated as a whole	<b>R0700</b>	
Best Estimate	<b>R0710</b>	
Risk margin	<b>R0720</b>	
Contingent liabilities	<b>R0740</b>	



Provisions other than technical provisions	<b>R0750</b>	1 717
Pension benefit obligations	<b>R0760</b>	
Deposits from reinsurers	<b>R0770</b>	
Deferred tax liabilities	<b>R0780</b>	56 962
Derivatives	<b>R0790</b>	31 766
Debts owed to credit institutions	<b>R0800</b>	
Financial liabilities other than debts owed to credit institutions	<b>R0810</b>	
Insurance & intermediaries payables	<b>R0820</b>	30 383
Reinsurance payables	<b>R0830</b>	2 206
Payables (trade, not insurance)	<b>R0840</b>	26 765
Subordinated liabilities	<b>R0850</b>	92 804
Subordinated liabilities not in BOF	<b>R0860</b>	
Subordinated liabilities in BOF	<b>R0870</b>	92 804
Any other liabilities, not elsewhere shown	<b>R0880</b>	33 738
<b>Total liabilities</b>	<b>R0900</b>	2 905 775
<b>Excess of assets over liabilities</b>	<b>R1000</b>	684 489

## S.05.01.02

## Premiums, claims and expenses by line of business

		Line of Business for: <b>non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)</b>								
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090
<b>Premiums written</b>										
Gross — Direct Business	<b>R0110</b>	114 287		125 002	177 387	194 692	16 531	277 806	62 965	
Gross — Proportional reinsurance accepted	<b>R0120</b>						2 804	12 048	3 902	
Gross — Non-proportional reinsurance accepted	<b>R0130</b>									
Reinsurers' share	<b>R0140</b>	139		328	215	447	2 879	13 092	1 983	
Net	<b>R0200</b>	114 149		124 674	177 172	194 244	16 456	276 762	64 884	
<b>Premiums earned</b>										
Gross — Direct Business	<b>R0210</b>	120 367		125 002	180 985	196 782	16 077	281 027	62 849	
Gross — Proportional reinsurance accepted	<b>R0220</b>						2 816	11 154	3 769	
Gross — Non-proportional reinsurance accepted	<b>R0230</b>									
Reinsurers' share	<b>R0240</b>	97		228	211	736	2 482	11 928	2 518	
Net	<b>R0300</b>	120 271		124 774	180 775	196 046	16 411	280 253	64 100	

		Line of Business for: <b>non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)</b>								
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
		<b>C0010</b>	<b>C0020</b>	<b>C0030</b>	<b>C0040</b>	<b>C0050</b>	<b>C0060</b>	<b>C0070</b>	<b>C0080</b>	<b>C0090</b>
<b>Claims incurred</b>										
Gross — Direct Business	<b>R0310</b>	66 376		57 379	81 271	126 492	5 289	172 322	30 063	
Gross — Proportional reinsurance accepted	<b>R0320</b>						1 472	1 439	1 971	
Gross — Non-proportional reinsurance accepted	<b>R0330</b>									
Reinsurers' share	<b>R0340</b>				411	471	866	1 272	63	
Net	<b>R0400</b>	66 376		57 379	80 861	126 021	5 895	172 489	31 971	
<b>Changes in other technical provisions</b>										
Gross — Direct Business	<b>R0410</b>									
Gross — Proportional reinsurance accepted	<b>R0420</b>									
Gross — Non- proportional reinsurance accepted	<b>R0430</b>									
Reinsurers'share	<b>R0440</b>									
Net	<b>R0500</b>									
<b>Expenses incurred</b>	<b>R0550</b>	29 365		27 531	44 141	38 830	4 039	60 173	9 715	
<b>Other expenses</b>	<b>R1200</b>									
<b>Total expenses</b>	<b>R1300</b>									

