

# ANNUAL REPORT 2016



Relax, we'll help you.

# CONTENTS

Comments by the President and CEO .....	3
Board of Directors' Report .....	4
Five-year summary .....	8
Consolidated income statement .....	10
Consolidated statement of comprehensive income .....	11
Consolidated balance sheet .....	12
Parent Company .....	14
Changes in shareholders' equity .....	15
Cash flow statements .....	16
Notes to the consolidated financial statements .....	17
Accounting policies, considerations and assessments .....	17
Risks and risk management .....	26
Notes to the income statement .....	40
Notes to the balance sheet .....	54
Notes to the Parent Company .....	73
Signatures .....	75
Auditor's report .....	76
Group Management .....	79
Glossary and definitions .....	80



# COMMENTS BY THE PRESIDENT AND CEO

TORBJÖRN MAGNUSSON

If is the leading insurance company in the Nordic region and is well equipped for the future. Digitalization and adapting to changes in people's everyday lives have been high on the agenda for some time. It is important to continue these efforts at an undiminished pace, since the operating environment will continue to change at an accelerating rate.

2016 was once again a stable and favorable year for If. The year ended with a combined ratio of 84.4% (85.4) and a technical result of MSEK 6,228 (5,753). Declining financial income, due to the continued low interest-rate scenario, is subjecting insurance operations to stringent demands.

We have now received important confirmation of If's financial strength and equity ratio in the form of the highest credit rating of all Nordic insurance companies. In 2016, Standard and Poor's increased its rating of If from A till A+. If regards risk management and risk control as high-priority areas, not least considering the increasing demands that adaptation to Solvency II requirements will entail. Since 2016, the Chief Risk Officer has been a member of Group Management.

During the autumn, Sampo acquired 35% of If's holding in the Danish property and casualty insurance operation, Topdanmark. At the same time, Sampo purchased an additional 200,000 shares in the company. Following a mandatory offer for the entire company and an additional external acquisition of shares, Sampo now accounts for 45% of the vote-carrying shares in Denmark's second largest property and casualty insurance company.

With the exception of a number of large claims events, 2016 was a favorable year for property and casualty insurance operations in the Nordic region. However, extreme fluctuations are occurring increasingly often, such as the heavy rainfall over the Oslo region on August 6. And in line with tradition for the season, this extreme weather, this time called Storm Urd, then moved in over Denmark, Sweden and Norway over the 2016 Christmas period. In view of the intense competition in the insurance market, it is important for customers to know that there are stable insurance companies that can cope with days such as these.

Another important factor for If's success is our long-standing cooperation with the automotive industry. In the Nordic region, new cars were purchased like never before in 2016. Almost 870,000 new vehicles were registered during the year, a sharp increase compared with 2015. If occupies a strong position in this market and sales of motor insurance to private customers were favorable.

Both internal surveys and external customer ratings show that we are well appreciated and occupy a distinct position in the market. Meanwhile, the surveys confirm the fierce competition that prevails. We are working on a number of customer-oriented changes designed to keep us among the frontrunners in the years ahead. One of the principal activities, apart from digitalization, is to concentrate customer-service functions in larger, better and more powerful units



in each country. When we compare ourselves with insurance companies in other parts of the world, we can state that we have advanced the furthest in this respect.

Customers appear to appreciate our Internet initiatives and we have won awards for our websites in a number of countries. In 2016, we had 26 million visitors to our websites, up 30 percent on 2015. Sales are following the same trend. However, regardless of whether customers contact us by phone, e-mail, Facebook or chat functions, or make their purchases directly on the Internet, our promise is that they will receive the same excellent service. This, combined with long-term and stable pricing, will ensure that we will attract more customers and retain our existing customers even longer.

Torbjörn Magnusson, President and CEO

# BOARD OF DIRECTORS' REPORT

The Board of Directors and the President of If P&C Insurance Holding Ltd, corporate registration number 556241-7559, hereby issue their annual report for the 2016 fiscal year.

## ORGANIZATION

If is a Nordic Group that also conducts insurance operations in the Baltic countries. The Group's headquarter is located in Solna, Sweden.

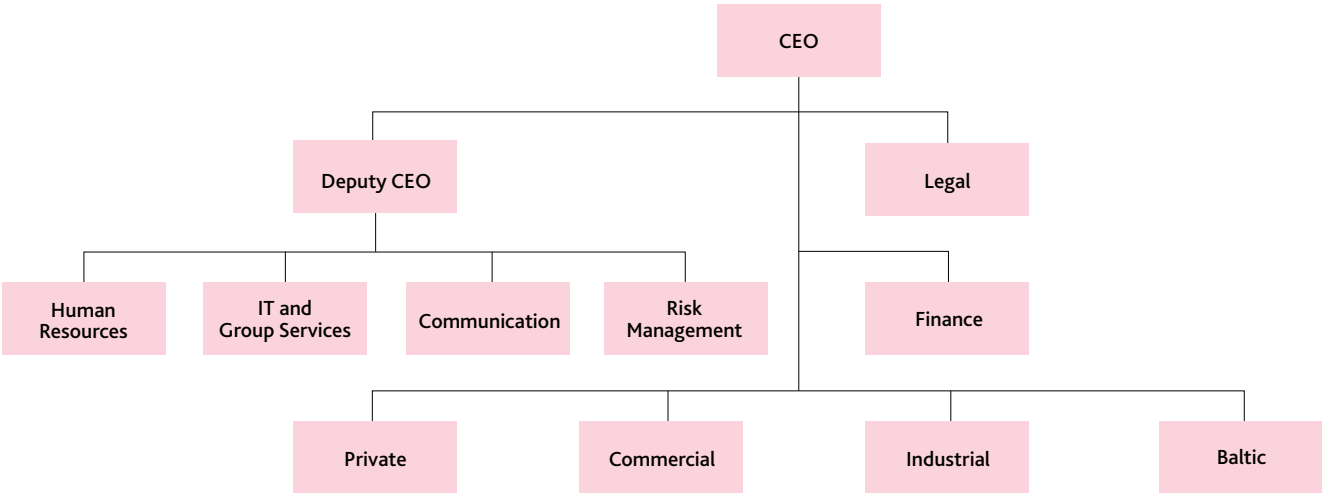
The Parent Company of the If Group, If P&C Insurance Holding Ltd (publ), is a wholly owned subsidiary of Sampo plc, a Finnish listed company, whose registered office is in Helsinki. The Sampo Group conducts property and casualty insurance operations within If, life insurance operations in the Mandatum Group and has a substantial holding in Nordea Bank AB (publ) and Topdanmark A/S. If's property and casualty insurance operations and the holding in Topdanmark constitute a segment within Sampo.

The main role of If P&C Insurance Holding Ltd (publ) is to manage shares in wholly owned property and casualty insurance operations as well as other significant holdings. The holding company owns the Swedish companies, If P&C Insurance Ltd and If Livförsäkring AB, the Finnish company If P&C Insurance Company Ltd and the Estonian company If P&C Insurance AS. If's operations in Denmark, Norway,

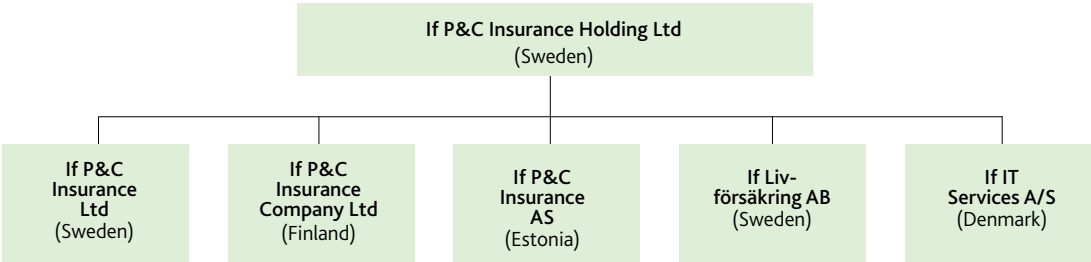
and partly in Finland and Latvia, are conducted via branches of If P&C Insurance Ltd in each country. In addition, If P&C Insurance Ltd has branch offices in France, the Netherlands, the UK and Germany to support customers with international operations. The Estonian company If P&C Insurance AS also conducts operations in Latvia and Lithuania via branches. The holding company previously also owned just over 30% of the Danish insurance company Topdanmark A/S. During the year, the holding was sold to Sampo.

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

## OPERATIONAL STRUCTURE



## LEGAL STRUCTURE, SUMMARY



## RESULTS FROM OPERATIONS

### GROUP RESULTS

The result before income taxes was MSEK 12,386 (8,589). The technical result of property and casualty insurance operations remained strong and amounted to MSEK 6,228 (5,753).

### PREMIUMS WRITTEN

Gross written premiums for the year amounted to MSEK 42,207 (42,644). Adjusted for exchange-rate effects, the underlying marginal change in premium volumes was minus 0.1%. The decrease is mainly due to the business area Industrial and Baltic.

### CLAIMS INCURRED AND OPERATING EXPENSES

Net claims incurred amounted to MSEK 27,503 (29,400). Adjusted for exchange-rate effects, claims expenses decreased by 6%.

The claims ratio improved and amounted to 67.8% (72.4). The improvement is mainly due to reserve release in Motor Third party liability. Compared with the preceding year, the change is also due to the changed discount rate in Finland that had a negative impact on the preceding year's claims ratio.

The expense ratio was 16.6% (13.0). Operating expenses in the insurance operation totaled to MSEK 6,754 (5,290). The change is mainly due to the non-recurring cost reduction due to a Norwegian pension plan amendment, which reduced last year's operating expenses by MSEK 1,456. Adjusted for exchange-rate effects and the cost reduction, the operating expenses in the insurance business is unchanged.

The combined ratio improved and amounted to 84.4% (85.4).

Other operating expenses in the preceding year, include a

goodwill impairment of MSEK 394. The write down was made in connection with cooperation agreement renewals and is attributable to goodwill originating from an elderly insurance portfolio acquisition.

### INVESTMENT RESULT

At full market value, profit from asset management rose to MSEK 3,186 (1,714) and the total return ratio was 2.9% (1.5). Net investment return amounted to MSEK 1,893 (3,184) in the income statement and MSEK 1,293 (-1,470) in other comprehensive income.

The year started with turbulence in financial markets and declining share prices resulting, among other factors, from 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 from the EU, Donald Trump's victory in the US presidential election, OPEC's decision to curtail oil production and improved economic statistics. These factors led to 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 (difference between risk-free and non-risk-free interest rates).

The year-on-year improvement in the result of the investment portfolio was mainly attributable to significantly improved results for credit-risk papers in the interest portfolio (thanks to lower credit spreads). The return on the equity portfolio was again healthy albeit slightly lower than in 2015. Additional information is presented in Note 6.

### Consolidated results per quarter and full-year

MSEK	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2016 Jan-Dec	2015 Jan-Dec
Premiums earned, net of reinsurance	10,482	10,266	9,957	9,870	40,575	40,629
Allocated investment return transferred from the non-technical account	-67	-32	24	50	-25	213
Other technical income	59	66	61	65	251	261
Claims paid, net of reinsurance	-7,217	-7,014	-6,744	-6,528	-27,503	-29,400
<i>Of which, Claims-adjustment costs</i>	-589	-571	-535	-532	-2,227	-2,333
Operating expenses for insurance operations, net of reinsurance	-1,753	-1,669	-1,667	-1,665	-6,754	-5,290
Other operating expenses	-94	-73	-76	-73	-316	-660
<b>Technical result from property and casualty insurance</b>	<b>1,410</b>	<b>1,544</b>	<b>1,555</b>	<b>1,719</b>	<b>6,228</b>	<b>5,753</b>
Investment result	575	441	477	400	1,893	3,184
Allocated investment return transferred to the technical account	4	-33	-92	-121	-242	-564
Interest expense, net pension liability	-6	-4	-5	-5	-20	-42
Interest expense, subordinated debt	-31	-26	-26	-25	-108	-136
Income from associates	6	4,449	136	44	4,635	394
<b>Result before income tax</b>	<b>1,958</b>	<b>6,371</b>	<b>2,045</b>	<b>2,012</b>	<b>12,386</b>	<b>8,589</b>
Claims ratio	68.9%	68.3%	67.7%	66.1%	67.8%	72.4%
Expense ratio	16.7%	16.3%	16.7%	16.9%	16.6%	13.0%
Combined ratio	85.6%	84.6%	84.5%	83.0%	84.4%	85.4%
Risk ratio <sup>1)</sup>	63.2%	62.8%	62.4%	60.7%	62.3%	66.6%
Cost ratio <sup>1)</sup>	22.3%	21.8%	22.1%	22.3%	22.1%	18.8%
Insurance margin <sup>1)</sup>	13.8%	15.1%	15.8%	17.5%	15.5%	15.1%

<sup>1)</sup> Refers to alternative performance measurements which are defined in Glossary and definitions.

## RESULT FROM ASSOCIATES

Apart from the usual share of the associated companies' results, a capital gain of MSEK 4,044 related to the sale of the holding in Topdanmark A/S to If's Parent Company Sampo plc and the results of some other smaller transactions are recognized during the current year.

## NET PROFIT AND TAX COSTS

Net profit was MSEK 10,703 (6,763). The effective tax rate for the year was 13.6% (21.3). Of total taxes, current tax expenses amounted to MSEK 1,548 (1,506) and the deferred tax expense was 135 MSEK (expense 320).

## RESULTS PER BUSINESS AREA

Information concerning operations and the earnings trend in the Group's business areas is presented in Note 6.

## SOLVENCY CAPITAL AND CASH FLOW

The solvency ratio improved and amounted to 90.3% (75.2) at year-end. Solvency capital increased to MSEK 36,714 (30,795). Cash flow from operating activities amounted to MSEK -66 (7,616) and cash flow from investing activities amounted to MSEK 7,397 (27). The sale of the holding in Topdanmark A/S is a part of the item investing activities. During the year a subordinated loan was issued and affected cash flow by MSEK 1,992 (repayment -1,377). A total dividend of MSEK 8,600 (5,500) was paid. Proposed appropriation of the company's net result is presented in Note 9 in the parent company.

## TECHNICAL PROVISIONS (RESERVES)

Gross provisions at year-end amounted to MSEK 89,596 (86,687). Currency effects arising from the conversion of provisions in foreign currencies increased the provision by MSEK 3,432, primarily due to the weakening of the SEK against the NOK and EUR. After adjustments for exchange-rate effects, the premium reserve increased by MSEK 38. Correspondingly, the claims reserve decreased by MSEK 561 after adjustments for exchange-rate effects.

Reinsurers' proportion of technical provisions increased slightly and was MSEK 2,255 (2,196). After adjustment for exchange-rate effects, reinsurers' share of technical provisions decreased by MSEK 41.

## OBJECTIVES AND POLICIES FOR FINANCIAL RISK MANAGEMENT

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

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

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

## SOLVENCY II

When the Solvency II regulation entered into force on January 1, 2016, all If's subsidiaries used the Solvency II Standard Formula for calculating their solvency capital requirements. In November 2016 the partial internal model (PIM) was

approved by the Swedish FSA and it is used to calculate the solvency capital requirement for the majority of the insurance risk in If Sweden, while other risks are calculated using the standard formula.

As a subsidiary to Sampo plc If P&C Insurance Holding Ltd (publ) is a member of the Sampo insurance group and does not have a formal requirement to report its sub-group solvency position. A standard formula based SCR, up to the level of If P&C Insurance Holding Ltd (publ) is however calculated, corresponding to what would be the regulatory requirement if Solvency II group rules were enforced at the level of the If Group.

As per December 31, 2016, the standard formula, sub-group, SCR amounted to MSEK 18,555 compared with MSEK 8,093 on December 31, 2015 (according to Solvency I). The eligible own funds amounted to MSEK 36,510 compared with MSEK 29,142 on December 31, 2015 (according to Solvency I).

## PERSONNEL

During the year, the number of employees stayed stable and amounted to 6,200 (6,203) at year-end. The average number of employees during the year was 6,180 (6,176), of whom 54% (54) were women.

If recruits approximately 600 employees annually, in order to replace people who have retired or left the company and to add new competencies to the company.

## APPLIED ACCOUNTING POLICIES

If applies the International Financial Reporting Standards (IFRS) adopted by the EU. For the 2016 fiscal year, there were no new or amended standards that caused any for If's accounting significant changes or new requirements.

## EVENTS AFTER THE BALANCE SHEET DATE

If is investigating the possibility of extending the use of the partial internal model through a transformation of the Finnish subsidiary If P&C Insurance Company Ltd into a branch office of the Swedish subsidiary If P&C Insurance Ltd (publ), and the Boards have adopted a jointly prepared Merger plan. The merger will be subject to the approvals of the relevant authorities. The change would be in line with If's business model as the Swedish company already consists of If's Swedish, Norwegian and Danish businesses through a branch structure and further enhances If Group's capital situation and its risk management structure.

The Russian subsidiary CJSC If Insurance was liquidated in the beginning of 2017.

## OUTLOOK

The development of the global economy will be difficult to predict during 2017. Despite increased competition in the market, underlying profitability of the insurance operation is expected to remain on a good level. Precision in the pricing of new insurance contracts is a success factor, at the same time as efficiency-enhancement work is important in order to maintain sustainable profitability.

The long-term objective for the Group is to maintain a combined ratio of below 95% and a return on equity of at least 17.5%. For 2017, the objective is to achieve a combined ratio by a margin, below 95%.

## PARENT COMPANY

The operations of the Parent Company If P&C Insurance Holding Ltd (publ) consist primarily of ownership and management of shares in subsidiaries.

The Parent Company is also the main account holder for a Group cash pool account system comprising the major part of the flows of liquid funds from the insurance operations. Underlying flows give rise to intra-Group transactions within the Parent Company's balance sheet. Intra-Group transactions also arise in connection with payment of dividends from subsidiaries that are not passed on externally or invested externally.

The Parent Company's net profit decreased to MSEK 2,481 (6,076), mainly as a result of decreased dividends from subsidiaries, but the net result is partly compensated by the sale of the associated company Topdanmark A/S.

The Parent Company's solvency capital at year-end amounted to MSEK 20,093 (24,226) and its total assets to MSEK 21,752 (25,119).

## CORPORATE GOVERNANCE STATEMENT

If P&C Insurance Holding Ltd (publ) is not listed, and does not comply with the Swedish Code of Corporate Governance. However, the company has subordinated loans listed for trading on the Luxembourg Stock Exchange (BdL Market). According to the Annual Accounts Act (1995:1554) there are requirements stipulating that such companies shall submit a limited Corporate Governance Statement. The company has decided to allow the Corporate Governance Statement to be part of the Board of Directors' Report.

As mentioned above, the company is a wholly owned subsidiary of the listed Finnish company Sampo plc. The shareholder's right to participate in company decisions is exercised at the Annual General Meeting and at Extraordinary General Meetings.

The Articles of Association, which is the fundamental control document for the company, states, inter alia, the object of the company's operation, the size of the share capital, the number of members of the Board of Directors and auditors, as well as, the period for such assignments, matters that shall be addressed at the Annual General Meeting and how notice convening the General Meetings shall be sent out. According to the Articles of Association, the Board of Directors shall comprise of not less than three and not more than five elected members, and the election shall apply for the period until the end of the Annual General Meeting taking place the second financial year after the election. The Articles of Association contains no stipulations pertaining to amendments of the Articles of Association. The company has issued two series of shares, A-shares and B-shares. Shares of series A carry one vote each and shares of series B carry one tenth of a vote each. The shareholder or the shareholder's representative is entitled to vote for the full number of shares represented, with no restrictions on voting entitlement. No General Meeting has granted any authorization to the Board of Directors to make decisions that the company shall issue new shares or acquire own shares.

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

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

The Compliance function provides advice to management and the business operations on issues pertaining to regulatory compliance. The Compliance function reports to the Board of Directors and the President of the company.

On behalf of the Chief Risk Officer (CRO) the Risk Control unit within Risk Management is responsible for the collective internal reporting of all of the If group's significant risks at an aggregated level. In addition, the If group has a comprehensive system for monitoring risks in the business operations, as described in the section on Objectives and Policies for Financial Risk Management.

Group Five-year summary<sup>1)</sup>

MSEK	2016	2015	2014	2013	2012
<b>Condensed income statement</b>					
Premiums written, net of reinsurance	40,636	40,951	40,627	39,456	38,652
Premiums earned, net of reinsurance	40,575	40,629	40,568	38,977	37,973
Allocated investment return transferred from the non-technical account	-25	213	339	560	772
Other technical income	251	261	249	245	286
Claims incurred, net of reinsurance	-27,503	-29,400	-28,781	-27,821	-27,347
<i>Of which, Claims-adjustment costs</i>	-2,227	-2,333	-2,369	-2,332	-2,319
Operating expenses in insurance operations, net of reinsurance <sup>2)</sup>	-6,754	-5,290	-6,778	-6,536	-6,426
Other operating expenses	-316	-660	-245	-225	-260
<b>Technical result from property and casualty insurance</b>	<b>6,228</b>	<b>5,753</b>	<b>5,352</b>	<b>5,200</b>	<b>4,998</b>
Investment result	1,893	3,184	3,614	3,654	3,617
Allocated investment return transferred to the technical account	-242	-564	-749	-1,036	-1,267
Interest expense, net pension liability	-20	-42	-64	-58	-66
Interest expense, subordinated debt	-108	-136	-169	-151	-174
Income from associates	4,635	394	490	431	403
<b>Results before income tax</b>	<b>12,386</b>	<b>8,589</b>	<b>8,474</b>	<b>8,040</b>	<b>7,511</b>
Income taxes	-1,683	-1,826	-1,733	-1,568	-1,628
<b>Net profit for the year</b>	<b>10,703</b>	<b>6,763</b>	<b>6,741</b>	<b>6,472</b>	<b>5,883</b>

<sup>1)</sup> Since January 1, 2013, If applies the revised standard IAS 19 Employee Benefits (issued in 2011), whereby all figures for 2012 have been recalculated in accordance with these policies.

<sup>2)</sup> In 2015, operating expenses were affected by a non-recurring effect related to a Norwegian pension plan amendment (cost reduction MSEK 1,456).



Group Five-year summary <sup>1)</sup> continued

MSEK	2016	2015	2014	2013	2012
<b>Balance sheet, December 31</b>					
<b>Assets</b>					
Intangible assets	863	873	1,294	1,312	1,289
Investment assets	111,994	104,293	108,738	103,478	100,586
Reinsurers' share of technical provisions	2,255	2,196	2,230	3,718	4,951
Deferred tax assets	233	252	718	515	553
Debtors	12,978	11,970	11,894	11,010	10,664
Other assets, prepayments and accrued income	6,633	5,739	5,300	5,153	5,379
<b>Total assets</b>	<b>134,956</b>	<b>125,323</b>	<b>130,174</b>	<b>125,186</b>	<b>123,422</b>
<b>Shareholders' equity, provisions and liabilities</b>					
Shareholders' equity	29,749	26,337	27,140	25,948	23,264
Subordinated debt	3,889	1,829	3,276	3,087	2,776
Deferred tax liability	3,309	2,881	3,591	3,379	3,337
Technical provisions	89,596	86,687	86,258	84,159	84,569
Creditors	5,648	4,634	5,024	4,622	5,544
Provisions, accruals and deferred income	2,765	2,955	4,885	3,991	3,932
<b>Total shareholders' equity, provisions and liabilities</b>	<b>134,956</b>	<b>125,323</b>	<b>130,174</b>	<b>125,186</b>	<b>123,422</b>
<b>Key data, property and casualty operations</b>					
Claims ratio	67.8%	72.4%	70.9%	71.4%	72.0%
Expense ratio <sup>2)</sup>	16.6%	13.0%	16.7%	16.8%	16.9%
Combined ratio	84.4%	85.4%	87.7%	88.1%	88.9%
Risk ratio <sup>3)</sup>	62.3%	66.6%	65.1%	65.4%	65.9%
Cost ratio <sup>2) 3)</sup>	22.1%	18.8%	22.5%	22.8%	23.0%
Insurance margin <sup>3)</sup>	15.5%	15.1%	13.2%	13.3%	13.1%
<b>Key data, asset management</b>					
Total investment return <sup>4)</sup>	2.9%	1.5%	4.1%	5.0%	6.1%
<b>Other key data</b>					
Capital base <sup>5)</sup>	-	29,142	31,435	29,872	26,791
Solvency requirement <sup>5)</sup>	-	8,093	7,895	7,521	7,336
Solvency capital	36,714	30,795	33,289	31,899	28,824
Solvency ratio	90.3%	75.2%	81.9%	80.8%	74.6%
Return on equity <sup>3)</sup>	38.4%	18.8%	24.7%	28.3%	32.0%

<sup>1)</sup> Since January 1, 2013, If applies the revised standard IAS 19 Employee Benefits (issued in 2011), whereby all figures for 2012 have been recalculated in accordance with these policies.

<sup>2)</sup> In 2015, operating expenses were affected by a non-recurring effect related to a Norwegian pension plan amendment (cost reduction MSEK 1,456).

<sup>3)</sup> Refers to alternative performance measurements which are defined in Glossary and definitions.

<sup>4)</sup> The calculations are based on the policies used internally by If for the valuation of investment operations. Refer to Note 15.

<sup>5)</sup> Calculations are made in accordance with the Insurance Business Act (2010:2043).

# CONSOLIDATED INCOME STATEMENT

MSEK	Note	2016	2015
<b>TECHNICAL ACCOUNT INSURANCE OPERATIONS</b>			
<b>Premiums earned, net of reinsurance</b>			
Premiums written, gross	7	42,207	42,644
Premiums ceded	7	-1,571	-1,693
Change in provision for unearned premiums and unexpired risks		- 38	- 365
Reinsurers' share of change in provision for unearned premiums and unexpired risks		- 23	43
		<b>40,575</b>	<b>40,629</b>
Allocated investment return transferred from the non-technical account	8	- 25	213
Other technical income		251	261
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross		-29,005	-28,053
Reinsurers' share		693	572
Change in provision for claims outstanding			
Gross		827	-1,826
Reinsurers' share		- 18	- 93
	9	<b>-27,503</b>	<b>-29,400</b>
<b>Operating expenses</b>			
Operating expenses in insurance operations, net of reinsurance			
Gross		-6,870	-5,418
Commissions and profit participations in ceded reinsurance		116	128
		<b>-6,754</b>	<b>-5,290</b>
Other operating expenses		- 316	- 660
	10, 11, 12, 13	<b>-7,070</b>	<b>-5,950</b>
<b>Technical result from property and casualty insurance</b>	14	<b>6,228</b>	<b>5,753</b>
<b>NON-TECHNICAL ACCOUNT</b>			
<b>Investment result</b>			
Direct investment income		2,039	2,284
Changes in value		85	1,130
Management costs		- 231	- 230
	15	<b>1,893</b>	<b>3,184</b>
Allocated investment return transferred to the technical account	8	-242	-564
Interest expense on net pension liability		-20	-42
Interest expense, subordinated debt	16	-108	-136
Income from associates	17	4,635	394
<b>Result before income taxes</b>		<b>12,386</b>	<b>8,589</b>
Taxes	18	-1,683	-1,826
<b>Net profit for the year</b>		<b>10,703</b>	<b>6,763</b>
<i>Of which attributable to owners of the parent</i>		<i>10,703</i>	<i>6,763</i>

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

MSEK	Note	2016	2015
<b>Net profit for the year</b>		<b>10,703</b>	<b>6,763</b>
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified subsequently to profit and loss</i>			
Remeasurements of the net pension liability		- 56	127
Taxes related to items which will not be reclassified	18	12	-30
		<b>- 44</b>	<b>97</b>
<i>Items that will be reclassified subsequently to profit and loss when specific conditions are met</i>			
Effects of changes in exchange rates, foreign operations		751	- 689
Effects of changes in exchange rates, foreign associates		121	- 81
Exchange rate differences at realization, foreign associates		- 198	-
Remeasuring of financial assets available for sale		1,300	- 397
Value changes recognized in income statement on assets available for sale		- 7	-1,073
Taxes related to items which will be reclassified when specific conditions are met	18	-356	544
		<b>1,611</b>	<b>-1,696</b>
<b>Total comprehensive income</b>		<b>12,270</b>	<b>5,164</b>
<i>Of which attributable to owners of the parent</i>		<i>12,270</i>	<i>5,164</i>

# CONSOLIDATED BALANCE SHEET

Assets, December 31

MSEK	Note	2016	2015
<b>Intangible assets</b>			
Goodwill		715	715
Other intangible assets		148	158
	19	<b>863</b>	<b>873</b>
<b>Investment assets</b>			
Land and buildings	20	206	200
Investments in associated companies	21	128	3,258
Other financial investment assets	22, 23	111,653	100,828
Deposits with ceding undertakings		7	7
		<b>111,994</b>	<b>104,293</b>
<b>Reinsurers' share of technical provisions</b>			
Provisions for unearned premiums and unexpired risks		423	422
Provisions for claims outstanding		1,832	1,774
	24	<b>2,255</b>	<b>2,196</b>
<b>Deferred tax assets</b>	33	<b>233</b>	<b>252</b>
<b>Debtors</b>			
Debtors arising out of direct insurance operations	25	11,218	10,407
Debtors arising out of reinsurance operations	26	488	350
Other debtors	27	1,272	1,213
		<b>12,978</b>	<b>11,970</b>
<b>Other assets</b>			
Tangible assets	28	180	170
Cash and bank balances		4,217	3,382
Securities settlement claims		22	21
		<b>4,419</b>	<b>3,573</b>
<b>Prepayments and accrued income</b>			
Accrued interest and rental income		529	496
Deferred acquisition costs	29	1,178	1,208
Other prepayments and accrued income	30	507	462
		<b>2,214</b>	<b>2,166</b>
<b>Total assets</b>		<b>134,956</b>	<b>125,323</b>

## Shareholders' equity, provisions and liabilities, December 31

MSEK	Note	2016	2015
<b>Shareholders' equity</b>			
Share capital		2,726	2,726
Statutory reserve		400	400
Fair value reserve		4,624	3,593
Profit carried forward		11,296	12,855
Net profit for the year		10,703	6,763
		<b>29,749</b>	<b>26,337</b>
<b>Subordinated debt</b>	31	<b>3,889</b>	<b>1,829</b>
<b>Technical provisions (gross)</b>			
Provisions for unearned premiums and unexpired risks		19,501	18,537
Provisions for claims outstanding		70,095	68,150
	32	<b>89,596</b>	<b>86,687</b>
<b>Provisions for other risks and charges</b>			
Deferred tax liability	33	3,309	2,881
Other provisions	34, 35	1,089	1,288
		<b>4,398</b>	<b>4,169</b>
<b>Deposits received from reinsurers</b>		-	-
<b>Creditors</b>			
Creditors arising out of direct insurance operations	36	1,692	1,502
Creditors arising out of reinsurance operations		279	277
Derivatives	22, 23	637	155
Other creditors	37	3,040	2,700
		<b>5,648</b>	<b>4,634</b>
<b>Accruals and deferred income</b>			
Reinsurers' share of deferred acquisition costs		33	29
Other accruals and deferred income	38	1,643	1,638
		<b>1,676</b>	<b>1,667</b>
<b>Total shareholders' equity, provisions and liabilities</b>		<b>134,956</b>	<b>125,323</b>



# PARENT COMPANY

## Income statement

MSEK	Note	2016	2015
Other operating income		0	0
Other operating expenses		0	0
<b>Operating result</b>		<b>0</b>	<b>0</b>
<b>Result from financial investments</b>			
Dividends from Group companies		159	6,078
Result from associated companies	1	2,318	-3
Interest income and similar income items	2	17	10
Interest expense and similar expense items	3	-22	-8
<b>Result after financial items</b>		<b>2,472</b>	<b>6,077</b>
Group contribution		10	-
<b>Result before income taxes</b>		<b>2,482</b>	<b>6,077</b>
Tax on net profit for the year	4	-1	-1
<b>Net profit for the year</b>		<b>2,481</b>	<b>6,076</b>

## Balance sheet, December 31

MSEK	Note	2016	2015
<b>ASSETS</b>			
<b>Financial fixed assets</b>			
Shares in Group companies	5	17,128	17,121
Shares in associated companies	6	71	5,148
		<b>17,199</b>	<b>22,269</b>
<b>Deferred tax assets</b>		-	-
<b>Debtors</b>			
Debtors, Group companies		2,883	1,951
		<b>2,883</b>	<b>1,951</b>
<b>Cash and bank balances</b>		<b>1,670</b>	<b>899</b>
<b>Prepayments and accrued income</b>		-	-
<b>Total assets</b>		<b>21,752</b>	<b>25,119</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital		2,726	2,726
Statutory reserve		400	400
Profit carried forward		12,500	15,024
Net profit for the year		2,481	6,076
		<b>18,107</b>	<b>24,226</b>
<b>Subordinated debt</b>	7	<b>1,986</b>	-
<b>Provisions</b>		-	-
<b>Current creditors</b>			
Creditors, Group companies		1,658	893
Provision for taxes		1	0
		<b>1,659</b>	<b>893</b>
<b>Total shareholders' equity and liabilities</b>		<b>21,752</b>	<b>25,119</b>

# CHANGES IN SHAREHOLDERS' EQUITY

## Group

MSEK	Restricted equity				Unrestricted equity		Total equity
	Share capital	Statutory reserves	Other restricted reserves	Fair value reserve	Profit brought forward	Net profit for the year	
<b>Equity at beginning of 2015</b>	<b>2,726</b>	<b>400</b>	-	<b>4,764</b>	<b>19,250</b>	-	<b>27,140</b>
Transfer between restricted and unrestricted equity	-	-	339	-	-339	-	0
Total comprehensive income	-	-	-339	-1,171	-89	6,763	5,164
Share of associates' other changes in equity	-	-	-	-	-467	-	-467
Dividend to shareholder <sup>1)</sup>	-	-	-	-	-5,500	-	-5,500
<b>Equity at end of 2015</b>	<b>2,726</b>	<b>400</b>	-	<b>3,593</b>	<b>12,855</b>	<b>6,763</b>	<b>26,337</b>
<b>Equity at beginning of 2016</b>	<b>2,726</b>	<b>400</b>	-	<b>3,593</b>	<b>19,618</b>	-	<b>26,337</b>
Transfer between restricted and unrestricted equity	-	-	-496	-	496	-	0
Total comprehensive income	-	-	496	1,031	40	10,703	12,270
Share of associates' other changes in equity	-	-	-	-	-258	-	-258
Dividend to shareholder <sup>2)</sup>	-	-	-	-	-8,600	-	-8,600
<b>Equity at end of 2016</b>	<b>2,726</b>	<b>400</b>	-	<b>4,624</b>	<b>11,296</b>	<b>10,703</b>	<b>29,749</b>

## Parent Company

MSEK	Restricted equity		Unrestricted equity		Total equity
	Share capital	Statutory reserves	Profit brought forward	Net profit for the year	
<b>Equity at beginning of 2015</b>	<b>2,726</b>	<b>400</b>	<b>20,524</b>	-	<b>23,650</b>
Dividend to shareholder <sup>1)</sup>	-	-	-5,500	-	-5,500
Net profit for the year	-	-	-	6,076	6,076
<b>Equity at end of 2015</b>	<b>2,726</b>	<b>400</b>	<b>15,024</b>	<b>6,076</b>	<b>24,226</b>
<b>Equity at beginning of 2016</b>	<b>2,726</b>	<b>400</b>	<b>21,100</b>	-	<b>24,226</b>
Dividend to shareholder <sup>2)</sup>	-	-	-8,600	-	-8,600
Net profit for the year	-	-	-	2,481	2,481
<b>Equity at end of 2016</b>	<b>2,726</b>	<b>400</b>	<b>12,500</b>	<b>2,481</b>	<b>18,107</b>

There are a total of 136,350,000 shares with a quota value of SEK 19.99 each, including 103,525,000 Series A shares carrying one vote and 32,825,000 Series B shares carrying one tenth of a vote. The accumulated translation difference amounted to MSEK -174 (-848).

<sup>1)</sup> During 2015, dividends paid totaled approximately SEK 40.34 per share, of which dividends resolved by the Extraordinary General Meeting accounted for about SEK 40.34 per share.

<sup>2)</sup> During 2016, dividends paid totaled approximately SEK 63.07 per share, of which dividends resolved by Extraordinary General Meetings accounted for about SEK 63.07 per share.

The Board of Directors and the President propose that the 2017 Annual General Meeting resolve not to pay any dividend.

The equity presentation complies with legal requirements and a separate disclosure of contributed capital would not add any significant information.

# CASH FLOW STATEMENTS

## Group

MSEK	2016	2015
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
<b>Cash flow from insurance operations</b>		
Premium flows, direct insurance	42,114	42,313
Claim payments, direct insurance	-28,941	-28,112
Reinsurance flows	-1,036	-1,250
Costs of operations	-7,004	-7,113
	<b>5,133</b>	<b>5,838</b>
<b>Cash flow from asset management</b>		
Interest payments received	1,762	1,929
Dividends received, shares	382	442
Cash flow from properties	15	2
Net investments in financial investment assets	-5,828	1,058
	<b>-3,669</b>	<b>3,431</b>
Interest payment, subordinated debt	-110	-171
Realized foreign exchange transactions	39	85
Paid income tax	-1,459	-1,567
	<b>-66</b>	<b>7,616</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Dividend, sale of shares and repayment of loan, associates	7,448	30
Investments in associates	-51	-3
	<b>7,397</b>	<b>27</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Dividend paid	-8,600	-5,500
Issuance/repayment, subordinated debt	1,992	-1,377
	<b>-6,608</b>	<b>-6,877</b>
<b>Cash flow for the year</b>	<b>723</b>	<b>766</b>
<b>Cash and bank</b>		
Cash and bank balances on January 1	3,382	2,643
Effect of exchange rate changes	112	-27
Cash flow for the year	723	766
<b>Cash and bank balances on December 31</b>	<b>4,217</b>	<b>3,382</b>

## Parent company

MSEK	2016	2015
Net profit for the year	2,480	6,076
Non cash flow items/changes in operating activities	-2,490	-780
	<b>-10</b>	<b>5,296</b>
<b>Investments</b>		
Investments in group companies	-7	-
Dividend, sale of shares and repayment of loan, associates	7,447	32
Investments in associates	-51	-3
<b>Financing</b>		
Dividend	-8,600	-5,500
Issuance, subordinated debt	1,992	-
<b>Cash flow for the year</b>	<b>771</b>	<b>-175</b>
<b>Change in cash and bank balances</b>	<b>771</b>	<b>-175</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 – Accounting policies

### COMPANY INFORMATION

This annual report and the consolidated financial statements for If P&C Insurance Holding Ltd were prepared and authorized for publication by the Board of Directors and CEO on March 8, 2017 and will be presented to the 2017 Annual Meeting for approval. The company is a Swedish limited liability company with its registered office in Stockholm and its headquarters in Solna, Sweden.

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

### STATEMENT OF COMPLIANCE WITH REGULATIONS APPLIED

The annual report for the Parent Company If P&C Insurance Holding Ltd was prepared in accordance with the Annual Accounts Act (ÅRL) and the Swedish Financial Reporting Board's recommendation RFR 2 (Accounting for legal entities).

If has prepared the consolidated accounts in accordance with international accounting standards (IFRS including IAS, SIC and IFRIC), as adopted by the European Union. In addition, If applies the supplementary provisions ensuing from the Annual Accounts Act for Insurance Companies (ÅRFL), the Swedish Financial Supervisory Authority's regulations and general recommendations on annual accounts in insurance companies (FFFS 2015:12) and, in appropriate parts, the Swedish Financial Reporting Board's recommendation RFR 1 (Supplementary Accounting rules for Groups).

In accordance with chapter 2 of ÅRL and IAS 18 Accounting Policies, Changes in Accounting Estimates and Errors, it is possible to depart from the aforementioned regulations if the effect of the departure is immaterial.

Issued, but not yet effective, international accounting standards are currently assessed as not likely to have any significant impact on the financial statements when first applied, except IFRS 9 Financial Instruments, and to a certain extent, IFRS 16 Leases.

IFRS 9 has been adopted for use in the EU but in a published, not yet adopted, amendment to IFRS 4 Insurance contracts, the IASB has decided that in certain circumstances insurance companies can delay their first application of IFRS 9. Since If fulfils these conditions and plans to implement the standard later than its ordinary effective date January 2018, no significant effects on If's accounts from making a transition from IAS 39 to IFRS 9 are expected until 2021, although some expanded disclosures will be added in 2018. Because, among other considerations, the notion of business model will be important and the Financial Instruments standard includes some optionality, If believes that there will be significant cross-influences to the new, not yet finalized standard for Insurance Contracts that need to be carefully assessed.

Regarding IFRS 16, a first and preliminary assessment shows an immaterial effect on If's profit and loss and a limited effect on the balance sheet.

### MEASUREMENT BASES FOR THE PREPARATION OF THE ACCOUNTS

The accounts are based on historical acquisition values with the exception of the totally dominant share of investment assets, which are recognized at fair value. The financial reports and notes are presented in SEK millions (MSEK), unless otherwise stated.

### BASES FOR CONSOLIDATION

The consolidated accounts include the Parent Company, If P&C Insurance Holding Ltd, and all companies in which the Parent Company directly or indirectly holds more than 50% of the votes for all shares or in some other manner has a controlling interest.

The consolidated accounts have been prepared in accordance with IFRS 10 and IFRS 3. Acquired companies are reported in accordance with the purchase method, which means that assets and liabilities are reported in the acquiring company's accounts at the acquisition values determined in accordance with an established acquisition analysis. The identified assets and liabilities in the acquired company are fair valued in the acquisition analysis. If the acquisition value of shares in a subsidiary exceeds the established fair value of the acquired assets and liabilities, the difference is reported as goodwill. In conjunction with the transition to IFRS, an opening balance sheet was compiled as of January 1, 2004. In line with the exemption rules in IFRS 1, no recalculation was made of acquisitions and mergers prior to this date.

In consolidating foreign subsidiaries, locally prepared income statements and balance sheets are recompiled to eliminate differences between local accounting policies and the accounting policies applied in the consolidated accounts. These recomputations mainly comprise adjustments for unrealized changes in value in investment assets and derivatives, deferred acquisition costs, provision for unexpired risks and interest allocated to the technical result.

Outside Sweden, any equalization or catastrophe reserves governed by tax or business laws are treated in consolidation in the same manner as Swedish untaxed reserves.

In 1999, Storebrand and Skandia agreed to form a joint venture and transfer their portfolios of property and casualty business to If P&C Insurance Ltd. The merger in 1999 is reported in the consolidated accounts, applying joint venture accounting based on the carryover method. According to the carryover method, the joint venture unit assumes the assets and liabilities transferred from the owners at the carrying amount and then continues to operate the business that has been taken over. As a result of this accounting procedure, no goodwill arose in If P&C Insurance Holding Ltd Group. Goodwill based on net assets is reported in the subsidiary If P&C Insurance Ltd, since in formal terms the assets from Storebrand were transferred at a value that exceeded the previous carrying amount. Since the subsidiary If P&C Insurance Ltd has a right to make a tax deduction for the amortization of the goodwill based on the net assets, a value has arisen in the Group, recognized in the consolidated accounts for 2016 at a rate of 22% of the non-amortized goodwill amount in the subsidiary, which represents deferred tax assets.

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

Individual companies and branches in the If Group report in their respective functional currency, determined as the local currency in the country in which the company or branch is active. Income statement items in another currency than the functional currency (foreign currency) are translated to their respective presentation currency using the average exchange

rate for the month during which they were reported, while assets and liabilities in foreign currency are translated at the closing date exchange rates. Any unrealized translation differences arising are reported in the income statement as changes in value under "Investment result". Currency forward contracts used to hedge currency exposure are fair valued and these effects are reported in their entirety in the income statement as changes in value.