		Line of Business for: <b>non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)</b>			Line of business for: <b>accepted non-proportional reinsurance</b>				Total
		Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		<b>C0100</b>	<b>C0110</b>	<b>C0120</b>	<b>C0130</b>	<b>C0140</b>	<b>C0150</b>	<b>C0160</b>	
<b>Premiums written</b>									
Gross — Direct Business	<b>R0110</b>								968 669
Gross — Proportional reinsurance accepted	<b>R0120</b>								18 755
Gross — Non-proportional reinsurance accepted	<b>R0130</b>								
Reinsurers' share	<b>R0140</b>								19 083
Net	<b>R0200</b>								968 341
<b>Premiums earned</b>									
Gross — Direct Business	<b>R0210</b>								983 089
Gross — Proportional reinsurance accepted	<b>R0220</b>								17 740
Gross — Non-proportional reinsurance accepted	<b>R0230</b>								
Reinsurers' share	<b>R0240</b>								18 200
Net	<b>R0300</b>								982 628

<b>Claims incurred</b>									
Gross — Direct Business	<b>R0310</b>								539 192
Gross — Proportional reinsurance accepted	<b>R0320</b>								4 881
Gross — Non-proportional reinsurance accepted	<b>R0330</b>								
Reinsurers' share	<b>R0340</b>								3 082
Net	<b>R0400</b>								540 991
<b>Changes in other technical provisions</b>									
Gross — Direct Business	<b>R0410</b>								
Gross — Proportional reinsurance accepted	<b>R0420</b>								
Gross — Non- proportional reinsurance accepted	<b>R0430</b>								
Reinsurers' share	<b>R0440</b>								
Net	<b>R0500</b>								
<b>Expenses incurred</b>	<b>R0550</b>								213 794
<b>Other expenses</b>	<b>R1200</b>								
<b>Total expenses</b>	<b>R1300</b>								213 794

		Line of Business for: <b>life insurance obligations</b>						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		<b>C0210</b>	<b>C0220</b>	<b>C0230</b>	<b>C0240</b>	<b>C0250</b>	<b>C0260</b>	<b>C0270</b>	<b>C0280</b>	
<b>Premiums written</b>										
Gross	<b>R1410</b>									
Reinsurers' share	<b>R1420</b>									
Net	<b>R1500</b>									
<b>Premiums earned</b>										
Gross	<b>R1510</b>									
Reinsurers' share	<b>R1520</b>									
Net	<b>R1600</b>									
<b>Claims incurred</b>										
Gross	<b>R1610</b>					50 336	35 148			85 484
Reinsurers' share	<b>R1620</b>									
Net	<b>R1700</b>					50 336	35 148			85 484

<b>Changes in other technical provisions</b>										
Gross	<b>R1710</b>									
Reinsurers' share	<b>R1720</b>									
Net	<b>R1800</b>									
<b>Expenses incurred</b>	<b>R1900</b>									
<b>Other expenses</b>	<b>R2500</b>									
<b>Total expenses</b>	<b>R2600</b>									

**S.05.02.01**  
**Premiums, claims and expenses by country**

		Home Country	Top 5 countries (by amount of gross premiums written) — non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
R0010		<del> </del>						<del> </del>
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
<b>Premiums written</b>								
Gross — Direct Business	<b>R0110</b>	968 669						968 669
Gross — Proportional reinsurance accepted	<b>R0120</b>	18 755						18 755
Gross — Non-proportional reinsurance accepted	<b>R0130</b>							
Reinsurers' share	<b>R0140</b>	19 083						19 083
Net	<b>R0200</b>	968 341						968 341
<b>Premiums earned</b>								
Gross — Direct Business	<b>R0210</b>	983 089						983 089
Gross — Proportional reinsurance accepted	<b>R0220</b>	17 740						17 740
Gross — Non-proportional reinsurance accepted	<b>R0230</b>							
Reinsurers' share	<b>R0240</b>	18 200						18 200
Net	<b>R0300</b>	982 628						982 628



<b>Claims incurred</b>								
Gross — Direct Business	<b>R0310</b>	539 192						539 192
Gross — Proportional reinsurance accepted	<b>R0320</b>	4 881						4 881
Gross — Non-proportional reinsurance accepted	<b>R0330</b>							
Reinsurers' share	<b>R0340</b>	3 082						3 082
Net	<b>R0400</b>	540 991						540 991
<b>Changes in other technical provisions</b>								
Gross — Direct Business	<b>R0410</b>							
Gross — Proportional reinsurance accepted	<b>R0420</b>							
Gross — Non- proportional reinsurance accepted	<b>R0430</b>							
Reinsurers' share	<b>R0440</b>							
Net	<b>R0500</b>							
<b>Expenses incurred</b>	<b>R0550</b>	213 794						213 794
<b>Other expenses</b>	<b>R1200</b>							
<b>Total expenses</b>	<b>R1300</b>							213 794