In the preparation of the consolidated accounts, translation from the presentation currencies of the companies and the branches to SEK is effected in line with IAS 21. Balance sheet items are translated using the closing date exchange rate and income statement items are translated using the average exchange rate for the period during which the item arose. The translation differences arising from the use of different exchange rates for items in the balance sheet and income statement, the fact that capital contributions and dividends are translated at different exchange rates than those prevailing on the transaction date and that shareholders' equity is translated at a different exchange rate at year-end than at the beginning of the year are reported in other comprehensive income.

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

	2016	2015
US dollars	9.06	8.44
Danish kroner	1.28	1.23
Euro	9.55	9.19
Norwegian kroner	1.05	0.96

## POLICIES APPLYING TO ITEMS IN THE CONSOLIDATED BALANCE SHEET

### GOODWILL

Goodwill is valued at its acquisition value, adjusted for any impairments. Goodwill arises in connection with the acquisition of operations or portfolios. In conjunction with acquisitions, an acquisition balance sheet is compiled in which all identified assets and liabilities are fair valued on the acquisition date. When the acquisition price cannot be attributed to identifiable assets and liabilities, this portion is recognized as goodwill.

Goodwill is an asset with an indefinite useful life and thus it is not subject to amortization according to plan. To ensure that goodwill is not overvalued in the balance sheet, an annual analysis is conducted of individual goodwill items to identify impairment requirements. The analysis determines the recoverable amount, defined as the higher of the value in use and the net realizable value. The value in use is calculated as the discounted value of expected future cash flows attributable to the acquired net assets. When the recoverable amount measured on the valuation date is less than the carrying amount in the Group, the carrying amount is reduced to the recoverable amount. If, subsequently, a higher recoverable amount can be set, this does not result in revaluation or reversing of previous impairments.

### OTHER INTANGIBLE ASSETS

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

Internally developed intangible assets are measured at acquisition value, determined as the direct and indirect expenses for the development (programming and testing) of

computer systems and so forth that are expected to provide financial benefits in the future. Only expenses linked to new development and mainly limited to major system changes are capitalized.

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

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

### LAND AND BUILDINGS/INVESTMENT PROPERTIES

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

### SHARES IN ASSOCIATED COMPANIES

Associated companies refer to companies in which If P&C Insurance Holding Ltd directly or indirectly has significant influence, which is normally the case when the shareholding amounts to a minimum of 20% of the voting rights for all shares in the company. Associated companies are reported in the consolidated accounts using the equity method. The equity method means that an associated company's carrying amount is continually adjusted for changes in the holding company's share of the associated company's net assets. If there is any indication that the carrying amount of an associated company is higher than its recoverable amount, the carrying amount of the asset is reduced to its recoverable amount.

Up until the sale, the previous holding in Topdanmark A/S affected the consolidated income statement (If's share of the company's result after taxes, after deduction for amortization of customer relations), the consolidated statement of comprehensive income (effects of changes in exchange rates) and the Group's shareholders' equity (If's share of the company's other changes in equity). Due to the late publication of Topdanmark's financial statements, the result was based on a consensus estimate and adjusted the following quarter for any deviations from the published earnings.

Some other minor holdings are accounted for in a simplified way. The carrying amount is normally only adjusted with If's share of respective company's result after tax and subject to a delay of one quarter. Additional information is provided in Notes 17 and 21.



**VALUATION OF OTHER INVESTMENTS ASSETS**

Financial investment assets are reported in the original currency and at fair value with – as a main principle – changes in value recognized in other comprehensive income until being realized. A previous classification, using the fair value option in IAS 39 and with all changes in value (realized as well as unrealized) reported in the income statement, is still applied for financial investment assets acquired in certain small Group companies. The presentation below describes the detailed valuation for each type of asset.

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

**SHARES**

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

**INTEREST-BEARING SECURITIES**

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

**DERIVATIVES**

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

**RECEIVABLES**

Receivables are reported in the amounts expected to be received.

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.

**TANGIBLE ASSETS**

Tangible assets consist of machinery and equipment and are valued at acquisition value. Acquisition value includes not only the purchase price but also expenses directly attributable

to the acquisition. Machinery and equipment are reported at historical acquisition value, less depreciation according to plan. These deductions are based on the historical acquisition value and the estimated useful life.

Acquisitions of assets financed through leasing agreements, but for which If is responsible for the financial risks and benefits associated with ownership (financial leasing), are reported as tangible assets at acquisition value. The financial obligation resulting from leasing agreements is reported as a liability that is calculated on the basis of future lease payments discounted to present value using the interest rate specified in the contracts. Machinery and equipment are reported at the historical acquisition value, less accumulated depreciation according to plan, based on the useful life of the assets. Current lease payments are divided among amortization and interest expense.

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

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

**CASH AND BANK**

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

**DEFERRED ACQUISITION COSTS**

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

**SUBORDINATED DEBT**

Issued subordinated loans are reported in their original currency at accrued acquisition value. The acquisition value includes surplus/deficit prices arising on the issue date and other external expenses attributable to borrowing. During the term of the loan, costs for subordinated loans are reported using the accrued acquisition value, whereby surplus/deficit prices and capitalized borrowing expenses are distributed over the term of the loan; however, no later than the interest-adjustment date in the case of loans with adjustable interest rates. Outstanding loans are translated to SEK using the closing exchange rate. The effect arising from translation is reported as an exchange rate gain/loss and is included in the item Changes in value under investment result.

## TECHNICAL PROVISIONS

Technical provisions consist of:

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

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

### PROVISION FOR UNEARNED PREMIUMS AND UNEXPIRED RISKS

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

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

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

### PROVISION FOR CLAIMS OUTSTANDING

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

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

### PENSION COSTS AND PENSION COMMITMENTS AND OTHER EMPLOYEE BENEFITS

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

For defined contribution plans, the pension cost comprises the premiums paid for securing the pension obligations in life insurance companies.

The reporting of funded and unfunded defined benefit pension plans complies with the regulations contained in IAS 19 Employee benefits (issued in 2011). According to these rules, the present value of future pension obligations less the market value of the plan assets covered by the plan is to be recognized as a pension liability in the balance sheet.

What is to be recognized as a pension cost during the fiscal year is the sum total of (1) the actuarially calculated earnings of old-age pensions during the year, calculated straight-line based on pensionable income at the time of retirement, and (2) calculated interest expense for indexing the preceding year's established net pension obligation. The calculation of pension costs during the fiscal year primarily occurs at the beginning of the year and is based on assumptions about such factors as salary growth and price inflation throughout the

duration of the obligation and on current market interest rates adjusted to take into account the duration of the company's pension obligations. It includes the first amount in the technical result while the interest expense is recognized separately in the income statement. The technical result also includes past service income and cost, e.g. effects of plan amendments.

Remeasurements of the pension obligation due to actuarial gains and losses, and because the return on plan assets deviates from the calculated interest rate, are recognized in other comprehensive income.

If it has certain pension obligations that have been classified as defined-benefit plans but recognized as defined-contribution plans, either because it lacks the information necessary to recognize them as defined-benefit plans or because they have been deemed as insignificant.

Provision is also made for the calculated value of other earned remuneration of employees, the final amount of which is determined and paid after the end of the fiscal year, such as one-year variable remuneration and multi-year incentive programs. Refer to Note 12 for information regarding these provisions.

## POLICIES APPLYING TO ITEMS IN THE CONSOLIDATED INCOME STATEMENT

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

Items included in the technical result pertain overwhelmingly to the Group's operations as an insurer; that is, the transfer of insurance risk pursuant to the definition in IFRS 4, Insurance Contracts. Only contracts that do not cover a significant transfer of insurance risk are attributable to other operations and are reported pursuant to IAS 18 Revenue.

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

### PREMIUMS WRITTEN

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

### PREMIUMS EARNED

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

### ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT

The investment result is reported in the non-technical result. Part of the income is transferred from investment result to

the technical result for insurance operations based on the net of the insurance operations' average technical provisions and outstanding net receivables. When calculating this income, interest rates are used that for each currency match the interest rate for government bonds with a maturity that approximates with the technical provisions. Negative interest rates are not used.

#### OTHER TECHNICAL INCOME

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

#### CLAIMS INCURRED

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

#### OPERATING EXPENSES

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

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

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

#### INVESTMENT RESULT

The investment result is distributed among direct investment income and changes in value and with deductions for management costs. The Direct investment income item primarily includes dividends on shareholdings and interest income from investments reported using the effective interest rate principle, in conjunction with which surplus/deficit values resulting from acquisitions are distributed across the remaining useful life of the asset. The Changes in value item mainly comprises realized value changes on investment assets, but also impairment losses from Available-for-sale financial assets that were deemed necessary in accordance with the specific impairment requirements in IAS 39.

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

The Group's currency result is included in the Changes in value item.

#### TAXES

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

*Current taxes* are calculated individually for every unit in accordance with the tax rules in each country. Current taxes also include non-deductible coupon taxes in respect of dividends received.

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

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

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

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

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

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

In Sweden, the tax rate during the year was 22% of taxable income. In Norway, the tax rate was 25%, in Denmark 22% and in Finland 20%.

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

Application of joint venture accounting resulted in a deferred tax asset arising in connection with Storebrand's transfer of operations. This is based on the difference between the value for tax purposes and the carrying amount of these

net assets. Additional comments regarding joint venture accounting are provided in the section Bases for consolidation above.

## **POLICIES APPLYING TO ITEMS IN THE CONSOLIDATED CASH FLOW STATEMENT**

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

In the income statement of a property and casualty insurance company, all premiums written are accrued over the term of the contract. Claims provisions are made continually, based on statistical models for anticipated claims, and when the claims occur the actual claims provisions are drawn up. Finally, the claim is settled through payment to the insured. Thus, the cash flows to which an insurance contract and a claim give rise differ considerably from how income accounting is performed. The link between the income statement and cash flow statement is shown in the operation's balance sheet, where accruals and deferrals are shown in the technical reserves (premium and claims reserves) and in the receivables and liabilities that constitute unsettled items attributable to insurance contracts. In insurance companies with extensive operations, the law of large numbers means that the effects of the underlying differences between accounting and real cash flow are reduced considerably.

The cash flow statement shows separate items of the Group's cash flow. The analysis has its foundation in the income statement items that are directly connected with external payment flows. These items are adjusted in the statement with the changes in the balance sheet during the period (counterparty receivables/assets) that are directly linked to the income statement items in question. The balance sheet items reported in the Group comprise significant receivables/liabilities in foreign currency and are thus subject to continuous revaluation at the exchange rate prevailing at each closing date. In the cash flow statement, the effect of this recalculation is eliminated and the individual cash flows

shown in the analysis are therefore not directly evident as differences in the balance sheets and notes presented in other parts of the annual report.

## **POLICIES APPLIED FOR ALTERNATIVE PERFORMANCE MEASURES**

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

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

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

## **ACCOUNTING POLICIES IN THE PARENT COMPANY**

### **ACCOUNTING OF GROUP CONTRIBUTIONS**

Paid and received Group contributions are recognized as an appropriation in the income statement.

### **ACCOUNTING FOR HOLDINGS IN SUBSIDIARIES AND ASSOCIATES**

Shares in subsidiaries and associates are reported at the acquisition value with deductions for any impairments. The acquisition value includes in certain cases external transaction costs attributable to the acquisition. Dividend from group companies and associated companies is accounted for when received.

## **NOTE 2 – Significant considerations and assessments affecting the financial statements**

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

Judgments made by the Board and executive management in the application of IFRS that have a significant effect on the financial statements for 2016 and assessments that may cause material adjustments in the financial statements in subsequent years are commented on below.

### **GOODWILL**

If reports goodwill attributable to the acquisition of Sampo's Finnish property and casualty operations. In line with IFRS 3, goodwill is no longer amortized. To ensure that the carrying amount for this item is not reported at an excessively high value, a calculation of its recoverable amount has been done.

Additional comments on the parameters used, conducted assessments and so forth are made in Note 19.

### **VALUATION OF INVESTMENT ASSETS**

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

The main part of the financial assets that are not derivatives has been classified as available-for-sale financial assets. Value changes on these assets are therefore normally recognized in other comprehensive income until being realized, unless the application of the specific impairment paragraphs in IAS 39 require an impairment loss to be recognized in the income statement. In line with these paragraphs, If has assessed whether there is any objective evidence that an asset is impaired. The company's assessment affects the reported

profit of the year but not shareholders' equity. The assessment criteria are presented in Note 1 (under the heading of Investment result). Additional information is provided in Notes 5, 15 and 22.

## TECHNICAL PROVISIONS

The provision for unsettled claims is designed to cover anticipated future payments for all claims incurred, including claims not yet reported to If, referred to as IBNR provision. The provision is calculated using statistical methods or through individual assessments of claims. These provisions are significant in an assessment of the company's reported results and financial position, since any deviation from actual future payments gives rise to a prior-year result reported in future years. Additional comments on provision risk are provided in Note 5 and an account of the company's prior-year results in recent years is available in Note 32.

The provision for unearned premiums and unexpired risk is designed to cover anticipated claims and operating expenses during the remaining term of the insurance contracts concluded. For most products, the provision is calculated strictly in proportion to time. If the premium level is deemed

to be insufficient to cover the anticipated claims and operating expenses, they are strengthened with a provision for unexpired risks. This assessment includes estimates of future claims frequency and other factors affecting the need for a provision for unexpired risk. This provision is also commented on in Note 5.

## PROVISIONS FOR PENSIONS

If applies IAS 19 Employee benefits for reporting pensions expenses and outstanding pension commitments. According to this standard, the company should determine which pension plans that are to be seen as defined benefit plans, as well as a number of parameters that are significant in the calculation of, for example, the company's net obligations and the amounts that are to be reported in the income statement, other comprehensive income and balance sheet. The basis for deciding the discount rates for the Swedish and the Norwegian obligations are extrapolated yield-curves in Sweden and in Norway for AAA and AA corporate bonds, including mortgage-backed bonds. Significant parameters are further presented in Note 34.

## NOTE 3 – Recognition of the effects of changed exchange rates

In addition to the Nordic currencies, If underwrites insurance in the most frequently used international currencies. Moreover, asset management is characterized by a large degree of international diversification. Accordingly, assets and liabilities in currencies other than SEK account for considerable

sums. According to If's Currency Policy, exchange-rate risks are to be limited by conducting specific hedging transactions when required. If's Currency Policy set limits for currency exposure.

MSEK	2016	2015	Change	Of which exchange-rate effect
<b>Exchange-rate effects in the technical result</b>				
Premiums earned, net of reinsurance	40,575	40,629	-54	-177
Allocated investment return transferred from the non-technical account	-25	213	-238	-10
Other technical income	251	261	-10	0
Claims incurred, net of reinsurance	-27,503	-29,400	1,897	133
Operating expenses	-7,070	-5,950	-1,120	-120
<b>Technical result from property and casualty insurance</b>	<b>6,228</b>	<b>5,753</b>	<b>475</b>	<b>-174</b>

As a result of the large amount of foreign currency business operations, financial reports in SEK are continuously impacted by effects attributable to exchange-rate changes. In the income statement, transactions in foreign currency are translated into SEK using the average exchange rate during the month when the transaction was incurred or reported. Normally, the

accounting of insurance contracts matches the contracted currency. Accordingly, exchange-rate effects that could have an impact on a specific reporting line in the income statement do not have a material impact on the technical result from property and casualty insurance.

	Premiums earned	Total expenses	Of which claims costs	Of which operating expenses
<b>Technical income and operating expenses net, distributed by currency 2016</b>				
SEK	32%	31%	25%	6%
NOK	31%	31%	25%	6%
DKK	9%	10%	8%	2%
EUR	23%	23%	18%	5%
USD	1%	1%	1%	0%
Other	4%	4%	3%	1%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>80%</b>	<b>20%</b>



Balance sheet items established in foreign currency are translated into SEK using the exchange rate on the balance sheet date. Currency exposure in the balance sheet is mainly controlled by means of the activity involving continuous

Exchange-rate effects in the balance sheet				
MSEK				
Assets	2016	2015	Change	Of which exchange-rate effect
Intangible assets	863	873	-10	10
Investment assets	111,994	104,293	7,701	3,874
Reinsurers' share of technical provisions	2,255	2,196	59	100
Deferred tax assets	233	252	-19	26
Debtors	12,978	11,970	1,008	502
Other assets	4,419	3,573	846	92
Prepayments and accrued income	2,214	2,166	48	86
<b>Total assets</b>	<b>134,956</b>	<b>125,323</b>	<b>9,633</b>	<b>4,690</b>

For 2016, a net exchange-rate gain of MSEK 5 was recognized in the income statement. The gain arose as a result of the translation of the income statement and balance sheet items and from currency derivatives. Accordingly, exchange-rate result may be divided into:

MSEK		
Total exchange-rate result	2016	2015
Conversion of items in the income statement and balance sheet	469	151
Realized effects of currency derivatives	42	62
Unrealized effects of currency derivatives	-506	-154
<b>Total exchange-rate result</b>	<b>5</b>	<b>59</b>

allocations of currency investments in If's investment assets. On other occasions, the exposure that arises is cost effectively managed through the use of currency forward contracts.

MSEK				
Shareholders' equity, provisions and liabilities	2016	2015	Change	Of which exchange-rate effect
Shareholders' equity	29,749	26,337	3,412	563
Subordinated debt	3,889	1,829	2,060	33
Technical provisions	89,596	86,687	2,909	3,432
Provisions for other risks	4,398	4,169	229	149
Creditors	5,648	4,634	1,014	451
Accruals and deferred income	1,676	1,667	9	62
<b>Total shareholders' equity, provisions and liabilities</b>	<b>134,956</b>	<b>125,323</b>	<b>9,633</b>	<b>4,690</b>

## NOTE 4 – Information about related companies

### RELATIONS WITH ASSOCIATED COMPANIES

The parent company If P&C Insurance Holding Ltd (publ) owns a share of 28.6% of Contemi Holding AS, a consultancy company within information technology.

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

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

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

The subsidiary If P&C Insurance Company Ltd (Finland) owns a share of 35.5% of the associated company Autovahinkokeskus Oy that commissions sales of vehicles redeemed by the If Group.

### RELATIONS WITH SAMPO

Sampo is defined as Sampo plc. The subsidiaries of Sampo are defined as all of the subsidiaries in the Sampo Group with the exception of If P&C Insurance Holding Ltd (publ) and its subsidiaries.

If has concluded agreements with Sampo subsidiaries regarding the marketing of the counterparty's products in If's networks in primarily Finland and the Baltic countries. The compensation takes the form of commission.

In Finland, If has concluded agreements with a Sampo subsidiary regarding life insurance policy administration, claims handling and maintenance of related IT systems. The compensation takes the form of a fee.

In Finland, If has also concluded agreements with a Sampo subsidiary regarding life and voluntary pension insurance agreements for employees. In Finland and the Baltic countries, Sampo or its subsidiaries have also concluded P&C insurance agreements with If.

Sampo's purchase of data-processing services and data production are conducted through If IT Services A/S which has monitoring and administrative responsibility for IT operations with the suppliers.

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

In Finland, Sampo and Sampo subsidiaries purchase HR services, as well as, other office services and investigation services from If. The compensation takes the form of fee.

Office premises and services are used together with subsidiaries to Sampo.

### RELATIONS WITH NORDEA

Nordea is an associated company to Sampo, and consequently a related company to If.

Nordea is If's banking partner in Sweden, Finland, Denmark, Norway, Latvia and the United Kingdom and agreements have been concluded covering the management of bank accounts and related services. The parent company, If P&C Insurance Holding Ltd (publ), is the primary account holder in the Nordic cash pool in Nordea. The subsidiaries of P&C Insurance Holding Ltd (publ) also have their own accounts with Nordea.

In asset management, investments are made in bonds and other interest-bearing securities issued by companies in the Nordea Group as well as in deposits with Nordea. Nordea is also included among the market makers used for general securities trading. Nordea is furthermore the counterparty for transactions in interest rate and currency derivatives. Further information on this matter is provided in Note 5, table 16.

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

In Finland, If's subsidiary If P&C Insurance Company Ltd has written insurance policies with Nordea subsidiaries. The policies also include property financed by Nordea.

### RELATIONS WITH TOPDANMARK A/S

Topdanmark A/S is an associated company to Sampo, and consequently a related company to If.

If has no direct business relations with Topdanmark A/S.

#### Transactions with related companies

MSEK	Income		Expenses		Assets		Liabilities	
	2016	2015	2016	2015	2016	2015	2016	2015
<b>Associates</b>	-	-	-96	-130	-	-	-3	-14
<b>Owner</b>								
Sampo plc	0	0	-39	-37	-	-	-4	-4
<b>Other related parties</b>								
Subsidiaries of Sampo	36	36	-36	-36	2	1	0	0
Nordea	139 <sup>1)</sup>	111 <sup>1)</sup>	-50 <sup>2)</sup>	-55 <sup>2)</sup>	9,324	10,322	-18	-24
Topdanmark A/S	-	-	-	-	-	-	-	-

<sup>1)</sup> Including interest income

<sup>2)</sup> Including interest expense

## NOTE 5 – Risks and risk management

### RISK MANAGEMENT

Risk is an essential and inherent element of If's business activities and operating environment. A high quality risk management process is a prerequisite for running the business effectively and for assuring stable result in If.

### RISK STRATEGY

The risk management strategy is to:

- Ensure that risks affecting the income statement and balance sheet are identified, assessed, managed and monitored.
- Ensure that the riskiness of the insurance business is reflected in the pricing.
- Ensure investment returns within set risk levels.
- Ensure sufficient capital in relation to the inherent risks in the business.
- Limit fluctuations in the economic values of Group companies.
- Ensure the overall efficiency, security and continuity of operations.

### RISK APPETITE FRAMEWORK

If's risk appetite framework sets the level of risk that If is willing to accept in the pursuit of the objectives. The framework includes the risk appetite statement, capital adequacy, policies, processes, controls and systems.

The link between the risk strategy, the risk profile and the capital is ensured through the risk appetite statement, the financial planning process and the risk and solvency assessment (ORSA).

### RISK MANAGEMENT SYSTEM

The Risk Management System is part of the Internal Control System and spans across the Group covering both the legal and operational structure.

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

The key to fulfilling these objectives is to:

- Identify and, in accordance with internal and external requirements, aggregate the quantifiable risks and have effective processes for management of both quantified and non-quantified risks affecting If and;
- Formalize and set up reporting routines to meet regulatory requirements as well as If's internal risk reporting requirements.

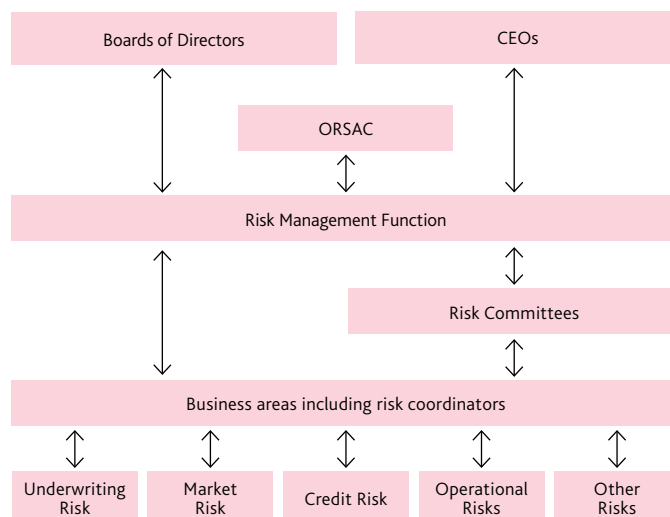
Key risks affecting If are subject to dedicated risk management processes. The Risk Management function is responsible for coordinating the risk management activities on behalf of the Boards of Directors and the CEOs.

### RISK GOVERNANCE AND REPORTING STRUCTURE

The Boards of Directors have the overall responsibility for internal control, risk control and that the companies have appropriate risk management systems and processes. The main risk-steering mechanism used by the Boards of Directors is the policy framework. The Boards of Directors approve the Risk Management Policy and other risk-steering documents, receive risk reports from the Chief Risk Officer and the Chief Executive Officers, take active part in the forward looking risk

and solvency assessment process and ensure that the management and follow-up of risks are satisfactory and effective.

FIGURE 1 – If's Risk management reporting structure



The Own Risk and Solvency Assessment Committee (ORSAC) assists the Chief Executive Officers in fulfilling their responsibilities to oversee Ifs risk management processes. The ORSAC reviews reporting from If's other committees within the Risk Management System as well as reporting from both corporate functions and the line organization. Furthermore, the ORSAC monitors that If's short-term and long-term aggregated risk profile is aligned with If's risk strategy and capital requirements.

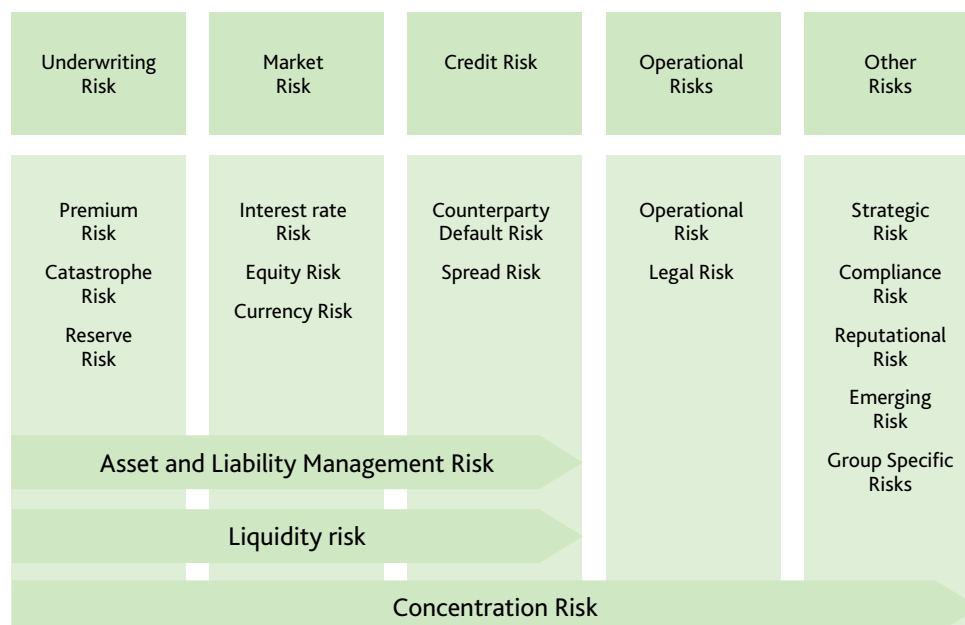
There are separate committees in place for the key risk areas. These committees are responsible for monitoring the management and control of risks to ensure compliance with the instructions of the Boards of Directors. The risk committees in If do not have a decision-making mandate.

Policies are in place for each risk area specifying restrictions and limits chosen to reflect and ensure that the risk level at all times complies with If's overall risk appetite and capital constraints. The committees also monitor the effectiveness of policies and give input with respect to changes and updates, if needed.

The responsibility for identifying, assessing, controlling and managing risks lies with the line organization.

Figure 2 shows If's risk categorization and each risk is described below.

FIGURE 2 – Categorization of risks



## CAPITAL MANAGEMENT

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

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

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

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

## RISK AND CAPITAL MODELING

In order to assess the overall risk profile, it is necessary to consider the interrelationships between various risks, since some of these risks may develop in opposite directions creating diversification effects. For this purpose, If has used an internal model since 2003 to calculate economic capital for market risk and underwriting risk. Through simulations of both investment and insurance operations, the effect of, for example, reinsurance structures and investment allocations is analyzed.

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

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

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

**CAPITAL POSITION**

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

**REGULATORY MEASURES**

Insurance is a regulated business with national rules for capital requirements and available capital. All insurance companies within the If Group that are required to meet regulatory solvency requirements under Solvency II met the requirements during 2016.

**INTERNAL ECONOMIC MEASURES**

Economic capital is an internal measure showing the deviation from the expected result calculated at a confidence level corresponding to 99.5% on a one-year horizon. If's major quantifiable risks are included in the calculation of economic capital. The calculations are based on an economic, market-consistent valuation. The economic capital according to If's Internal Model provides a lower capital requirement compared with risks in Solvency II standard formula based solvency capital requirement, mainly due to the standard formula not taking into account the geographical diversification.

**RATING AGENCY MEASURES**

The legal entities, If P&C Insurance Ltd and If P&C Insurance Company Ltd, within the Group are A+ rated by Standard & Poor's and A1 rated by Moody's. The objective is to retain a single A-rating. If's Enterprise Risk Management (ERM) is rated Strong by Standard & Poor's.

**UNDERWRITING RISK**

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

**PREMIUM RISK AND CATASTROPHE RISK**

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

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

**RISK MANAGEMENT AND CONTROL**

The Underwriting Policy (UW Policy) is the principal document for underwriting and sets general principles, restrictions and directions for the underwriting activities. The Boards of Directors decide on the UW Policy at least once a year.

The UW Policy is supplemented with guidelines outlining in greater detail how to conduct underwriting within each business area. These guidelines cover areas such as tariff and rating models for pricing, guidelines in respect of standard conditions and manuscript wordings, as well as authorities and limits. In accordance with the Instructions for the Underwriting Committee, the Committee monitors compliance with the established underwriting principles.

The business areas manage the underwriting risk on a daily basis. A crucial factor affecting both the profitability and the risks in P&C insurance operations is the ability to estimate future claims and administrative costs and thereby

correctly price insurance contracts. The premiums within the Private business area and a large part of the premiums within the Commercial business area are set through tariffs. The underwriting of risks in the Industrial business area and of more complex risks within the Commercial business area is based on general principles and individual underwriting. In general, pricing is based on statistical analyses of historical claims data and assessments of the future development of claims frequency and claims inflation.

The insurance portfolio is well diversified, given the fact that If has a large customer base and its business is underwritten in different geographical areas and across several lines 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 geographical areas most exposed to such events are Denmark, Norway and Sweden. In addition, single large claims could have an impact on the insurance operation's result. The economic impact of natural disasters and single large claims is managed using reinsurance and through diversification.

If's Reinsurance Policy stipulates guidelines for the purchase of reinsurance. The need and optimal choice of reinsurance is evaluated by looking at 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 in which small claims, single large claims and natural catastrophes are modelled.

A Group-wide reinsurance program has been in place in If since 2003. In 2016, retention levels were between MSEK 100 and MSEK 250 per risk and MSEK 250 per event.

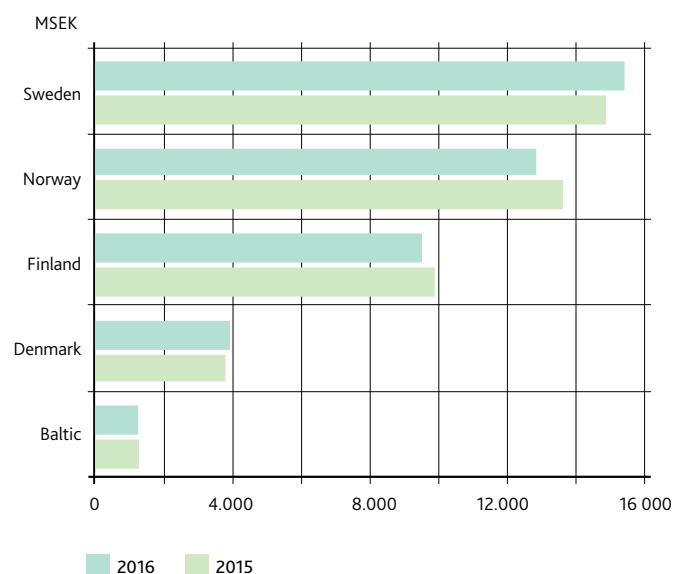
**RISK PROFILE**

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



If mainly underwrites insurance policies in the Nordic and Baltic countries. If also underwrites policies for Nordic clients with operations outside the Nordic region. The geographical distribution of premium income is shown in Figure 3.

FIGURE 3 – Premium income per country



An analysis of how changes in the combined ratio, premium and claims level affect the result before tax is presented in Table 1.

TABLE 1 – Sensitivity analysis, premium risk

MSEK Parameter	Current level, 2016	Change	Effect on result before tax	
			2016	2015
Combined ratio, Business Area Private	83.2%	+/- 1 percentage point	+/- 245	+/- 240
Combined ratio, Business Area Commercial	86.3%	+/- 1 percentage point	+/- 110	+/- 113
Combined ratio, Business Area Industrial	88.6%	+/- 1 percentage point	+/- 38	+/- 40
Combined ratio, Business Area Baltic	89.8%	+/- 1 percentage point	+/- 12	+/- 12
Premium level	40,575	+/- 1 per cent	+/- 406	+/- 406
Claims level	27,503	+/- 1 per cent	+/- 275	+/- 294

## RESERVE RISK

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

Reserve risk includes revision risk, which is defined as the risk of loss, or of adverse change in the value of insurance 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 technical provision for unearned premiums is intended to cover anticipated claim costs and operating expenses during the remaining term of insurance contracts in force. Since

claims are paid after they have occurred, it is necessary to set provisions for claims outstanding. The technical provisions are hence the sum of the provisions for unearned premiums and provisions for claims outstanding.

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

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

**RISK MANAGEMENT AND CONTROL**

The Boards of Directors decide on the guidelines governing the calculation of technical provisions. If's Chief Actuary is responsible for developing and presenting guidelines on how the technical provisions are to be calculated and for assessing whether the level of the total provisions is sufficient. At Group level, the Chief Actuary issues a quarterly report on the adequacy of the technical provisions, which is submitted to the Boards of Directors, the CEO, the CFO and the ORSAC. The Chief Actuary cooperates with the appointed actuaries in the legal entities.

The Actuarial Committee is a preparatory and advisory board for the Chief Actuary. The committee makes recommendations concerning guidelines for calculating technical provisions. The committee also monitors the technical provisions and provides advice to the Chief Actuary regarding the adequacy of these provisions.

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-Fergusson methods are generally used, combined with projections of the number of claims and average claims costs.

The anticipated inflation trend is taken into account when calculating the technical provisions and is of high importance for claims settled over a long period of time, such as claims related to MTPL and WC business. The anticipated trend is based on external assessments of the inflation trend in various areas, such as the consumer price index and payroll index, combined with If's own estimation of costs for various types of claims.

**RISK PROFILE**

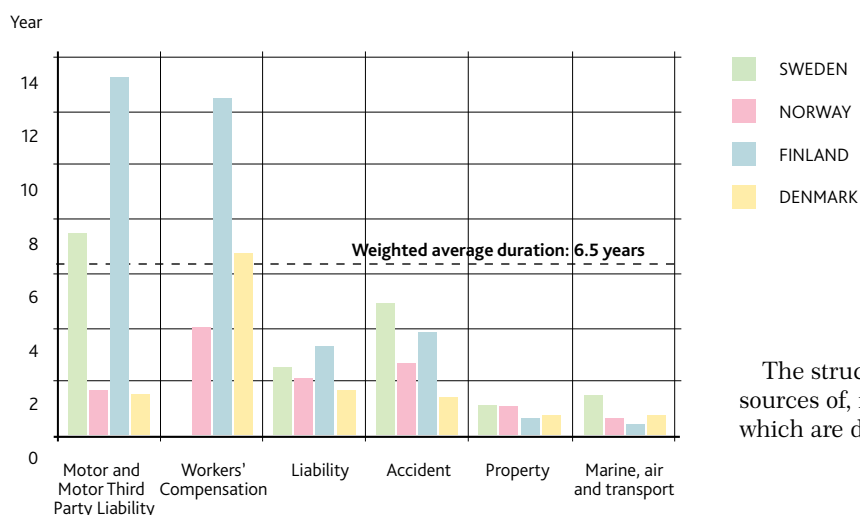
For lines of business such as MTPL and WC, legislation differs significantly between countries. Some of the Finnish, Swedish and Danish provisions for these lines include annuities that are sensitive to changes in mortality assumptions and discount rates. In 2016, the proportion of technical provisions related to MTPL and WC was 67%. The amount of technical provisions broken down by product and country is shown in Table 2.

**TABLE 2 – Technical provisions (net) per product and country**

MSEK	Sweden		Norway		Finland		Denmark	
	2016	2015	2016	2015	2016	2015	2016	2015
Motor and Motor Third Party Liability	24,198	24,281	5,840	5,576	9,803	9,476	1,504	1,398
Workers' compensation	-	-	2,643	2,686	11,277	10,948	2,468	2,279
Liability	3,032	2,802	1,300	1,287	1,259	1,246	638	668
Accident	2,898	2,612	3,701	3,117	1,487	1,539	876	774
Property	3,996	4,049	5,021	4,652	2,095	1,889	979	890
Marine, air and transport	225	278	474	456	107	116	160	149
<b>Total</b>	<b>34,349</b>	<b>34,022</b>	<b>18,979</b>	<b>17,774</b>	<b>26,028</b>	<b>25,214</b>	<b>6,625</b>	<b>6,158</b>

Excluding Baltic and other, total MSEK 1,360 (1,323).

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

**FIGURE 4 – Duration of technical provisions 2016**

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

A sensitivity analysis of the reserve risk is presented in Table 3

TABLE 3 – Sensitivity analysis, reserve risk

Portfolio	Risk	Change in risk parameter	Country	2016 Effect MSEK	2015 Effect MSEK
Nominal reserves	Inflation increase	Increase by 1 percentage point	Sweden	1,736	2,000
			Denmark	100	85
			Norway	399	368
			Finland	375	364
Discounted reserves (annuities and part of Finnish IBNR)	Decrease in discount rate	Decrease by 1 percentage point	Sweden	642	600
			Denmark	134	100
			Finland	2,671	2,606
Annuities and estimated share of claims reserves to future annuities	Decrease in mortality	Life expectancy increase by 1 year	Sweden	229	308
			Denmark	16	14
			Finland	588	558

## FINANCIAL ASSETS AND LIABILITIES

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

TABLE 4 –Categories of financial assets and financial liabilities

MSEK	2016	2015
Financial assets at fair value		
Financial assets, mandatory at fair value through profit and loss (trading)	135	191
Financial assets, designated by If as at fair value through profit and loss	0	0
Financial assets, available for sale	110,513	95,912
Loans and receivables <sup>1)</sup>	19,053	20,879
<b>Total financial assets</b>	<b>129,701</b>	<b>116,982</b>
Financial liabilities, mandatory at fair value through profit and loss (trading)	637	155
Financial liabilities measured at amortized cost or at the amount expected to be settled <sup>2)</sup>	9,642	7,281
<b>Total financial liabilities</b>	<b>10,279</b>	<b>7,436</b>

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

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

TABLE 5 – Investment assets categorized from an asset management perspective

MSEK	Investment assets and derivative liabilities		Assets under active management		Assets under active management categorized from an asset management perspective					
	2016	2015	2016	2015	Fixed income		Equity		Properties	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>Land and buildings</b>	<b>206</b>	<b>200</b>	206	200					206	200
<b>Investments in associated companies</b>	<b>128</b>	<b>3,258</b>								
<b>Financial assets, mandatory at fair value through profit and loss (trading)</b>										
Derivatives <sup>1)</sup>	135	191	135	191	-	1	11	-		
<b>Financial assets, designated by If as at fair value through profit or loss</b>										
Bonds and other interest-bearing securities	0	0	0	0	0	0				
<b>Financial assets, available for sale</b>										
Shares and participations	14,775	13,982	14,775	13,982			14,775	13,982		
Bonds and other interest-bearing securities	95,738	81,930	95,738	81,930	95,738	81,930				
<b>Loans</b>										
Deposits with credit institutions	210	3,737	210	3,737	210	3,737				
Other loans	795	988	795	988	795	988				
<b>Total other financial investment assets</b>	<b>111,653</b>	<b>100,828</b>								
<b>Deposits with ceding undertakings</b>	<b>7</b>	<b>7</b>								
<b>Total Investment assets</b>	<b>111,994</b>	<b>104,293</b>								
<b>Other assets</b>										
Cash and bank			4,217	3,382	4,217	3,382				
Securities settlement claims			22	21	0	8	22	13		
Accrued income			529	496	529	496				
<b>Assets under active management</b>			<b>116,627</b>	<b>104,927</b>	<b>101,489</b>	<b>90,542</b>	<b>14,808</b>	<b>13,995</b>	<b>206</b>	<b>200</b>
<b>Financial liabilities mandatory at fair value through profit and loss (trading)</b>										
Derivatives <sup>2)</sup>	637	155	637	155	34	21				
<b>Total Derivative liabilities</b>	<b>637</b>	<b>155</b>								
<b>Financial liabilities valued at the amount expected to be settled</b>										
Securities settlement liabilities			0	1	0	-	-	1		
<b>Liabilities under active management</b>			<b>637</b>	<b>156</b>	<b>34</b>	<b>21</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>
<b>Assets under active management, net</b>			<b>115,990</b>	<b>104,771</b>	<b>101,455</b>	<b>90,521</b>	<b>14,808</b>	<b>13,994</b>	<b>206</b>	<b>200</b>

<sup>1)</sup> Only fixed income and equity derivatives are included in the assets categorized from an asset management perspective. Excluded currency derivatives amounted to MSEK 124 (190).

<sup>2)</sup> Only fixed income and equity derivatives are included in the liabilities categorized from an asset management perspective. Excluded currency derivatives amounted to MSEK 603 (134).

## MARKET RISK

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

### RISK MANAGEMENT AND CONTROL

If's investment strategy, given the financial market environment, is to maximize long term investment returns within the levels of risk appetite and the capital allocation while meeting solvency and rating requirements.

The Boards of Directors decide on the Investment Policy on an annual basis. The structure of the companies' technical provisions, risk-bearing capacities, regulatory requirements and rating targets is taken into account when deciding limits and when setting return and liquidity targets. The Investment Policy also define mandates and authorizations, and set guidelines on the use of derivatives.

### RISK PROFILE

If's investment operations generated a return of 2.9% in 2016. Investment assets amounted to MSEK 116,469. The major market risks comprise interest rate risk, equity risk and currency risk. The exposure towards market risk can be described through the allocation of investment assets and the sensitivity of values to changes in key risk factors.

TABLE 6 – Allocation of assets under active management

MSEK	2016		2015	
	Carrying amount	%	Carrying amount	%
Fixed income	101,455	87.1	90,521	86.4
Equities	14,808	12.7	13,994	13.4
Properties	206	0.2	200	0.2
<b>Total</b>	<b>116,469</b>	<b>100</b>	<b>104,715</b>	<b>100</b>

In the allocation of assets under active management currency derivatives amounting to MSEK -479 (56) are excluded.

During the year, the proportion of equity investments decreased from 13.4% to 12.7%. The proportion of fixed income investments increased from 86.4% to 87.1%. Other investment assets amounted to 0.2% at December 31, 2016.

Table 7 shows the sensitivity analysis of the fair values of financial assets and liabilities in different market scenarios. The effects represent the immediate impact of a non-recurring change in the underlying market variable on the fair values as of December 31 each year. The sensitivity analysis includes the effects of derivative positions and is calculated before tax.

TABLE 7 – Sensitivity analysis of the fair values of financial assets and liabilities

MSEK	2016				2015			
	Interest rate		Equities	Properties	Interest rate		Equities	Properties
	1 percentage point parallel shift down	1 percentage point parallel shift up	20% fall in prices	20% fall in prices	1 percentage point parallel shift down	1 percentage point parallel shift up	20% fall in prices	20% fall in prices
<b>Assets</b>								
Short-term fixed income	22	-22			33	-33		
Long-term fixed income	1,578	-1,516			1,018	-979		
Equities			-2,959				-2,799	
Other financial assets				-41				-40
<b>Liabilities</b>								
Subordinated loans	-113	109			-101	96		
Derivatives, net	-27	25			162	-151		
<b>Total change in fair value</b>	<b>1,460</b>	<b>-1,404</b>	<b>-2,959</b>	<b>-41</b>	<b>1,112</b>	<b>-1,067</b>	<b>-2,799</b>	<b>-40</b>

**INTEREST RATE RISK**

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

**RISK MANAGEMENT AND CONTROL**

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

Since the technical provisions are predominantly stated in nominal terms in the balance sheet, If is mainly exposed to changes in future inflation. However, the economic value of these provisions, meaning the present value of future claims payments, is exposed to changes in interest rates.