		Home Country	Top 5 countries (by amount of gross premiums written) — non-life obligations					Total Top 5 and home country
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
	R1400							
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
<b>Premiums written</b>								
Gross	R1410							
Reinsurers' share	R1420							
Net	R1500							
<b>Premiums earned</b>								
Gross	R1510							
Reinsurers' share	R1520							
Net	R1600							
<b>Claims incurred</b>								
Gross	R1610	85 484						85 484
Reinsurers' share	R1620							
Net	R1700	85 484						85 484

<b>Changes in other technical provisions</b>								
Gross	<b>R1710</b>							
Reinsurers' share	<b>R1720</b>							
Net	<b>R1800</b>							
<b>Expenses incurred</b>	<b>R1900</b>							
<b>Other expenses</b>	<b>R2500</b>							
<b>Total expenses</b>	<b>R2600</b>							

**S.12.01.02**  
**Life and Health SLT Technical Provisions**

**Technical provisions calculated as a whole**  
 Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole

	Insurance with profit participation	Index-linked and unit-linked insurance		Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)	
			Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees				Contracts with options or guarantees
	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150
<b>R0010</b>										
<b>R0020</b>										

	Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)
			Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070			
<b>Technical provisions calculated as a sum of BE and RM</b>										
<b>Best Estimate</b>										
<b>Gross Best Estimate</b>	<b>R0030</b>							558 290		558 290
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	<b>R0080</b>									
Best estimate minus recoverables from reinsurance/SPV and Finite Re — total	<b>R0090</b>							558 290		558 290
<b>Risk Margin</b>	<b>R0100</b>							24 819		24 819

**Amount of the transitional on Technical Provisions**

Technical Provisions calculated as a whole

Best estimate

Risk margin

**Technical provisions — total**

<b>R0110</b>								
<b>R0120</b>								
<b>R0130</b>								
<b>R0200</b>						583 110		583 110

	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		Contracts without options and guarantees	Contracts with options or guarantees			
	<b>C0160</b>	<b>C0170</b>	<b>C0180</b>			
<b>Technical provisions calculated as a whole</b>	<b>R0010</b>					
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	<b>R0020</b>					
<b>Technical provisions calculated as a sum of BE and RM</b>						
<b>Best Estimate</b>						
<b>Gross Best Estimate</b>	<b>R0030</b>			941 293		941 293
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	<b>R0080</b>					

Best estimate minus recoverables from reinsurance/SPV and Finite Re — total	<b>R0090</b>			941 293		941 293
<b>Risk Margin</b>	<b>R0100</b>			48 403		48 403
<b>Amount of the transitional on Technical Provisions</b>						
Technical Provisions calculated as a whole	<b>R0110</b>					
Best estimate	<b>R0120</b>					
Risk margin	<b>R0130</b>					
<b>Technical provisions — total</b>	<b>R0200</b>			989 696		989 696



## S.17.01.02

## Non-life Technical Provisions

		Direct business and accepted proportional reinsurance								
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100
Technical provisions calculated as a whole	<b>R0010</b>									
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	<b>R0050</b>									
Technical provisions calculated as a sum of BE and RM										
Best estimate										
Premium provisions										
Gross	<b>R0060</b>	8 741			9 830	5 113	2 007	35 296	4 098	

<b>Direct business and accepted proportional reinsurance</b>									
	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
	<b>C0020</b>	<b>C0030</b>	<b>C0040</b>	<b>C0050</b>	<b>C0060</b>	<b>C0070</b>	<b>C0080</b>	<b>C0090</b>	<b>C0100</b>
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	<b>R0140</b>	1		11		136	243	1 488	376
Net Best Estimate of Premium Provisions	<b>R0150</b>	8 740		-11	9 830	4 978	1 765	33 808	3 722
<b>Claims provisions</b>									
Gross	<b>R0160</b>	109 094		260 073	260 786	20 525	8 754	109 499	121 931
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	<b>R0240</b>				136	50	717	1 585	4 954
<b>Net Best Estimate of Claims Provisions</b>	<b>R0250</b>	109 094		260 073	260 650	20 475	8 037	107 914	116 978
<b>Total Best estimate — gross</b>	<b>R0260</b>	117 835		260 073	270 616	25 638	10 762	144 795	126 030
<b>Total Best estimate — net</b>	<b>R0270</b>	117 834		260 062	270 480	25 453	9 802	141 722	120 700
<b>Risk margin</b>	<b>R0280</b>	4 854		42 614	40 847	2 263	381	4 221	5 702