Furthermore, the provisions for annuities in Finland, Sweden and Denmark are discounted and potential changes in discount rates affect the level of technical provisions in the companies' balance sheets.

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

**RISK PROFILE**

The duration of provisions and thus sensitivity to changes in interest rates are analyzed in greater detail in Figure 4 and Table 3, in the reserve risk section. The cash flows of financial assets and liabilities are presented by maturities in Table 15, in the liquidity risks section. The duration of fixed income investments was 1.4 years at year-end 2016 (1.2). The duration of fixed income investments is shown in Table 8.

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

MSEK	2016			2015		
	Carrying amount	%	Duration	Carrying amount	%	Duration
Short-term fixed income	9,476	9.3	0.5	12,761	14.1	0.3
Scandinavia, long term government and corporate securities	67,980	67.0	1.3	61,778	68.2	1.1
Scandinavia, index-linked bonds	697	0.7	3.8	1,227	1.4	4.9
Europe, long term government and corporate securities	15,437	15.2	1.8	12,319	13.6	2.5
USA, long term government and corporate securities	6,145	6.1	2.6	1,847	2.0	0.8
Global, long term government and corporate securities	1,720	1.7	2.9	589	0.7	0.2
<b>Total</b>	<b>101,455</b>	<b>100</b>	<b>1.4</b>	<b>90,521</b>	<b>100</b>	<b>1.2</b>

**EQUITY RISK**

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

**RISK MANAGEMENT AND CONTROL**

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

may not exceed 16.5% of the total investment portfolio and the exposure towards an individual issuer is to be limited.

**RISK PROFILE**

The equity portfolio consists of Nordic shares and a diversified global fund portfolio. At year-end, If's exposure amounted to MSEK 14,808 and the proportion of equities in the investment portfolio was 12.7%.

**TABLE 9 – Breakdown of equity investments by industry sectors**

MSEK	2016		2015	
	Carrying amount	%	Carrying amount	%
Industrials	5,130	46.8	4,230	41.9
Consumer Discretionary	3,390	30.9	3,714	36.7
Materials	663	6.0	516	5.1
Telecommunication Services	591	5.4	667	6.6
Health Care	541	4.9	489	4.8
Financials	344	3.1	320	3.2
Consumer Staples	155	1.4	109	1.1
Energy	94	0.9	-	-
Information Technology	64	0.6	63	0.6
<b>Total</b>	<b>10,972</b>	<b>100</b>	<b>10,108</b>	<b>100</b>

The sector allocation of equity excludes investments made through ETFs, mutual and private equity funds of MSEK 3,836 (3,886).

**TABLE 10 – Breakdown of equity investments by geographical regions**

MSEK	2016		2015	
	Carrying amount	%	Carrying amount	%
Scandinavia	10,971	75.1	10,108	73.3
Europe	1,546	10.6	1,483	10.8
Far East	1,001	5.8	867	6.3
North America	845	6.9	1,148	8.3
Latin America	239	1.6	177	1.3
<b>Total</b>	<b>14,602</b>	<b>100</b>	<b>13,783</b>	<b>100</b>

The geographical allocation of equity excludes investments made through private equity funds of MSEK 206 (211).

**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.

**RISK MANAGEMENT AND CONTROL**

The currency risk is reduced by matching technical provisions with investment assets in the corresponding currencies or by using currency derivatives. The currency exposure in the insurance operations is hedged to the base currency on a regular basis. The currency exposure in investment assets is controlled weekly and is hedged when the exposure reaches a

specified level, which is set with respect to cost efficiency and minimum transaction size. If is also exposed to translation risk. Translation risk is described in more detail in section Group specific risks.

**RISK PROFILE**

If's currency positions against the base currency and the sensitivity of the valuation to changes in exchange rates are shown in Table 11.

**TABLE 11 – Currency risk**

MSEK Currency	EUR	NOK	DKK	GBP	USD	JPY	Other
<b>Open position (SEK), 2016</b>	-367	398	-31	38	-24	-3	273
10% depreciation of foreign currency against SEK, 2016	37	-40	3	-4	2	0	-27
10% depreciation of foreign currency against SEK, 2015	58	4	6	2	18	-40	6

Currency positions in the Baltic business area are excluded.

**CREDIT RISK**

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

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

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

**CREDIT RISK IN INVESTMENT OPERATIONS**

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

**RISK MANAGEMENT AND CONTROL**

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

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

The development of the portfolios with respect to credit risk is monitored at company level, as well as at Group level, and is reported to the Investment Control Committee on a regular basis. Credit exposures are reported by ratings, instruments and industry sectors.



## RISK PROFILE

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 12.

TABLE 12 – Exposures by sectors, asset classes and rating category 2016

MSEK	Fixed income						Not rated	Total <sup>1)</sup>	Equities	Properties	Derivatives (Counter-party Risk)	Total <sup>2)</sup>	Change compared with 31 dec 2015
	AAA	AA+ - AA-	A+ - A-	BBB+ - BBB-	BB+ - C	D							
Basic Industry			192	362	245		349	1,148	379			1,527	160
Capital Goods		217	612	462			201	1,492	5,171			6,663	1,173
Consumer Products		1,208	1,677	1,756	311		612	5,564	3,684			9,248	2,243
Energy		431	918		391		2,203	3,943	83			4,026	944
Financial Institutions		11,783	13,100	3,632	525		361	29,401	330		14	29,745	-1,334
Governments	1,173							1,173				1,173	-127
Government Guaranteed	741	749						1,490				1,490	36
Health Care	67		398	283			77	825	541			1,366	527
Insurance			390	584	38		49	1,061				1,061	292
Media			18				316	334				334	143
Packaging							53	53				53	3
Public Sector, Other	7,462	1,631						9,093				9,093	-817
Real Estate		57	556	302			4,636	5,551		206		5,757	1,229
Services				638	967		196	1,801				1,801	740
Technology and Electronics		364	201				362	927	64			991	408
Telecommunications			761	258			401	1,420	591			2,011	237
Transportation		1,021	487	525	106		1,373	3,512	105			3,617	808
Utilities				3,125	492		595	4,212				4,212	957
Others		146						146	13			159	134
Covered Bonds	27,441	902						28,343				28,343	3,973
Funds								-	3,836			3,836	-50
Clearing Houses								-				-	-
<b>Total</b>	<b>36,884</b>	<b>18,509</b>	<b>19,310</b>	<b>11,927</b>	<b>3,075</b>	<b>-</b>	<b>11,784</b>	<b>101,489</b>	<b>14,797</b>	<b>206</b>	<b>14</b>	<b>116,506</b>	<b>11,679</b>
<b>Change compared with Dec 31, 2015</b>	<b>2,810</b>	<b>-2,075</b>	<b>4,137</b>	<b>4,648</b>	<b>498</b>		<b>930</b>	<b>10,948</b>	<b>803</b>	<b>6</b>	<b>-78</b>	<b>11,679</b>	

<sup>1)</sup> Total fixed income exposure differs by MSEK 34 from the corresponding financial assets and liabilities in Table 5 because other derivatives are excluded.

<sup>2)</sup> Total exposure differs by MSEK 37 from the corresponding financial assets and liabilities in Table 5 because derivatives are excluded except for OTC derivatives, for which only the counterparty risk is taken into account.

## CREDIT RISK IN REINSURANCE OPERATIONS

In addition to the credit risk associated with investment assets, credit risk arises from insurance operations, most importantly through ceded reinsurance. Credit risk related to reinsurers arises through reinsurance receivables and through the reinsurers' portion of claims outstanding. Credit risk exposure towards policyholders is very limited, since non-payment of premiums generally results in the cancellation of insurance policies.

## RISK MANAGEMENT AND CONTROL

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

**RISK PROFILE**

The distribution of reinsurance recoverables is presented in Table 13. In the table, MSEK 1,242 (1,248) is excluded, which mainly relates to captives and statutory pool solutions.

**TABLE 13 – Reinsurance recoverable**

MSEK Rating (S&P)	2016	%	2015	%
AAA	-	-	-	-
AA	769	75.8	637	67.2
A	204	20.2	256	27.0
BBB	23	2.3	38	4.0
BB - CCC	-	-	-	-
Not rated	17	1.7	17	1.8
<b>Total</b>	<b>1,013</b>	<b>100</b>	<b>948</b>	<b>100</b>

The distribution of ceded treaty and facultative premiums per rating category is presented in Table 14.

**TABLE 14 – Ceded treaty and facultative premiums per rating category**

MSEK Rating (S&P)	2016	%	2015	%
AAA	-	-	-	-
AA	277	52.4	293	50.3
A	253	47.6	289	49.7
BBB	-	-	-	-
BB - CCC	-	-	-	-
Not rated	-	-	-	-
<b>Total</b>	<b>530</b>	<b>100</b>	<b>582</b>	<b>100</b>

**ASSET AND LIABILITY MANAGEMENT RISK**

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

**RISK MANAGEMENT AND CONTROL**

The ALM risk in If is managed in accordance with Sampo's Group-wide principles. ALM is taken into account through the risk appetite framework and is governed by If's Investment Policy.

In the accounts, most of the technical provisions are nominal, while a significant portion, namely the annuity and annuity IBNR reserves, is discounted using interest rates in accordance with the regulatory rules. Accordingly, from an accounting perspective, If is mainly exposed to changes in inflation and regulatory discount rates.

From an economic perspective, whereby the technical provisions are discounted using prevailing interest rates, If is exposed to changes in inflation and nominal interest rates.

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

**LIQUIDITY RISK**

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

**RISK MANAGEMENT AND CONTROL**

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

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

**RISK PROFILE**

The maturities of cash flows for technical provisions, financial assets and liabilities are presented in Table 15. In the table, financial assets and liabilities are divided into contracts with a contractual maturity profile, and other contracts. Only the carrying amount is shown for the other contracts. The table also shows expected cash flows for net technical provisions, which are inherently associated with a degree of uncertainty.

**TABLE 15 – Maturities of cash flows for financial assets and liabilities and net technical provisions 2016**

MSEK	Carrying amount	of which without maturity	of which with contractual maturity	Cash flows						
				2017	2018	2019	2020	2021	2022-2031	2032-
Financial assets	129,701	18,991	101,710	31,938	14,831	21,844	21,823	19,978	7,428	-
Financial liabilities	10,279	-	10,279	6,391	1,043	144	146	3,203	-	-
Net technical provisions	87,341			29,696	10,575	6,494	4,834	4,083	20,104	17,432

## CONCENTRATION RISK

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

### RISK MANAGEMENT AND CONTROL

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

## RISK PROFILE

Investments are mainly concentrated to the financial sector in the Scandinavian countries. There is an emphasis on covered bonds and short-term money market investments.

The ten largest individual reinsurance recoverable balances amounted to MSEK 1,600, representing 68% of the total reinsurance recoverable. If's largest reinsurer is Munich Re (AA-), which accounts for 18% of the total reinsurance recoverable.

The largest market and credit risk concentrations related to individual counterparties and asset classes are shown in Table 16.

TABLE 16 Concentration of market and credit risks in individual counterparties and asset classes 2016

MSEK Fair value	Equities	Covered bonds	Other long- term fixed income	Short-term fixed income	Positive fair values of derivatives	Total
Nordea Bank AB	-	5,955	1,360	2,002	-	9,317
Svenska Handelsbanken AB	-	5,695	2,111	-	-	7,806
Danske Bank A/S, Copenhagen	-	960	3,746	70	-	4,776
DnB ASA	-	2,132	2,279	-	-	4,411
Swedbank AB	-	2,497	1,738	12	-	4,247
Kingdom of Norway	-	-	3,438	-	-	3,438
Skandinaviska Enskilda Banken, Stockholm	-	2,245	821	118	-	3,184
Landshypotek AB	-	1,854	206	-	-	2,060
BNP Paribas, Paris	-	-	-	1,858	-	1,858
Kommuninvest Sverige AB	-	1,715	-	-	-	1,715
<b>Total top ten exposures</b>	<b>-</b>	<b>23,053</b>	<b>15,699</b>	<b>4,060</b>	<b>-</b>	<b>42,812</b>

Exposure towards the Kingdom of Sweden amounting to MSEK 5,323 (6,663) is excluded.

## OPERATIONAL RISK

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

The definition includes legal risk 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.

### RISK MANAGEMENT AND CONTROL

Operational risks are identified through different processes:

- Operational and Compliance Risk Assessment (OCRA) process: Self-assessments to identify operational risks are performed by the line organization twice a year and by corporate functions yearly. The 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: Green – good control of risk, Yellow – attention required, Red – attention required immediately. The most severe risks with control status yellow or red are reported to the Operational Risk Committee (ORC). The committee meets twice a year.
- External operational risks are identified in the strategy risk process that is performed on a yearly basis, during which the most important trends affecting the insurance industry are identified and the effects on If are assessed.
- Incidents are reported via a web-based system. The reported

incidents are received by the line organization where analyses are performed.

The task of the ORC is to provide opinions, advice and recommendations to the committee's chairman. The chairman reports a forward looking assessment of the operational risk status to ORSAC. The chairman also proposes changes to policies and instructions when deemed necessary.

In order to manage operational risks, If has issued a number of steering documents: Operational Risk Policy, Business Continuity Policy, Security Policy, Outsourcing Policy, Complaints Handling Policy, Claims Handling Policy, and other steering documents related to various parts of the organization. These documents are reviewed and updated at least yearly.

If has processes and guidelines in order to manage possible external and internal cases of fraud. Internal training on ethical rules and guidelines is always on-going.

Corporate Legal is responsible for identifying legal risks and is, together with Insurance Legal, responsible for keeping abreast of legislation, case law and significant legal development that may affect If's business. The organization has appointed coordinators who quarterly report legal risk and significant changes within the legal development to the Legal Committee. A risk status is reported to the ORSAC.

## OTHER RISKS

### STRATEGIC RISK

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

### RISK MANAGEMENT AND CONTROL

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

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

### COMPLIANCE RISK

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

### RISK MANAGEMENT AND CONTROL

If aims to achieve an integrated compliance culture.

The Compliance function shall ensure that there are effective processes for identifying, assessing, monitoring and reporting compliance risk exposure. Compliance risks identified by the Business Areas (BAs) and Corporate functions shall be 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 shall also be reported when deemed necessary. The risks to be reported shall be signed-off by Head of BA/Corporate function in accordance with the OCRA process.

### REPUTATIONAL RISK

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

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

### RISK MANAGEMENT AND CONTROL

When assessing the operational and compliance risks, the reputational consequence of a materialized risk is taken into account. The reputational risk is also assessed from a top-down and strategic point of view by the Head of Communication Department. A risk overview and assessment is reported to the ORC twice a year.

Since operational and other risks may evolve into reputational risks if not handled correctly, the Communication Department continuously work to ensure that all employees are aware of the importance of maintaining a good reputation and understand how to deal with potential reputational risks. One important part of this work is to ensure that information

about incidents in the organization that could lead to an increased reputational risk is forwarded to the Communication Department without delay, a so-called early warning notification. Furthermore, information about If in media, traditional as well as social, is monitored closely as are possible customer complaints in order to act appropriately.

### EMERGING RISK

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

### RISK MANAGEMENT AND CONTROL

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

### RISK PROFILE

The risks that are under extra observation are cyber risks, nano-technology, lack of adaption to climate changes and electric magnetic fields.

### GROUP SPECIFIC RISKS

Group specific risks are risks that are:

- Present at individual level, but whose impact is significantly different at group level.
- Only present at Group level.

### RISK MANAGEMENT AND CONTROL

To a limited extent, If is exposed to risks arising from the complexity of Group structure and internal transactions. The internal transactions consist of internal reinsurance, internal outsourcing and other services provided under service agreements.

If has processes in place for handling these risks and in general the risks are managed through the risk management system.

### RISK PROFILE

Group-specific risk sources for the If Group are intra-group transactions and the group structure. Examples of Group-specific risks are contagion risk due to intra-Group transactions and currency risk due to the Group structure.

The only Group-specific risk that is material is the currency risk in the form of translation risk. The translation risk refers to currency risk that arises when consolidating the financial statements of foreign operations that have a different base currency than the Parent Company into the Group financial statements. The translation risk is not hedged.

# NOTES TO THE INCOME STATEMENT

## NOTE 6 – Result per business area

Group operations are controlled and reported primarily in accordance with If's customer groups and other operations, which consist of private individuals, small and medium sized corporate customers, large sized corporates, as well as asset management.

The Private, Commercial and Industrial business areas conduct operations in Sweden, Norway, Denmark and Finland on a pan-Nordic business platform.

The operations in the Baltic countries constitute a separate business area. The business area consists of insurance operations conducted in Estonia, Latvia and Lithuania.

The asset management unit provides centralized management of the Group's investment assets and bank balances. The asset management unit has earnings responsibility for its operations within the investment restrictions regulated by means of the Group's investment policy. An estimated

return on the assets that correspond to technical provisions is transferred from the non-technical account to the technical result for each business area.

Within segment reporting, a separate account is provided in terms of the Group-wide operations that If has chosen not to allocate to the Group's established business areas. Within Other, If reports its run-off operations and other Group-wide operations.

Business area consolidation is implemented, with the exception of asset management, in accordance with the same policies as those applied by the Group. The income statement items, assets and liabilities that are attributed to the various business areas are of a technical nature and constitute the principal operating items. Internal sales among the business areas had only a marginal impact on income and expenses for the various business segments.

### Income statement and balance sheet per business area

MSEK	Private	Commercial	Industrial	Baltic	Asset management	Other <sup>1)</sup>	Adjustment to consolidated policies <sup>2)</sup>	2016 Total	2015 Total
Premiums earned, net of reinsurance	24,465	11,028	3,806	1,249		27		40,575	40,629
Allocated investment return transferred from the non-technical account	41	-37	-30	0		1		-25	213
Other technical income	147	77	22	0		5		251	261
Claims incurred, net of reinsurance	-16,468	-7,563	-2,704	-794		26		-27,503	-29,400
Operating expenses in insurance operations, net of reinsurance	-3,898	-1,954	-669	-328		95		-6,754	-5,290
Other operating expenses	-208	-81	-21	0		-6		-316	-660
<b>Technical result from property and casualty insurance</b>	<b>4,079</b>	<b>1,470</b>	<b>404</b>	<b>127</b>	<b>-</b>	<b>148</b>	<b>-</b>	<b>6,228</b>	<b>5,753</b>
Investment result, net					3,186		-1,293	1,893	3,184
Allocated investment return transferred to the technical account						-242		-242	-564
Interest expense on net pension liability						-20		-20	-42
Interest expense, subordinated debt						-108		-108	-136
Income from associates						4,635		4,635	394
<b>Result before income taxes</b>								<b>12,386</b>	<b>8,589</b>
<b>Assets on December 31</b>									
Intangible assets	18	130	-	-	-	715		863	873
Investment assets	-	-	-	-	111,994	-		111,994	104,293
Reinsurers' share of technical provisions	51	245	1,934	25	-	-		2,255	2,196
Deferred tax assets	-	-	-	1	-	232		233	252
Debtors arising out of insurance operations	8,970	1,909	760	102	-	-35		11,706	10,757
Deferred acquisitions costs	765	351	29	27	-	6		1,178	1,208
Other assets <sup>3)</sup>	-	-	-	-	2,432	4,295		6,727	5,744
<b>Total assets</b>	<b>9,804</b>	<b>2,635</b>	<b>2,723</b>	<b>155</b>	<b>114,426</b>	<b>5,213</b>	<b>-</b>	<b>134,956</b>	<b>125,323</b>
<b>Shareholders' equity, provisions and liabilities on December 31</b>									
Shareholders' equity	-	-	-	-	-	29,749		29,749	26,337
Subordinated debt	-	-	-	-	-	3,889		3,889	1,829
Technical provisions, gross	48,376	24,578	15,383	1,248	-	11		89,596	86,687
Provisions for other risks and charges	57	42	12	228	5	4,054		4,398	4,169
Deposits received from reinsurers	-	-	-	-	-	-		-	-
Creditors arising out of insurance operations	711	342	334	36	-	548		1,971	1,779
Other creditors <sup>3)</sup>	-	-	-	-	654	4,699		5,353	4,522
<b>Total shareholders' equity, provisions and liability</b>	<b>49,144</b>	<b>24,962</b>	<b>15,729</b>	<b>1,512</b>	<b>659</b>	<b>42,950</b>	<b>-</b>	<b>134,956</b>	<b>125,323</b>

<sup>1)</sup> Including Run Off and other operations not allocated to the business areas.

<sup>2)</sup> Business area reporting includes all value changes on investment assets in the Investment result. As explained in Note 1 Accounting policies, the main principle is not to include value changes in the consolidated income statement but to include them in other comprehensive income until being realized.

<sup>3)</sup> Other debtors and creditors are not divided on the basis of business areas except for those related to asset management.

## OPERATIONS PER GEOGRAPHICAL AREA

Revenue by geographic area below is distributed among the countries in which If has companies or branches and corresponds in all material respects with the customers' geographic domicile.

Long-term investments have been distributed directly to the countries where they belong in terms of physical or business domicile.

Geographical area segment information	Sweden		Norway		Denmark		Finland		Baltic		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Premiums earned, net of reinsurance	13,757	13,123	12,508	13,170	3,684	3,591	9,377	9,548	1,249	1,197	40,575	40,629
Non-current assets <sup>1)</sup>	84	96	131	175	124	3,211	1,031	1,011	7	8	1,377	4,501

1) Non-current assets refer to goodwill, other intangible assets, land and buildings, investments in associated companies and tangible assets.