Direct business and accepted proportional reinsurance									
	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100
<b>Amount of the transitional on Technical Provisions</b>									
Technical Provisions calculated as a whole	<b>R0290</b>								
Best estimate	<b>R0300</b>								
Risk margin	<b>R0310</b>								
<b>Technical provisions — total</b>									
Technical provisions — total	<b>R0320</b>	122 689		302 687	311 462	27 901	11 143	149 016	131 731
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default — total	<b>R0330</b>	1		11	136	186	960	3 073	5 330
Technical provisions minus recoverables from reinsurance/SPV and Finite Re — total	<b>R0340</b>	122 688		302 676	311 326	27 716	10 183	145 943	126 402

	Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance				Total Non-Life obligation
	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
	C0110	C0120	C0130	C0140	C0150	C0160	C0170	
Technical provisions calculated as a whole	R0010							
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050							
Technical provisions calculated as a sum of BE and RM								
Best estimate								
Premium provisions								
Gross	R0060							65 086

	Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance				Total Non-Life obligation
	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health re-insurance	Non-proportional casualty re-insurance	Non-proportional marine, aviation and transport re-insurance	Non-proportional property reinsurance	
	C0110	C0120	C0130	C0140	C0150	C0160	C0170	
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140							2 254
Net Best Estimate of Premium Provisions	R0150							62 832
<b>Claims provisions</b>								
Gross	R0160							890 662
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240							7 442

	Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance				Total Non-Life obligation
	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health re-insurance	Non-proportional casualty re-insurance	Non-proportional marine, aviation and transport re-insurance	Non-proportional property reinsurance	
	C0110	C0120	C0130	C0140	C0150	C0160	C0170	
Net Best Estimate of Claims Provisions	R0250							883 220
Total Best estimate — gross	R0260							955 748
Total Best estimate — net	R0270							946 052
Risk margin	R0280							100 881
Amount of the transitional on Technical Provisions								
Technical Provisions calculated as a whole	R0290							
Best estimate	R0300							
Risk margin	R0310							

	Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance				
	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
<b>Technical provisions — total</b>								
Technical provisions — total	<b>R0320</b>							1 056 629
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default — total	<b>R0330</b>							9 696
Technical provisions minus recoverables from reinsurance/SPV and Finite Re — total	<b>R0340</b>							1 046 934

**Non-life insurance claims****Total Non-Life Business**Accident year/  
Underwriting year

<b>Z0010</b>	<b>Skadeår</b>
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**Gross Claims Paid (non-cumulative)**

(absolute amount)

Year	Development year											In Current year	Sum of years (cumulative)	
	0	1	2	3	4	5	6	7	8	9	10 & +			C0170
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110			
Prior	R0100										5	R0100	5	5
2007	R0160	253	148	23	7	6	4	3	2	3	2	R0160	2	451
2008	R0170	283	128	30	12	5	5	3	1	1		R0170	1	467
2009	R0180	264	117	18	9	5	5	3	2			R0180	2	424
2010	R0190	295	153	25	10	6	5	2				R0190	2	496
2011	R0200	316	153	27	12	7	6					R0200	6	520
2012	R0210	329	145	29	13	10						R0210	10	526
2013	R0220	356	155	21	15							R0220	15	547
2014	R0230	340	138	25								R0230	25	502
2015	R0240	331	120									R0240	120	451
2016	R0250	346										R0250	346	346
	<b>Total</b>											R0260	535	4 730



**Gross undiscounted Best Estimate Claims Provisions**  
(absolute amount)

Year	Development year											Year end (discounted data)			
	0	1	2	3	4	5	6	7	8	9	10 & +		C0360		
	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300				
Prior	R0100											246	R0100	209	
2007	R0160								13	9			R0160	8	
2008	R0170							22	20				R0170	18	
2009	R0180						26	21					R0180	18	
2010	R0190					28	24						R0190	21	
2011	R0200				39	31							R0200	28	
2012	R0210			55	46								R0210	41	
2013	R0220		60	45									R0220	41	
2014	R0230	111	66										R0230	59	
2015	R0240	351	129										R0240	114	
2016	R0250	353											R0250	333	
													<b>Total</b>	<b>R0260</b>	<b>891</b>

**S.23.01.01  
Own funds**

**Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35**

Ordinary share capital (gross of own shares)

Share premium account related to ordinary share capital

Initial funds, members' contributions or the equivalent basic own — fund item for mutual and mutual-type undertakings

Subordinated mutual member accounts

Surplus funds

Preference shares

Share premium account related to preference shares

Reconciliation reserve

Subordinated liabilities

An amount equal to the value of net deferred tax assets

	Total	Tier 1 — unrestricted	Tier 1 — restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
<b>R0010</b>	9 600	9 600			
<b>R0030</b>					
<b>R0040</b>					
<b>R0050</b>					
<b>R0070</b>					
<b>R0090</b>					
<b>R0110</b>					
<b>R0130</b>	524 889	524 889			
<b>R0140</b>	92 804		92 804		
<b>R0160</b>					

	Total	Tier 1 — unrestricted	Tier 1 — restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
Other own fund items approved by the supervisory authority as basic own funds not specified above	<b>R0180</b>				
<b>Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds</b>					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	<b>R0220</b>				
<b>Deductions</b>					
Deductions for participations in financial and credit institutions	<b>R0230</b>				
<b>Total basic own funds after deductions</b>	<b>R0290</b>	627 292	534 489	92 804	
<b>Ancillary own funds</b>					
Unpaid and uncalled ordinary share capital callable on demand	<b>R0300</b>				
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual — type undertakings, callable on demand	<b>R0310</b>				
Unpaid and uncalled preference shares callable on demand	<b>R0320</b>				
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	<b>R0330</b>				

	Total	Tier 1 — unrestricted	Tier 1 — restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	<b>R0340</b>				
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	<b>R0350</b>				
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	<b>R0360</b>				
Supplementary members calls — other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	<b>R0370</b>				
Other ancillary own funds	<b>R0390</b>				
<b>Total ancillary own funds</b>	<b>R0400</b>				
<b>Available and eligible own funds</b>					
Total available own funds to meet the SCR	<b>R0500</b>	627 292	534 489	92 804	
Total available own funds to meet the MCR	<b>R0510</b>	627 292	534 489	92 804	
Total eligible own funds to meet the SCR	<b>R0540</b>	627 292	534 489	92 804	
Total eligible own funds to meet the MCR	<b>R0550</b>	627 292	534 489	92 804	
<b>SCR</b>	<b>R0580</b>	388 355			
<b>MCR</b>	<b>R0600</b>	174 760			

	<b>Total</b>	<b>Tier 1 — unrestricted</b>	<b>Tier 1 — restricted</b>	<b>Tier 2</b>	<b>Tier 3</b>
	<b>C0010</b>	<b>C0020</b>	<b>C0030</b>	<b>C0040</b>	<b>C0050</b>
<b>Ratio of Eligible own funds to SCR</b>	161,53%				
<b>Ratio of Eligible own funds to MCR</b>	358,95%				

	<b>C0060</b>
<b>Reconciliation reserve</b>	
Excess of assets over liabilities	<b>R0700</b> 684 489
Own shares (held directly and indirectly)	<b>R0710</b>
Foreseeable dividends, distributions and charges	<b>R0720</b> 150 000
Other basic own fund items	<b>R0730</b> 9 600
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	<b>R0740</b>
<b>Reconciliation reserve</b>	<b>R0760</b> 524 889
<b>Expected profits</b>	

	<b>Total</b>	<b>Tier 1 — unrestricted</b>	<b>Tier 1 — restricted</b>	<b>Tier 2</b>	<b>Tier 3</b>
	<b>C0010</b>	<b>C0020</b>	<b>C0030</b>	<b>C0040</b>	<b>C0050</b>
Expected profits included in future premiums (EPIFP) — Life business	<b>R0770</b>				
Expected profits included in future premiums (EPIFP) — Non-life business	<b>R0780</b>	39 373			
<b>Total Expected profits included in future premiums (EPIFP)</b>	<b>R0790</b>	39 373			