## BUSINESS AREA PRIVATE

### TREND DURING THE YEAR

The technical result increased compared with 2015 and amounted to MSEK 4,079 (3,045). The combined ratio improved to 83.2% (88.1%).

The risk ratio improved to 61.1% (65.6), with an improving current year ratio and improving prior-year results. A change in reserves in Sweden based on updated mortality assumptions was the main contributor to the prior-year development. The improvement in current year terms reflects the mild winter conditions in the first months of 2016.

Operating costs in the insurance business increased by 2.4% excluding currency effects. The cost ratio improved to 22.2% (22.4) due to increased cost efficiency.

Premiums rose during the year and gross premiums, excluding currency effects, increased 1.8%. The premium trend was particularly favorable in Sweden, supported by continued strong new car sales.

### MARKETS AND OUTLOOK

Given the low interest rates and the relatively weak economic conditions in some of our key markets, we expect that market growth will remain modest. The competitive situation remains largely unchanged but varies somewhat across the markets.

To reinforce our competitiveness in the marketplace, the business area Private will continue its efforts to improve customer satisfaction. Whenever a customer needs help from If, products and services that live up to our "Relax, we'll help you" promise should be provided. To this end, we are taking actions to strengthen customer orientation across the business system.

Lastly, we note that our customers are increasingly demanding modern digital solutions when handling their insurance business. We remain committed to our target of being the market leader in digital channels in the Nordic countries and are continuously developing our websites, claims handling and service interfaces, while also utilizing benefits from big-data analytics.

<b>MSEK</b>		
<b>Income statement and insurance-related balance sheet items</b>		
	<b>2016</b>	<b>2015</b>
Premiums earned, net of reinsurance	24,465	24,013
Allocated investment return transferred from the non-technical account	41	178
Other technical income	147	151
Claims incurred, net of reinsurance	-16,468	-17,367
Operating expenses in insurance operations, net of reinsurance	-3,898	-3,777
Other operating expenses	-208	-153
<b>Technical result of property and casualty insurance</b>	<b>4,079</b>	<b>3,045</b>
<b>Intangible assets</b>		
	<b>18</b>	<b>-</b>
Debtors arising out of direct insurance operations	8,966	8,294
Debtors arising out of reinsurance operations	4	2
<b>Debtors arising out of insurance operations</b>	<b>8,970</b>	<b>8,296</b>
Deferred acquisition costs	765	713
Reinsurers' share of deferred acquisition costs	2	4
<b>Deferred acquisition costs, net</b>	<b>763</b>	<b>709</b>
Technical provisions, gross	48,376	45,692
Reinsurers' share of technical provisions	51	69
<b>Technical provisions, net</b>	<b>48,325</b>	<b>45,623</b>
Creditors arising out of direct insurance operations	696	638
Creditors arising out of reinsurance operations	15	3
<b>Creditors arising out of insurance operations</b>	<b>711</b>	<b>641</b>



## BUSINESS AREA COMMERCIAL

### TREND DURING THE YEAR

The technical result was better than in 2015 and amounted to MSEK 1,470 (1,238). The combined ratio improved to 86.3% (89.2).

Premium income declined slightly during the year and gross premiums, excluding currency effects, were 0.5% lower. Volumes increased in Sweden and Denmark while Norway and Finland experienced negative development.

The risk ratio improved to 63.9% (66.3). Frequency claims were slightly higher than in the preceding year. Costs for large claims were lower than normal levels. Results from prior-year claims reserves amounted to MSEK 338 (neg: 206).

Total operating costs, excluding currency effects, decreased by 3.9%. The cost ratio improved to 22.4% (22.9). Costs are closely monitored with a focus on continued efficiency enhancement.

### MARKET AND OUTLOOK

The market situation in the Nordic countries as a whole was relatively stable during the year. Competition remained tough with modest GDP growth and the Commercial insurance market showed very modest and negative growth in some areas, due particularly to the Finnish and Norwegian markets.

If's strategic focus on customer satisfaction, quality and cost efficiency continues. Initiatives to improve customer service processes with the aim of simplifying and digitalizing customer communication and interaction are being carried out in all areas of the organization.

The strategic IT projects will continue in the future and impact all business areas. These efforts are the key to If's long-term objective to deliver market-leading customer service, products and claims handling, as well as to secure competitiveness and efficiency.

MSEK		
Income statement and insurance-related balance sheet items		
	2016	2015
Premiums earned, net of reinsurance	11,028	11,293
Allocated investment return transferred from the non-technical account	-37	23
Other technical income	77	82
Claims incurred, net of reinsurance	-7,563	-8,034
Operating expenses in insurance operations, net of reinsurance	-1,954	-2,037
Other operating expenses	-81	-89
<b>Technical result of property and casualty insurance</b>	<b>1,470</b>	<b>1,238</b>
<b>Intangible assets</b>	<b>130</b>	<b>158</b>
Debtors arising out of direct insurance operations	1,903	1,670
Debtors arising out of reinsurance operations	6	4
<b>Debtors arising out of insurance operations</b>	<b>1,909</b>	<b>1,674</b>
Deferred acquisition costs	351	418
Reinsurers' share of deferred acquisition costs	1	0
<b>Deferred acquisition costs, net</b>	<b>350</b>	<b>418</b>
Technical provisions, gross	24,578	23,728
Reinsurers' share of technical provisions	245	259
<b>Technical provisions, net</b>	<b>24,333</b>	<b>23,469</b>
Creditors arising out of direct insurance operations	336	291
Creditors arising out of reinsurance operations	6	6
<b>Creditors arising out of insurance operations</b>	<b>342</b>	<b>297</b>



## BUSINESS AREA INDUSTRIAL

### TREND DURING THE YEAR

The technical result improved compared with the preceding year and amounted to MSEK 404 (30) and the combined ratio improved to 88.6% (99.4). Lower costs for large claims were the main factor behind the improved result.

GWP change, excluding currency effects, decreased by 5.3% compared with 2015. The negative development was affected by the loss of some single accounts and weak macroeconomic environment.

The net risk ratio was 66.3% (77.4). The change compared with 2015 was attributable to lower costs for large claims and a marginally higher gain on prior year claims.

The cost ratio ended at 22.3% (22.0) due to lower premiums compared with 2015.

### MARKET AND OUTLOOK

The market situation remains very competitive, with a low interest-rate environment and a high amount of available capital in the market. The macroeconomic outlook is relatively modest in general.

If has a solid position and reputation in the market and retains its position as the largest insurer of large corporates in the Nordic region. If Industrial continues to focus on contributing to the customer's business through leading risk-management services, high-quality claims handling, a strong international network and excellent underwriting capabilities.

MSEK		
Income statement and insurance-related balance sheet items		
	2016	2015
Premiums earned, net of reinsurance	3,806	4,042
Allocated investment return transferred from the non-technical account	-30	5
Other technical income	22	20
Claims incurred, net of reinsurance	-2,704	-3,319
Operating expenses in insurance operations, net of reinsurance	-669	-699
Other operating expenses	-21	-19
<b>Technical result of property and casualty insurance</b>	<b>404</b>	<b>30</b>
<b>Intangible assets</b>	<b>-</b>	<b>0</b>
Debtors arising out of direct insurance operations	289	393
Debtors arising out of reinsurance operations	471	340
<b>Debtors arising out of insurance operations</b>	<b>760</b>	<b>733</b>
Deferred acquisition costs	30	25
Reinsurers' share of deferred acquisition costs	30	24
<b>Deferred acquisition costs, net</b>	<b>0</b>	<b>1</b>
Technical provisions, gross	15,383	16,050
Reinsurer's share of technical provisions	1,934	1,847
<b>Technical provisions, net</b>	<b>13,449</b>	<b>14,203</b>
Creditors arising out of direct insurance operations	79	109
Creditors arising out of reinsurance operations	255	264
<b>Creditors arising out of insurance operations</b>	<b>334</b>	<b>373</b>

## BUSINESS AREA BALTIC

### TREND DURING THE YEAR

The technical result was lower than in 2015 and amounted to MSEK 127 (175). The combined ratio decreased to 89.8% (85.7) due to increased claims cost in Motor in particular.

Gross written premiums, adjusted for currency effects, decreased by 1.8%. The effects of excluding broker commissions from premiums in Estonia during the year, following a change stipulated by new legislation in Estonia, accounted for a significant part of the reduction.

The risk ratio net increased to 60.4% (55.5) mainly due to increasing claims frequency costs in Motor as well as increasing cost for large claims.

Total operating costs, excluding currency effects, increased by 0.4%, and the cost ratio improved to 29.4% (30.2). A continued focus on efficiency improvements offset the cost increase resulting from relatively high increase in labor costs and general cost inflation.

### MARKET AND OUTLOOK

The outlook for economic development in the Baltic region is relatively good. Private consumption and exports are expected to continue to drive economic growth. The competitive pressure is very high in some areas and market profitability worsened overall throughout the year.

MSEK		
Income statement and insurance-related balance sheet items		
	2016	2015
Premiums earned, net of reinsurance	1,249	1,197
Allocated investment return transferred from the non-technical account	0	4
Other technical income	0	1
Claims incurred, net of reinsurance	-794	-703
Operating expenses in insurance operations, net of reinsurance	-328	-324
Other operating expenses	-	-
<b>Technical result of property and casualty insurance</b>	<b>127</b>	<b>175</b>
<b>Intangible assets</b>	<b>-</b>	<b>-</b>
Debtors arising out of direct insurance operations	100	106
Debtors arising out of reinsurance operations	2	1
<b>Debtors arising out of insurance operations</b>	<b>102</b>	<b>107</b>
Deferred acquisition costs	27	31
Reinsurers' share of deferred acquisition costs	1	0
<b>Deferred acquisition costs, net</b>	<b>26</b>	<b>31</b>
Technical provisions, gross	1,248	1,179
Reinsurers' share of technical provisions	25	21
<b>Technical provisions, net</b>	<b>1,223</b>	<b>1,158</b>
Creditors arising out of direct insurance operations	31	36
Creditors arising out of reinsurance operations	5	5
<b>Creditors arising out of insurance operations</b>	<b>36</b>	<b>41</b>

## ASSET MANAGEMENT

At full market value, profit from asset management rose to MSEK 3,186 (1,714) and the total return ratio was 2.9% (1.5).

The year started with turbulence in financial markets and declining share prices resulting, among other factors, from 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 from the EU, Donald Trump's victory in the US presidential election, OPEC's decision to curtail oil production and improved economic statistics. These factors led to 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 (difference between risk-free and non-risk-free interest rates).

The year-on-year improvement in the result of the investment portfolio was mainly attributable to significantly improved results for credit-risk papers in the interest portfolio (thanks to lower credit spreads). The return on the equity portfolio was again healthy albeit slightly lower than in 2015.

The total return on equity was 8.5%, as a result of upswings in most stock markets. Interest levels on risk-free investments

increased slightly during the year, while credit spreads declined. Overall, this led to a favorable return of 2.4% on interest-bearing assets.

The total portfolio return of 2.9% fell short of the corresponding return for the comparable index. The interest portfolio and the equity portfolio were both outperformed by their relevant comparable indexes.

The equity weight in the portfolio (including derivative instruments) varied during the year and was at its highest, 13.4%, at the beginning of the year and its lowest, 12.2%, at midyear. The return on equities was low in the first half of the year, while the second half was characterized by highly favorable stock-market development.

The duration for interest-bearing assets was 1.4 years (1.2) at the end of the year.

Property values were relatively unchanged during the year.

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

The risk level in the Estonian company and the life company's portfolios remained low during the year.

Return on investment assets <sup>1)</sup>	Fair value Dec 31, 2016		Fair value Dec 31, 2015		Return 2016		Return 2015	
	MSEK	%	MSEK	%	MSEK	%	MSEK	%
Interest-bearing securities	101,455	87	90,521	87	2,285	2.4	343	0.3
Shares	14,808	13	13,994	13	1,216	8.5	1,601	11.9
Currency (active positions)	-1	0	15	0	48	-	40	-
Currency (other) <sup>2)</sup>	-478	0	41	0	-43	-	19	-
Properties	206	0	200	0	14	-	-5	-
Other	0	0	0	0	-334	-	-284	-
<b>Total investment assets excl. associated companies</b>	<b>115,990</b>	<b>100</b>	<b>104,771</b>	<b>100</b>	<b>3,186</b>	<b>2.9</b>	<b>1,714</b>	<b>1.5</b>

<sup>1)</sup> The table above has the same format and is based on the same calculation methods as those used internally by If for the valuation of investment operations. The valuation does not include associated companies. Accrued interest and the investment operations' bank balances are reported above as part of interest-bearing securities. Derivatives and securities settlement claims/liabilities have been reported under the relevant asset category above. The return on active investments has been calculated using a daily time-weighted calculation method. Properties and Other have been calculated using a monthly time-weighted calculation method. The return on investment assets according to the comprehensive income statement amounts to MSEK 1,293 in 2016.

<sup>2)</sup> In the asset category Currency (other), the current value of held currency derivatives is presented. The reported return on the same line also includes, in addition to the return from currency derivatives, currency exchange effects recognized in the income statement from the revaluation of items in the income statement and balance sheet.

## OTHER OPERATIONS

Other operations primarily comprise effects of certain Group-wide measures and items not allocated to the other business areas, such as Group adjustments due to reporting of defined-benefit pension plans and interest expenses for the Group's subordinated debt. Other operations also include run-off operations, as well as operations under expansion that have not yet become a part of a business area.

The technical result for the year amounted to MSEK 148 (1,265). The net deterioration is primarily related to the decided amendment of the Norwegian pension plans in the preceding year, which reduced last year's reported operating expenses in insurance operations by MSEK 1,456 and a goodwill impairment that increased other operating expenses by MSEK 394.

**NOTE 7 – Premiums written**

MSEK	Gross <sup>1)</sup>	2016 Ceded	Net	Gross <sup>1)</sup>	2015 Ceded	Net
<b>Premiums written</b>	<b>42 207</b>	<b>-1 571</b>	<b>40 636</b>	<b>42 644</b>	<b>-1 693</b>	<b>40 951</b>

<sup>1)</sup> Of which insurance agreements for direct property and casualty insurance written in:

Sweden	14,662	14,036
Rest of EEA	26,652	27,703
<b>Total</b>	<b>41,314</b>	<b>41,739</b>

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

The estimated return on the assets that correspond to the technical provisions is transferred from the finance operations (non-technical account) to the technical result. The return is calculated on the basis of the net of average technical provisions, less deferred acquisition costs, the technical result before the investment return has been added and average balances outstanding. The interest rates used in the calculation for each currency match the interest rate for government bonds with a maturity that approximates with the technical provisions. Negative interest rates are not used. The transferred investment return is divided into two parts; one part that adds the annuity result by means of a reduction of costs for the upward adjustment of the annuity provision and one part that is reported separately as the allocated investment return.

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

	2016	2015
Swedish kronor	0.3%	0.9%
Norwegian kroner	0.9%	1.2%
Danish kroner	0.0%	0.2%
Euro	0.0%	0.3%

**NOTE 9 – Claims incurred**

MSEK	Gross	2016 Ceded	Net	Gross	2015 Ceded	Net
<b>Claims costs attributable to current-year operations</b>						
Claims paid	-15,559	100	-15,459	-15,030	155	-14,875
Operating expenses for claims adjustment	-2,227	-	-2,227	-2,333	-	-2,333
Change in claims reserve for incurred and reported losses	-6,304	380	-5,924	-6,464	183	-6,281
Change in claims reserve for incurred but not reported losses (IBNR)	-5,276	105	-5,171	-5,371	110	-5,261
Change in provision for annuities	-73	-	-73	-74	-	-74
Claims-adjustment costs	14	-	14	-6	-	-6
			<b>-28,840</b>			<b>-28,830</b>
<b>Claims costs attributable to prior-year operations</b>						
Claims paid	-9,985	530	-9,455	-9,457	418	-9,039
Annuities	-1,173	0	-1,173	-1,909	-1	-1,910
Claims portfolios	12	63	75	-	-	-
Change in claims reserve for incurred and reported losses	5,570	-189	5,381	5,938	-240	5,698
Change in claims reserve for incurred but not reported losses (IBNR)	6,823	-314	6,509	4,827	-146	4,681
			<b>1,337</b>			<b>-570</b>
<b>Total insurance claims</b>	<b>-28,178</b>	<b>675</b>	<b>-27,503</b>	<b>-29,879</b>	<b>479</b>	<b>-29,400</b>

MSEK	Gross	2016 Ceded	Net	Gross	2015 Ceded	Net
<b>Paid insurance claims</b>						
Claims paid	-25,544	630	-24,914	-24,485	572	-23,913
Annuities paid	-1,246	-	-1,246	-1,234	-	-1,234
Claims portfolio	12	63	75	-1	-	-1
Operating expenses for claims adjustment	-2,227	-	-2,227	-2,333	-	-2,333
	<b>-29,005</b>	<b>693</b>	<b>-28,312</b>	<b>-28,053</b>	<b>572</b>	<b>-27,481</b>
<b>Change in provision for claims outstanding</b>						
Change in claims reserve for incurred and reported losses	-734	191	-543	-526	-57	-583
Change in claims reserve for incurred but not reported losses (IBNR)	1,131	-209	922	-1,188	-35	-1,223
Change in claims provision for annuities	416	0	416	-106	-1	-107
Claims-adjustment costs	14	-	14	-6	-	-6
	<b>827</b>	<b>-18</b>	<b>809</b>	<b>-1,826</b>	<b>-93</b>	<b>-1,919</b>
<b>Total claims incurred</b>	<b>-28,178</b>	<b>675</b>	<b>-27,503</b>	<b>-29,879</b>	<b>479</b>	<b>-29,400</b>

The general valuation principles for technical provisions are unchanged.

The provision for annuities is valued in accordance with actuarial principles taking anticipated inflation and mortality into consideration, and discounted to take the anticipated future investment return into account. To cover costs for the upward adjustment of annuity provisions required for the gradual reversal of such discounting, an anticipated return is added to annuity results (see Note 8). Provisions for incurred

but not reported losses pertaining to annuities in Finland are discounted. The provisions in If amounted to MSEK 2,620 (2,440). The undiscounted value was MSEK 3,474 (3,284). The currency effect on the discounted reserves was an increase of MSEK 95 and the real increase was MSEK 85.

## NOTE 10 – Operating expenses

MSEK	2016	2015
<b>Specification of income statement item operating expenses</b>		
External acquisition costs <sup>1)</sup>	-1,545	-1,559
Internal acquisition costs	-3,098	-3,092
Change in deferred acquisition costs, gross	-91	-40
Administrative expenses, insurance <sup>2)</sup>	-2,136	-727
<b>Total operating expenses in property and casualty insurance, gross</b>	<b>-6,870</b>	<b>-5,418</b>
Reinsurance commission and profit participation in ceded reinsurance	118	131
Change in deferred acquisition costs, ceded	-2	-3
<b>Total reinsurance commission and profit participation in ceded reinsurance</b>	<b>116</b>	<b>128</b>
Other operating expenses	-316	-660
<b>Total</b>	<b>-7,070</b>	<b>-5,950</b>
<i><sup>1)</sup> Of which, provisions in direct insurance</i>	<i>-1,495</i>	<i>-1,511</i>
<b>Summary of total operating expenses</b>		
Salaries and remuneration	-3,545	-3,655
Social costs	-721	-529
Pension costs <sup>2)</sup>	-563	754
Other personnel costs	-194	-196
<b>Total personnel costs</b>	<b>-5,023</b>	<b>-3,626</b>
Premises costs	-423	-412
Depreciation/amortization	-111	-87
External acquisition costs	-1,545	-1,559
Other administrative costs	-2,383	-2,866
<b>Total</b>	<b>-9,485</b>	<b>-8,550</b>

MSEK	2016	2015
<b>Allocation of operating expenses in the income statement</b>		
Claims-adjustment costs included in Claims paid	-2,227	-2,333
External and internal acquisition costs included in Operating expenses in insurance operations	-4,643	-4,651
Joint administrative costs for insurance operations included in Operating expenses in insurance operations <sup>2)</sup>	-2,136	-727
Administrative costs pertaining to other technical operations included in Other operating expenses	-316	-660
Asset-management costs included in Investment costs	-163	-179
<b>Total</b>	<b>-9,485</b>	<b>-8,550</b>

<sup>2)</sup> Pension costs and thereby the sum of administrative expenses, insurance for 2015 were affected by a non-recurring effect related to a Norwegian pension plan amendment (cost reduction 1,456 MSEK).

**NOTE 11 – Average number of employees**

	2016		2015	
	Average number of employees	of whom women %	Average number of employees	of whom women %
<b>Parent Company</b>				
Sweden	1	0	1	0
<b>Total in Parent Company</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>
<b>Subsidiaries</b>				
Sweden 1)	1,851	47	1,841	47
Denmark	535	48	534	47
Estonia	335	77	318	71
Finland	1,689	62	1,733	65
France	6	33	6	33
Latvia	238	48	194	49
Lithuania	146	67	142	60
Netherlands	6	51	6	53
Norway	1,353	48	1,371	51
Russia	7	60	18	49
United Kingdom	6	47	6	53
Germany	7	41	6	44
<b>Total in subsidiaries</b>	<b>6,179</b>	<b>54</b>	<b>6,175</b>	<b>54</b>
<b>Group total</b>	<b>6,180</b>	<b>54</b>	<b>6,176</b>	<b>54</b>

<sup>1)</sup> Agents are not included. If has 29 (38) spare-time agents in Sweden.