## S.25.01.21

## Solvency Capital Requirement — for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0100
Market risk	R0010 236 957		
Counterparty default risk	R0020 19 118		
Life underwriting risk	R0030 28 894		
Health underwriting risk	R0040 180 944		
Non-life underwriting risk	R0050 223 466		
Diversification	R0060 -239 355		
Intangible asset risk	R0070		
<b>Basic Solvency Capital Requirement</b>	<b>R0100</b> 450 023		

<b>Calculation of Solvency Capital Requirement</b>		<b>C0100</b>
Operational risk	<b>R0130</b>	35 421
Loss-absorbing capacity of technical provisions	<b>R0140</b>	
Loss-absorbing capacity of deferred taxes	<b>R0150</b>	-97 089
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	<b>R0160</b>	
<b>Solvency capital requirement excluding capital add-on</b>	<b>R0200</b>	388 355
Capital add-on already set	<b>R0210</b>	
<b>Solvency capital requirement</b>	<b>R0220</b>	388 355
<b>Other information on SCR</b>		
<b>Capital requirement for duration-based equity risk sub-module</b>	<b>R0400</b>	
Total amount of Notional Solvency Capital Requirement for remaining part	<b>R0410</b>	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	<b>R0420</b>	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	<b>R0430</b>	
Diversification effects due to RFF nSCR aggregation for article 304	<b>R0440</b>	



**S.28.01.01****Minimum Capital Requirement — Only life or only non-life insurance or reinsurance activity  
Linear formula component for non-life insurance and reinsurance obligations**

		<b>C0010</b>
MCRNL Result	<b>R0010</b>	162 527

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		<b>C0020</b>	<b>C0030</b>
Medical expense insurance and proportional reinsurance	<b>R0020</b>	117 834	114 149
Income protection insurance and proportional reinsurance	<b>R0030</b>		
Workers' compensation insurance and proportional reinsurance	<b>R0040</b>	260 062	124 674
Motor vehicle liability insurance and proportional reinsurance	<b>R0050</b>	270 480	177 172
Other motor insurance and proportional reinsurance	<b>R0060</b>	25 453	194 244
Marine, aviation and transport insurance and proportional reinsurance	<b>R0070</b>	9 802	16 456
Fire and other damage to property insurance and proportional reinsurance	<b>R0080</b>	141 722	276 762
General liability insurance and proportional reinsurance	<b>R0090</b>	120 700	64 884
Credit and suretyship insurance and proportional reinsurance	<b>R0100</b>		
Legal expenses insurance and proportional reinsurance	<b>R0110</b>		
Assistance and proportional reinsurance	<b>R0120</b>		
Miscellaneous financial loss insurance and proportional reinsurance	<b>R0130</b>		
Non-proportional health reinsurance	<b>R0140</b>		
Non-proportional casualty reinsurance	<b>R0150</b>		
Non-proportional marine, aviation and transport reinsurance	<b>R0160</b>		
Non-proportional property reinsurance	<b>R0170</b>		

**Linear formula component for life insurance and reinsurance obligations**

		<b>C0040</b>
MCRL Result	<b>R0200</b>	31 491

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
	<b>C0050</b>	<b>C0060</b>
Obligations with profit participation — guaranteed benefits	<b>R0210</b>	<del> </del>
Obligations with profit participation — future discretionary benefits	<b>R0220</b>	<del> </del>
Index-linked and unit-linked insurance obligations	<b>R0230</b>	<del> </del>
Other life (re)insurance and health (re)insurance obligations	<b>R0240</b>	<del> </del>
Total capital at risk for all life (re)insurance obligations	<b>R0250</b>	<del> </del>
	1 499 583	

**Overall MCR calculation**

	<b>C0070</b>
Linear MCR	<b>R0300</b>
SCR	<b>R0310</b>
MCR cap	<b>R0320</b>
MCR floor	<b>R0330</b>
Combined MCR	<b>R0340</b>
Absolute floor of the MCR	<b>R0350</b>
	<b>C0070</b>
<b>Minimum Capital Requirement</b>	<b>R0400</b>



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