	Parent Company		Group total	
	2016	2015	2016	2015
<b>Percentage of women in executive management</b>				
Board of Directors	0%	0%	6%	6%
Other senior executives	0%	0%	15%	9%

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

MSEK	2016			2015		
	Expensed salaries, remuneration, pension and social security fees	Salaries and remuneration	Pension costs <sup>1)</sup>	Expensed salaries, remuneration, pension and social security fees	Pension costs	Social fees
Parent Company <sup>2)</sup>	16	3	8	24	2	7
Subsidiaries	3,529	560	713	3,631	-756	522
<b>Group total</b>	<b>3,545</b>	<b>563</b>	<b>721</b>	<b>3,655</b>	<b>-754</b>	<b>529</b>

MSEK	Senior executives <sup>3)</sup>	of which incentive schemes and other variable compensation <sup>4)</sup>	Other employees	Senior executives <sup>3)</sup>	of which incentive schemes and other variable compensation <sup>4)</sup>	Other employees
<b>Expensed salaries and remuneration</b>						
Parent Company <sup>2)</sup>	16	10	-	24	18	-
Subsidiaries and branches in Sweden	37	20	1,021	70	55	1,020
Subsidiaries and branches outside Sweden	45	22	2,426	66	45	2,475
<b>Group total</b>	<b>98</b>	<b>52</b>	<b>3,447</b>	<b>160</b>	<b>118</b>	<b>3,495</b>

<sup>1)</sup> Pension costs for 2015 were affected by a non-recurring effect related to a Norwegian pension plan amendment (cost reduction MSEK 1,456).

<sup>2)</sup> Refers to the Chief executive officer Torbjörn Magnusson who is employed in If P&C Insurance Holding Ltd, the salary is paid from If P&C Insurance Ltd.

<sup>3)</sup> Senior executives in the Parent Company and subsidiaries are defined as Board members, presidents, vice presidents and members of the Parent Company and subsidiaries' executive management groups. The amounts for salary and remuneration also include severance pay of MSEK (-).

<sup>4)</sup> Regardless of the earnings year.

## PRINCIPLES FOR DETERMINING REMUNERATION OF SENIOR EXECUTIVES

Director fees are not paid to Board members employed in If or other companies within the Sampo Group. Remuneration of the CEO and other members of Group Management consists of fixed salary, annual variable compensation, units in long-term incentive schemes, pension and other benefits. The maximum annual variable compensation payable to the CEO is 75% of the annual fixed salary. The maximum annual

variable compensation payable to other members of Group Management is 50-75% of the annual fixed salary. The annual variable compensation is based on the If Group's results, business unit results and individual results. For senior executives who are members of the Sampo Group Executive Committee, the annual variable compensation is also based on Sampo Group results. A substantial part of payments from variable compensation programs is deferred for at least three years. Thereafter, the Board will evaluate and, if needed, risk adjust the deferred compensation before any payment is made.

KSEK	Basic salary	Variable payments	Payment pertaining to incentive programs <sup>1)</sup>	Other benefits	Pension cost	Total
Remuneration paid and other benefits during the year						
Chairman of the Board	-	-	-	-	-	-
Other Board members	-	-	-	-	-	-
President/CEO	5,802	4,742	16,387	18	2,809	29,758
Deputy CEO	3,602	2,718	12,572	86	1,754	20,732
Other members of Group Management (11 individuals)	22,591	11,022	78,680	1,615	8,967	122,875
<b>Total</b>	<b>31,995</b>	<b>18,482</b>	<b>107,639</b>	<b>1,719</b>	<b>13,530</b>	<b>173,365</b>

<sup>1)</sup> For more information, refer to Long-term incentive programs below.

KSEK	Variable compensation	Incentive programs	Total
Provisions expensed during the year for disbursement during future years			
Chairman of the Board	-	-	-
Other Members of the Board	-	-	-
President/CEO	3,821	3,867	7,688
Deputy CEO	2,400	2,787	5,187
Other members of Group Management (11 individuals)	10,402	11,176	21,578
<b>Total</b>	<b>16,623</b>	<b>17,830</b>	<b>34,453</b>

## PENSIONS AND SEVERANCE PAY

Alongside statutory retirement pension benefits, the Swedish, Norwegian and Danish members of Group Management are covered by local occupational retirement pension plans. Swedish members are entitled to defined-contribution pension. The premium corresponds to 38% of the annual fixed salary and the age of retirement is 60. The CEO and the Deputy CEO are also entitled to a supplementary defined-contribution pension plan where the contribution corresponds to 25% of paid annual variable compensation. Norwegian members are covered by defined contribution pension plans and the Norwegian pension legislation allows for a flexible retirement age between 62 and 75. The contribution corresponds to 7.1% of pensionable salary up to 7.1 G (G = National Insurance basic amount) and 25.1% between 7.1 and 12 G. For pensionable salary exceeding 12 G, the Norwegian members are covered by a temporary pension between 67

and 82 years of age and the contribution corresponds to 24% of the annual fixed salary. The Danish member is covered by a defined contribution pension plan. The contribution corresponds to 21.7% of the annual fixed salary and 25% of paid annual variable compensation age of retirement is flexible. No retirement pension is paid to the Finnish member apart from statutory earnings-based retirement pension. Finnish pension legislation allows a flexible age of retirement between 63 and 68.

In the event of termination of employment by the company, the CEO will be entitled to salary during a 12-month period of notice and severance pay amounting to 24 months' fixed salary.

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



## LONG-TERM INCENTIVE PROGRAMS

A number of senior executives are covered by incentive schemes issued by Sampo Group. In September 2011 and September 2014, schemes covering 70-80 employees each were issued. The schemes are subject to performance thresholds and ceilings that cap the size of the payment. The outcome of the schemes is determined over a period of three to five years starting from the issue of the respective scheme and is based on Sampo's share-price performance, If's insurance margin and Sampo's return on risk-adjusted capital. A number of incentive units has been allocated to each participant in the respective scheme. The incentive unit carries an entitlement to a cash payment, provided that threshold levels are reached. The payment equals the increase in Sampo's share price from the issue of the respective scheme up until three defined payment dates. In both schemes, identified staff must buy Sampo A shares with 60% of the net amount of the received reward. The shares are subject to a formal disposal restriction for three years from the date of payment.

The schemes have been measured at fair value at the grant date and at every reporting date thereafter. The fair value of the schemes has been determined using the Black-Scholes pricing model. The calculation of fair value takes into consideration the model's forecast concerning the number of incentive units to be paid as a reward. The earned part of the year-end fair value is recognized as a liability and changes are recognized through profit or loss.

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

KSEK	Number of units	Maximum amount	Reserved amount
<b>Outstanding units and values</b>			
President/CEO	250,000	59,106	11,990
Deputy CEO	160,500	37,680	9,092
Other members of Group Management (11 individuals)	930,000	219,875	44,602
Others covered by the incentive schemes	1,130,000	265,599	55,436
<b>Total</b>	<b>2,470,500</b>	<b>582,260</b>	<b>121,120</b>

## NOTE 13 – Auditors' fees

MSEK	2016	2015
Ernst & Young AB		
Audit fees	17	17
Audit fees outside the audit assignment	1	1
Tax consultancy fees	1	1
Other consultancy fees	2	0
<b>Total fee to Ernst &amp; Young AB</b>	<b>21</b>	<b>19</b>

## NOTE 14 – Performance analysis per class of insurance

2016 MSEK	Accident and health	Motor, third party liability	Motor, other classes	Marine, air and transport	Fire and other damage to property	Third party liability	Credit
Premiums written, gross	6,899	5,822	12,315	1,131	11,778	1,877	23
Premiums earned, gross	6,982	5,871	12,032	1,142	11,868	1,903	23
Claims incurred, gross	-4,636	-3,518	-8,632	-678	-8,071	-878	-6
Operating expenses, gross <sup>1)</sup>	-1,219	-1,269	-1,810	-188	-1,866	-304	-2
Profit/loss from ceded reinsurance	-39	0	-15	-103	-618	-294	0
<b>Technical result before investment income transferred from the non-technical account</b>	<b>1,088</b>	<b>1,084</b>	<b>1,575</b>	<b>173</b>	<b>1,313</b>	<b>427</b>	<b>15</b>

	Legal expenses	Assistance	Miscellaneous	Total direct insurance	Reinsurance accepted	Eliminations and undistributed cost items	Total
Premiums written, gross	440	-	1,028	41,313	894		42,207
Premiums earned, gross	434	-	1,026	41,281	888		42,169
Claims incurred, gross	-277	-	-684	-27,380	-840	42	-28,178
Operating expenses, gross <sup>1)</sup>	-62	-	-198	-6,918	-155	138	-6,935
Profit/loss from ceded reinsurance	-1	-	-109	-1,179	376		-803
<b>Technical result before investment income transferred from the non-technical account</b>	<b>94</b>	<b>-</b>	<b>35</b>	<b>5,804</b>	<b>269</b>	<b>180</b>	<b>6,253</b>
<b>Investment income transferred from the non-technical account</b>							<b>-25</b>
<b>Technical result of insurance operations</b>							<b>6,228</b>

2015 MSEK	Accident and health	Motor, third party liability	Motor, other classes	Marine, air and transport	Fire and other damage to property	Third party liability	Credit
Premiums written, gross	7,049	5,935	12,101	1,169	12,119	1,892	21
Premiums earned, gross	6,918	5,945	11,841	1,147	12,148	1,911	20
Claims incurred, gross	-4,915	-5,439	-7,988	-773	-7,958	-1,230	-5
Operating expenses, gross <sup>1)</sup>	-1,241	-1,269	-1,725	-197	-1,965	-309	-3
Profit/loss from ceded reinsurance	-82	-10	-12	-108	-708	-114	0
<b>Technical result before investment income transferred from the non-technical account</b>	<b>680</b>	<b>-773</b>	<b>2,116</b>	<b>69</b>	<b>1,517</b>	<b>258</b>	<b>12</b>

	Legal expenses	Assistance	Miscellaneous	Total direct insurance	Reinsurance accepted	Eliminations	Total
Premiums written, gross	418	-	1,062	41,766	877	1	42,644
Premiums earned, gross	410	-	1,039	41,379	901	-1	42,279
Claims incurred, gross	-257	-	-923	-29,488	-453	62	-29,879
Operating expenses, gross <sup>1)</sup>	-65	-	-147	-6,921	-159	1,263	-5,817
Profit/loss from ceded reinsurance	0	-	-65	-1,099	55	1	-1,043
<b>Technical result before investment income transferred from the non-technical account</b>	<b>88</b>	<b>-</b>	<b>-96</b>	<b>3,871</b>	<b>344</b>	<b>1,325</b>	<b>5,540</b>
<b>Investment income transferred from the non-technical account</b>							<b>213</b>
<b>Technical result of insurance operations</b>							<b>5,753</b>

<sup>1)</sup> The item Operating expenses, gross includes other technical income of MSEK 251 (261) and other technical expense of MSEK -316 (-660).

The reported effects during 2015, from the Norwegian pension plan amendment (cost reduction MSEK 1,456) and the goodwill impairment (cost MSEK 394), have not been distributed to insurance class.

**NOTE 15 – Investment result**

MSEK	Direct income		Value changes		Total	
	2016	2015	2016	2015	2016	2015
<b>Financial assets, mandatory at fair value through profit or loss (trading)</b>						
Derivatives	-118	-106	52	5	-66	-101
<b>Financial assets, designated by If as at fair value through profit or loss</b>						
Interest-bearing securities	-	-	-	2	-	2
<b>Financial assets, available for sale</b>						
Interest bearing securities						
Interest income	1,677	1,783			1,677	1,783
Realized gains and losses			-101	-52	-101	-52
Impairment losses			-143	93	-143	93
Shares						
Dividends	383	441			383	441
Realized gains and losses			396	1,129	396	1,129
Impairment losses			-151	-103	-151	-103
<b>Total from financial assets at fair value</b>	<b>1,942</b>	<b>2,118</b>	<b>53</b>	<b>1,074</b>	<b>1,995</b>	<b>3,192</b>
<b>Loans</b>						
Interest income	38	119			38	119
Realized gains and losses			29	4	29	4
<b>Total from Other financial investment assets</b>	<b>1,980</b>	<b>2,237</b>	<b>82</b>	<b>1,078</b>	<b>2,062</b>	<b>3,315</b>
<b>Properties and Other assets</b>						
Result from properties	15	2	-2	-7	13	-5
Interest income	44	45			44	45
Currency result			5	59	5	59
<b>Total Investment income</b>	<b>2,039</b>	<b>2,284</b>	<b>85</b>	<b>1,130</b>	<b>2,124</b>	<b>3,414</b>
<b>Investment costs</b>						
Allocated operating expenses					-163	-179
Other financial expenses					-68	-51
<b>Investment result</b>					<b>1,893</b>	<b>3,184</b>

Impairment losses in the income statement refer to holdings where there is objective evidence that the asset is impaired, in respect of interest-bearing securities defined as issuer default and in respect of shares generally when there is a significant and/or prolonged decline in the value. The carrying amount is reduced to current market value.

MSEK		
<b>Reconciliation of financial assets available for sale</b>	<b>2016</b>	<b>2015</b>
Opening balance, financial assets available for sale	4,594	6,084
Changes in value during the year	1,300	-397
Recognized in income statement	-7	-1,073
Translation difference	22	-20
<b>Closing balance, financial assets available for sale</b>	<b>5,909</b>	<b>4,594</b>
Net change, financial assets available for sale	1,315	-1,490

**NOTE 16 – Interest expense, subordinated debt**

MSEK	Interest rate	2016	2015
Subordinated loan, issued in 2005	4.94%	-	-33
Subordinated loan, issued in 2011	6.00%	-64	-62
Subordinated loan, issued in 2013	4.70%	-41	-41
Subordinated loan, issued in 2016	3-month STIBOR + 2.25%	-2	-
Subordinated loan, issued in 2016	2.415%	-1	-
<b>Total</b>		<b>-108</b>	<b>-136</b>

**NOTE 17 – Income from associates**

MSEK	2016	2015
<b>Topdanmark A/S</b>		
Share of result	392	475
Amortization of customer relations	-76	-101
Change in deferred tax	17	24
Sales gain	4,044	-
Accumulated exchange rate differences reclassified to income statement at realization	198	-
<b>Net</b>	<b>4,575</b>	<b>398</b>
Share of result, other associates	12	0
Sales gain <sup>1)</sup>	57	-4
Impairment <sup>2)</sup>	-9	-
<b>Total</b>	<b>4,635</b>	<b>394</b>

<sup>1)</sup> Of which Urzus Group AS, MSEK 25, and Watercircles Skandinavia AS, MSEK 32.

<sup>2)</sup> Consists of Conterni Holding AS.

**NOTE 18 – Taxes**

MSEK	2016	2015
Current tax	-1,548	-1,506
Deferred tax	-135	-320
<b>Total tax in the income statement</b>	<b>-1,683</b>	<b>-1,826</b>
<b>Specification of current taxes</b>		
Swedish entities	-590	-441
Non-Swedish entities	-968	-1,069
Current taxes pertaining to prior years	10	4
<b>Total current tax</b>	<b>-1,548</b>	<b>-1,506</b>

For specification of deferred tax, see Note 33.

MSEK	2016	2015
<b>Specification of taxes related to other comprehensive income</b>		
Related to remeasurements of net pension liability	12	-30
Related to financial assets, available for sale	-279	314
Other	-77	230
<b>Total current and deferred tax</b>	<b>-344</b>	<b>514</b>

MSEK	2016	2015
<b>Difference between reported tax and tax based on current Swedish tax rate</b>		
Profit before taxes	12,386	8,589
Tax according to current tax rate, 22%	-2,725	-1,890
Currency related tax effects	0	1
Permanent differences, net	-16	-16
Share of associates' result	75	87
Capital gains and impairment loss, associates	944	-
Adjustment of prior-year taxes	1	2
Reassessments of deferred tax assets/liabilities	0	0
Different tax rates in foreign units	38	-55
Changes in tax rates	0	45
<b>Reported tax in the income statement</b>	<b>-1,683</b>	<b>-1,826</b>

# NOTES TO THE BALANCE SHEET

## NOTE 19 – Intangible assets

MSEK	Consolidated goodwill		Other intangible assets	
	2016	2015	2016	2015
Accumulated acquisition value	715	715	224	216
Accumulated amortization and impairments	-	-	-76	-58
<b>Closing planned residual value</b>	<b>715</b>	<b>715</b>	<b>148</b>	<b>158</b>

Consolidated goodwill of MSEK 715 pertains to the goodwill that arose from the acquisition of Sampo's Finnish property and casualty insurance operations. To ensure that this item is not booked at an excessive carrying amount, an impairment test was conducted to determine the item's recoverable amount in December 2016. In this calculation, a cash flow model was used whereby the recoverable amount was set at the present value of future forecast profits/cash flow from this operation. The main basis for the calculation consisted of financial plans for the years 2017-2019. For subsequent years, the calculation is based on normalized earnings, with a combined ratio established at 95%.

In the calculation, the following parameters were used:

	2016	2015
Long-term premium growth	2.0%	2.0%
Return on investment assets	1.8%	2.0%
Discount interest rate (CAPM)	5.5%	5.5%

Other intangible assets include capitalized costs for the development of various insurance systems. During 2016, MSEK 18 (-) was capitalized. Amortization according to plan and scrappings amounted to MSEK -38 (-15).

## NOTE 20 – Land and buildings

	Carrying amount MSEK	Carrying amount per leasable sq. m., SEK	Total area sq.m.	Vacancy rate	Direct yield
Office and commercial properties	187	5,997	31,220	38.7 %	3.8%
Industrial properties and warehouses	2	574	2,890	0.0 %	30.4%
Other properties	17	23,214	716	10.8 %	-5.0%
<b>Total</b>	<b>206</b>	<b>29,785</b>	<b>34,826</b>	<b>34.9 %</b>	<b>3.3 %</b>
Preceding year	200	5,740	34,826	34.9%	2.0%

MSEK	2016	2015
<b>Geographical distribution, carrying amount</b>		
Finland	204	198
Estonia	-	-
Norway	2	2
Sweden	-	-
<b>Total</b>	<b>206</b>	<b>200</b>

MSEK	2016	2015
Carrying amount, opening balance	200	212
Supplementary capitalizations	0	0
Sales and scrappage	0	0
Net changes in current value	-2	-8
Translation differences	8	-4
Carrying amount, closing balance	206	200

MSEK	2016	2015
Rental income during the fiscal year	24	22
Costs pertaining to land and buildings		
Operating expenses pertaining to premises that generated income during the fiscal year	12	10
Operating expenses pertaining to premises that did not generate income during the fiscal year	5	8

#### Future rental income from land and buildings

Total future minimum rents		
<1 year	13	11
1–5 years	7	6
> 5 years	-	-

## NOTE 21 – Investments in associated companies

MSEK	Country	Number of		Carrying amount	
		shares	Holding % <sup>1)</sup>	2016	2015
CAB Group AB	Sweden	1,209	22.0	22	20
Topdanmark A/S	Denmark	-	-	-	3,153
SOS International A/S	Denmark	539,600	25.2	67	-
Autovahinkokeskus Oy	Finland	2,559	35.5	26	26
Urzus Group AS	Norway	-	-	-	6
Contemi Holding AS	Norway	28,572	28.6	0	9
Watercircles Skandinavia AS	Norway	-	-	-	31
Svithun Rogaland Assurance AS	Norway	6,530	33.0	13	13
<b>Total</b>				<b>128</b>	<b>3,258</b>

<sup>1)</sup> All of the associated companies have only one share class, therefore the participating share and voting rights are the same.

### CHANGES IN INVESTMENTS IN ASSOCIATED COMPANIES 2016

MSEK	Topdanmark A/S	Other associates	Total
Opening balance	3,153	105	3,258
Investments/reclassifications	-	55 <sup>1)</sup>	55
Share of associates' result <sup>2)</sup>	333	12	345
Dividends from associated companies	-	-3	-3
Effects of exchange rates, foreign associates	120	1	121
Share of associates' other changes in equity	-294	-	-294
Sales/impairment	-3,312	-42 <sup>3)</sup>	-3,354
Closing balance	-	128	128

<sup>1)</sup> Consists of an add-on investment in SOS International A/S and book-value for the existing holding when the investment was converted into an associated company in If Group.

<sup>2)</sup> Specification of the result is shown in Note 17.

<sup>3)</sup> Whereof, sale of Watercircles Skandinavia AS MSEK 29, sale of Urzus Group AS MSEK 4 and impairment of Contemi Holding AS MSEK 9.

### CHANGES IN INVESTMENTS IN ASSOCIATED COMPANIES 2015

MSEK	Topdanmark A/S	Other associates	Total
Opening balance	3,302	98	3,400
Investments	-	11	11
Share of associates' result <sup>1)</sup>	398	0	398
Dividends from associated companies	-	-3	-3
Effects of exchange rates, foreign associates	-80	-1	-81
Share of associates' other changes in equity	-467	-	-467
Closing balance	3,153	105	3,258

<sup>1)</sup> Specification of the result is shown in Note 17.

## SUMMARIZED FINANCIAL INFORMATION FOR MATERIAL ASSOCIATES

MSEK	Topdanmark A/S	
	2016	2015
Intangible and tangible assets	-	3,186
Investment assets including unit-linked	-	76,992
Reinsurers' share of technical provisions	-	1,018
Other assets	-	2,299
Subordinated debt	-	1,019
Technical provisions	-	70,493
Other liabilities	-	5,232
<b>Equity</b>	-	<b>6,751</b>
<b>If group's share of equity</b>	-	<b>2,221</b>
Estimated revenue for the last quarter	-	97
Known share repurchases for the last quarter	-	-153
Currency effects	-	-53
Goodwill	-	1,041
<b>If group's carrying amount of the investment</b>	-	<b>3,153</b>

MSEK	Topdanmark A/S	
	2016	2015
Revenue for the first two and three quarters respectively	10,330	13,397
Estimated revenue for the third and fourth quarters respectively	4,298	3,041
Profit after tax for the first two and three quarters respectively	722	1,001
Estimated profit after tax for the third and fourth quarters respectively	378	332

Revenue and profit in the table above have been recalculated from DKK to SEK using the average rate for each year.

The profit is essentially assignable to profit and loss from continued operations.

As of December 31, 2016, the carrying amount of investments in associates includes, goodwill totaling MSEK 39 (1,128).

Net sales and profit refers to the period January 1, 2016, to September 30, 2016 and includes estimates for the third quarter, and January 1, 2015 to December 31, 2015, and includes estimates for the last quarter.

The other holdings are not publically quoted.



## NOTE 22 – Other financial investment assets and derivative liabilities

### THE CLASSIFICATION OF OTHER FINANCIAL INVESTMENT ASSETS AND DERIVATIVE LIABILITIES

The recognition of financial assets and liabilities depends on their classification. The classification of assets and liabilities categorized in accordance with IAS 39 is shown below.

MSEK	Acquisition value		Fair value		Carrying amount	
	2016	2015	2016	2015	2016	2015
<b>Financial assets, mandatory at fair value through profit or loss (trading)</b>						
Derivatives	4	16	135	191	135	191
<b>Financial assets, designated by If as at fair value through profit or loss</b>						
Bonds and other interest-bearing securities	0	0	-	-	-	-
<b>Financial assets available for sale</b>						
Shares and participations	10,656	10,450	14,775	13,982	14,775	13,982
Bonds and other interest-bearing securities	96,117	82,681	95,738	81,930	95,738	81,930
<b>Total financial assets, at fair value</b>	<b>106,777</b>	<b>93,147</b>	<b>110,648</b>	<b>96,103</b>	<b>110,648</b>	<b>96,103</b>
<b>Loans <sup>1)</sup></b>						
Deposits with credit institutions	210	3,737	211	3,737	210	3,737
Other loans	795	988	806	1,016	795	988
<b>Total Other financial investment assets</b>	<b>107,782</b>	<b>97,872</b>	<b>111,665</b>	<b>100,856</b>	<b>111,653</b>	<b>100,828</b>
<b>Financial liabilities, mandatory at fair value through profit or loss (trading)</b>						
Derivatives	2	5	637	155	637	155
<b>Total financial liabilities, at fair value</b>	<b>2</b>	<b>5</b>	<b>637</b>	<b>155</b>	<b>637</b>	<b>155</b>

<sup>1)</sup> Loans are in accordance with the If's application of IAS 39 accounted for at amortized cost. The fair value as of December 31, 2016 is only shown for information. Financial instruments with fair value given for information are classified in three different hierarchy levels depending on their liquidity and valuation methods. All loans are classified in level 3 and the fair value of these loans are based on cash-flow valuations.

### SPECIFIKATION OF OTHER FINANCIAL INVESTMENT ASSETS AND DERIVATIVE LIABILITIES

#### BONDS AND OTHER INTEREST-BEARING SECURITIES

If's bonds and other interest-bearing securities by type of issuer at 31 December 2016 are shown below.

MSEK	Nominal value		Fair value		Carrying amount	
Type of issuer						
Swedish government	704	1%	952	1%	952	1%
Swedish public sector, other	6,372	7%	6,444	7%	6,444	7%
Swedish mortgage companies	11,691	13%	12,473	13%	12,473	13%
Swedish financial companies	11,878	13%	12,265	13%	12,265	13%
Other Swedish companies	6,576	7%	6,598	7%	6,598	7%
Foreign governments	1,616	2%	1,697	2%	1,697	2%
Foreign public sector, other	2,490	2%	2,806	3%	2,806	3%
Foreign financial companies	26,667	29%	28,122	29%	28,122	29%
Other foreign companies	23,664	26%	24,381	25%	24,381	25%
<b>Total</b>	<b>91,658</b>	<b>100%</b>	<b>95,738</b>	<b>100%</b>	<b>95,738</b>	<b>100%</b>

Years to maturity <sup>1)</sup>	<1	1-2	2-3	3-4	4-5	5-6	6-7	7-8	8-9	9-10	10-15	15-30	Total
Fair value %, 2016	17	14	20	22	20	3	3	1	0	0	-	-	100
Fair value %, 2015	23	15	15	18	21	4	2	1	1	0	-	-	100

<sup>1)</sup> The maturity period is not adjusted to take into account the possibility of premature redemption of bonds.

## DERIVATIVES

MSEK Derivative assets	2016			2015		
	Fair value	Carrying amount	Nominal amount	Fair value	Carrying amount	Nominal amount
<b>Equity derivatives</b>						
Options	11	11	3	-	-	-
<b>Total equity derivatives</b>	<b>11</b>	<b>11</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>of which, cleared by clearing house</i>	-	-	-	-	-	-
<b>Fixed income derivatives</b>						
Swaps	-	-	-	1	1	5,514
<b>Total fixed income derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>5,514</b>
<i>of which, cleared by clearing house</i>	-	-	-	-	-	-
<b>Currency derivatives</b>						
Options	2	2	143	12	12	468
Futures	122	122	14,542	178	178	12,801
<b>Total currency derivatives</b>	<b>124</b>	<b>124</b>	<b>14,685</b>	<b>190</b>	<b>190</b>	<b>13,269</b>
<i>of which, cleared by clearing house</i>	-	-	-	-	-	-
<b>Total derivative assets</b>	<b>135</b>	<b>135</b>		<b>191</b>	<b>191</b>	
<b>Derivative liabilities</b>						
<b>Equity derivatives</b>	-	-	-	-	-	-
<b>Fixed income derivatives</b>						
Swaps	34	34	643	21	21	13,503
<b>Total fixed income derivatives</b>	<b>34</b>	<b>34</b>	<b>643</b>	<b>21</b>	<b>21</b>	<b>13,503</b>
<i>of which, cleared by clearing house</i>	30	30	500	9	9	500
<b>Currency derivatives</b>						
Options	0	0	143	1	1	464
Futures	603	603	15,526	133	133	12,717
<b>Total currency derivatives</b>	<b>603</b>	<b>603</b>	<b>15,669</b>	<b>134</b>	<b>134</b>	<b>13,181</b>
<i>of which, cleared by clearing house</i>	-	-	-	-	-	-
<b>Total derivative liabilities</b>	<b>637</b>	<b>637</b>		<b>155</b>	<b>155</b>	

## FINANCIAL INVESTMENT ASSETS AND DERIVATIVE LIABILITIES AT FAIR VALUE

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

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

If's financial instruments, which are measured at fair value, are classified in three different hierarchy levels depending on their valuation methods as well as how active the market is. The control of the classification in hierarchy levels is done quarterly. If conditions have changed for the existing level, the holding in question is moved to the correct hierarchy level in consent with the Risk Control unit.

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

Quoted prices in active markets are considered the best estimate of an asset/liability's fair value. An active market is typically characterized by quoted prices that are easily and regularly available and that represent actual and regularly occurring transactions at arm's length distance.

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

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

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

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

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

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

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

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

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

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

## FINANCIAL INVESTMENT ASSETS AND DERIVATIVE LIABILITIES IN FAIR VALUE HIERARCHY

MSEK	2016				2015			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
<b>Financial assets, mandatory at fair value through profit and loss (trading)</b>								
Derivatives								
Equity derivatives	-	11	-	11	-	-	-	-
Other interest rate derivatives	-	-	-	-	-	1	-	1
Foreign exchange derivatives	-	124	-	124	-	190	-	190
<b>Financial assets, designated by If as at fair value through profit or loss</b>								
Bonds and other interest-bearing securities	-	-	0	0	-	-	0	0
<b>Financial assets, available for sale</b>								
Shares and participations <sup>1)</sup>	14,556	-	219	14,775	13,754	-	228	13,982
Bonds and other interest-bearing securities	65,097	30,641	-	95,738	58,433	23,497	0	81,930
<b>Total financial assets, at fair value</b>	<b>79,653</b>	<b>30,776</b>	<b>219</b>	<b>110,648</b>	<b>72,187</b>	<b>23,688</b>	<b>228</b>	<b>96,103</b>
<b>Financial liabilities, mandatory at fair value through profit and loss (trading)</b>								
Derivatives								
Fixed income derivatives	-	34	-	34	-	21	-	21
Foreign exchange derivatives	-	606	-	606	-	134	-	134
<b>Total financial liabilities, at fair value</b>	<b>-</b>	<b>640</b>	<b>-</b>	<b>640</b>	<b>-</b>	<b>155</b>	<b>-</b>	<b>155</b>

<sup>1)</sup> Mutual equity funds recognized in the above balances totaled MSEK 3,832 (3,880) of which MSEK 3,626 (3,670) was allocated to level 1 and MSEK 206 (210) to level 3.

### FINANCIAL INVESTMENT ASSETS AND DERIVATIVE LIABILITIES IN LEVEL 3

Financial assets presented in level 3 are included in financial instruments carried at fair value on the balance sheet. At December 31, 2016, the assets presented in level 3 amounted to MSEK 219 (228). These financial assets are categorized as

available for sale, and unrealized market value changes are, therefore, recognized in other comprehensive income.

As of December 31, 2016 there were no derivative liabilities presented in level 3.

MSEK 2016	Carrying amount Jan 1	Net gains/losses recorded in		Purchases	Sales/ maturities	Transfers into/out of level 3	Exchange rate differences	Carrying amount Dec 31	Net gains/losses in income statement that are attrib- utable to assets held at end of period
		income- state- ment	other com- prehensive income						
<b>Financial assets, designated by If as at fair value through profit or loss</b>									
Bonds and other interest-bearing securities	0	-	-	-	-	-	-	0	-
	<b>0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>-</b>
<b>Financial assets, available for sale</b>									
Shares and participations	228	9	5	17	-44	-	4	219	-21
Bonds and other interest-bearing securities	0	-	0	-	0	-	0	0	-
	<b>228</b>	<b>9</b>	<b>5</b>	<b>17</b>	<b>-44</b>	<b>-</b>	<b>4</b>	<b>219</b>	<b>-21</b>
<b>Total financial assets, at fair value</b>	<b>228</b>	<b>9</b>	<b>5</b>	<b>17</b>	<b>-44</b>	<b>-</b>	<b>4</b>	<b>219</b>	<b>-21</b>

<b>MSEK 2015</b>									
<b>Financial assets, designated by If as at fair value through profit or loss</b>									
Bonds and other interest-bearing securities	0	-	-	-	-	-	-	0	-
	<b>0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>-</b>
<b>Financial assets, available for sale</b>									
Shares and participations	1,766	146	-61	96	-1,725	-	6	228	-
Bonds and other interest-bearing securities	69	66	0	-	-133	-	-2	0	-6
	<b>1,835</b>	<b>212</b>	<b>-61</b>	<b>96</b>	<b>-1,858</b>	<b>-</b>	<b>4</b>	<b>228</b>	<b>-6</b>
<b>Total financial assets, at fair value</b>	<b>1,835</b>	<b>212</b>	<b>-61</b>	<b>96</b>	<b>-1,858</b>	<b>-</b>	<b>4</b>	<b>228</b>	<b>-6</b>

### SENSITIVITY ANALYSIS OF THE FAIR VALUES OF FINANCIAL INVESTMENT ASSETS AND DERIVATIVE LIABILITIES IN LEVEL 3

The sensitivity of the fair value of level 3 instruments to changes in key assumptions, by category and financial

instrument is shown below.

The following changes in key assumptions have been used:

- a 1% increase in the yield curve for bonds and other interest-bearing securities as well as for preference shares.
- a 20% decrease in prices for other equity related securities and real estate.

MSEK	2016		2015	
	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions
<b>Financial assets, designated by If as at fair value through profit or loss</b>				
Bonds and other interest-bearing securities	0	0	0	0
<b>Financial assets, available for sale</b>				
Shares and participations <sup>1)</sup>	219	-49	228	-46
Bonds and other interest-bearing securities	0	0	0	0
<b>Total financial assets, at fair value</b>	<b>219</b>	<b>-49</b>	<b>228</b>	<b>-46</b>

<sup>1)</sup> Includes holding in equity funds.

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

MSEK	2016	2015
<b>Financial assets set off in the balance sheet or subject to netting agreements</b>		
<b>Derivatives</b>		
Gross amount of recognized assets	124	191
Gross amounts of recognized liabilities offset against assets	-	-
<b>Net amount presented in the balance sheet</b>	<b>124</b>	<b>191</b>
<b>Amounts not set off but subject to master netting agreements and similar agreements <sup>1)</sup></b>		
Financial instruments	-107	-89
Cash collateral received	-	-
<b>Net amount</b>	<b>17</b>	<b>102</b>

MSEK	2016	2015
<b>Financial liabilities set off in the balance sheet or subject to netting agreements</b>		
<b>Derivatives</b>		
Gross amount of recognized liabilities	637	155
Gross amounts of recognized assets offset against liabilities	-	-
<b>Net amount presented in the balance sheet</b>	<b>637</b>	<b>155</b>
<b>Amounts not set off but subject to master netting agreements and similar agreements <sup>1)</sup></b>		
Financial instruments	-107	-89
Cash collateral pledged	41	-
<b>Net amount</b>	<b>571</b>	<b>66</b>

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

**NOTE 24 – Reinsurers' share of technical provisions**

MSEK	2016		2015	
<b>Change during the year</b>	<b>Provision for unearned premiums and unexpired risks</b>	<b>Provision for claims outstanding</b>	<b>Provision for unearned premiums and unexpired risks</b>	<b>Provision for claims outstanding</b>
<b>Opening balance</b>	<b>422</b>	<b>1,774</b>	<b>383</b>	<b>1,847</b>
Change in provision	-23	-18	43	-93
Translation differences	24	76	-4	20
<b>Closing balance</b>	<b>423</b>	<b>1,832</b>	<b>422</b>	<b>1,774</b>

Supplementary information regarding the reinsurers' portion of technical provisions is presented in Note 32.

**NOTE 25 – Debtors arising out of direct insurance**

MSEK	2016	2015
Receivables from policyholders	11,421	10,628
Receivables from insurance brokers	18	25
Receivables from insurance companies	60	49
Bad-debt provision	-281	-295
<b>Total <sup>1)</sup></b>	<b>11,218</b>	<b>10,407</b>

<sup>1)</sup> Of which, MSEK 2 (1) is expected to be received later than 12 months after the closing date.

MSEK	Not due and due less than six months	Due more than six months	Total
<b>Age analysis</b>			
Receivable	11,192	307	11,499
Of which, provision	-13	-268	-281
<b>Total</b>	<b>11,179</b>	<b>39</b>	<b>11,218</b>

Generally, provision is made on a standard computation base, the amount includes individual provision of negative MSEK -7 (-5).

**NOTE 26 – Debtors arising out of reinsurance**

MSEK	2016	2015
Receivables from reinsurers	494	420
Bad-debt provisions	-6	-70
<b>Total <sup>1)</sup></b>	<b>488</b>	<b>350</b>

<sup>1)</sup> Of which, MSEK 6 (-) is expected to be received later than 12 months after the closing date.

MSEK	Not due and due less than six months	Due more than six months	Total
<b>Age analysis</b>			
Receivable	442	52	494
Of which, provision	-1	-5	-6
<b>Total</b>	<b>441</b>	<b>47</b>	<b>488</b>

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

## NOTE 27 – Other debtors

MSEK	2016	2015
Debtor, patient-insurance pool for the public sector	1,148	1,102
Bad-debt provisions	0	-10
Other debtors	124	121
<b>Total <sup>1)</sup></b>	<b>1,272</b>	<b>1,213</b>

<sup>1)</sup> Of which, MSEK 1,087 (1,033) is expected to be received later than 12 months after the closing date.

## NOTE 28 – Tangible assets

MSEK	2016	2015
Accumulated acquisition value	622	601
Accumulated depreciation	-442	-431
<b>Closing planned residual value</b>	<b>180</b>	<b>170</b>

Operational leasing where If acts as lessee mainly pertains to costs for premises, vehicles and office equipment.

Operational leasing where If acts as lessor pertains to income from the leasing out of premises and was only insignificant amounts. The carrying amount of leased-out land and buildings is MSEK 190 (185).

MSEK	Total future minimum lease payments	
Operational leasing agreements (lessee)		
<b>Due dates</b>	<b>2016</b>	<b>2015</b>
< 1 year	297	290
1–5 years	989	903
> 5 years	432	445
<b>Total</b>	<b>1,718</b>	<b>1,638</b>
<b>Total lease payments during the period</b>	<b>321</b>	<b>271</b>
<i>Of which, minimum lease payments</i>	<i>314</i>	<i>267</i>
<i>Of which, contingent rents</i>	<i>7</i>	<i>4</i>

## NOTE 29 – Deferred acquisition costs

MSEK	2016	2015
<b>Opening balance</b>	<b>1,208</b>	<b>1,297</b>
Net change during the year	-91	-40
Translation difference	61	-49
<b>Closing balance</b>	<b>1,178</b>	<b>1,208</b>

Acquisition expenditure during the year amounted to MSEK 4,643 (4,651). The item pertains to accrued sales costs that have a distinct connection to the writing of insurance contracts. The sales costs include operating expenses such as commission, marketing expenses, salaries and the cost of salespeople, which vary according to, and have a direct or indirect relationship with, the acquisition or renewal of insurance contracts. The sales costs are expensed in a manner that matches the amortization of unearned premiums, normally not more than one year.

## NOTE 30 – Other deferred costs and accrued income

MSEK	2016	2015
Accrued income	296	278
Deferred costs	211	184
<b>Total</b>	<b>507</b>	<b>462</b>



**NOTE 31 – Subordinated debt**

MSEK	Original nominal value	Maturity	Interest rate	2016		2015	
				Fair value <sup>1)</sup>	Carrying amount	Fair value <sup>1)</sup>	Carrying amount
Subordinated loan, issued in 2011	MEUR 110	30 years	6.00%	1,157	1,045	1,106	1,004
Subordinated loan, issued in 2013	MEUR 90	Perpetual	4.70%	883	858	850	825
Subordinated loan, issued in 2016	MSEK 1,500	30 years	3-month STIBOR + 2.25%	1,467	1,489	-	-
Subordinated loan, issued in 2016	MSEK 500	30 years	2.415%	496	497	-	-
<b>Total</b>				<b>4,003</b>	<b>3,889</b>	<b>1,956</b>	<b>1,829</b>

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

The loan issued in 2011 is issued with fixed interest rate terms for the first 10 years. After that period, the loan becomes subject to variable interest rate but it also includes terms stating the right of redemption at this point in time. The loan is listed on the Luxembourg Stock Exchange (BdL Market).

The loan issued in 2013 is issued with fixed interest rate terms for the first five and a half years. After that period, it becomes subject to variable interest rates but it also includes terms stating the right of redemption at this point in time.

The loan of MSEK 1,500 issued in 2016 is issued with variable interest rate terms. After ten years the margin is

increased by one percentage point. It includes terms stating the right of redemption after five years and at any interest payment date thereafter. The loan is listed on the Luxembourg Stock Exchange (BdL Market).

The loan of MSEK 500 issued in 2016 is issued with fixed interest rate terms for the first five years. After that period, the loan becomes subject to variable interest rate but it also includes terms stating the right of redemption at this point in time or at any interest payment date thereafter. The loan is listed on the Luxembourg Stock Exchange (BdL Market).

All loans and loan terms are approved by supervisory authorities as being utilizable for solvency purposes.

**NOTE 32 – Technical provisions, gross**

MSEK	2016		2015	
	Provision for unearned premiums and unexpired risks	Provisions for claims outstanding	Provision for unearned premiums and unexpired risks	Provisions for claims outstanding
<b>Changes during the year</b>				
<b>Opening balance</b>	<b>18,537</b>	<b>68,150</b>	<b>18,772</b>	<b>67,486</b>
Unwinding of discounted annuities	-	267	-	351
Change in provision	38	-828	365	1,824
Translation differences	926	2,506	-600	-1,511
<b>Closing balance</b>	<b>19,501</b>	<b>70,095</b>	<b>18,537</b>	<b>68,150</b>

MSEK		
Technical provisions and reinsurers' share		
	2016	2015
<b>Technical provisions, gross</b>		
Unearned premiums and unexpired risks	19,501	18,537
Provision for incurred and reported claims	15,248	15,231
Provision for incurred but not reported claims	31,783	30,799
Provision for annuities	20,517	19,649
Provision for claims-settlement costs	2,547	2,471
<b>Total</b>	<b>89,596</b>	<b>86,687</b>
<b>Reinsurers' share of technical provisions</b>		
Unearned premiums and unexpired risks	423	422
Provision for incurred and reported claims	1,089	874
Provision for incurred but not reported claims	742	899
Provision for annuities	1	1
Provision for claims-settlement costs	-	-
<b>Total</b>	<b>2,255</b>	<b>2,196</b>
<b>Technical provisions, net of reinsurance</b>		
Unearned premiums and unexpired risks	19,078	18,115
Provision for incurred and reported claims	14,159	14,357
Provision for incurred but not reported claims	31,041	29,900
Provision for annuities	20,516	19,648
Provision for claims-settlement costs	2,547	2,471
<b>Total</b>	<b>87,341</b>	<b>84,491</b>

## VALUATION OF TECHNICAL LIABILITIES

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

## PROVISIONS FOR UNEARNED PREMIUMS AND UNEXPIRED RISK

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

## PROVISIONS FOR UNSETTLED CLAIMS

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

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

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

## DESCRIPTION OF METHOD

If uses a number of statistical methods to determine the final claims cost that If must pay.

The most common methods are Chain-ladder and Bornhuetter-Ferguson. The Chain-ladder method may be based on various types of data such as outgoing payments, claims costs or the number of claims. Historical claims trend factors and a selection of estimates of future development factors are analyzed. The selection of development factors are subsequently applied to the known costs to date for claims for each claims year (which are not yet fully developed) that is to be estimated. This provides an estimate of the anticipated claims costs for each claims year. The Chain-ladder methodology is most suitable for insurance portfolios that have a relatively stable progression. The method is less applicable in cases that lack sufficient historical data, such as in the case of new insurance products or portfolios with a long lag in claims reporting. In the case of such portfolios, the Bornhuetter-Ferguson method is most frequently used. This is based partly on a combination of claims history and partly on exposure data, such as the numbers of insured parties or premiums

written. The actual claims history is given greater weight for older developed claims years while for more recent years, the known exposure is weighted to a greater degree towards experience from similar portfolios and product areas.

## ASSUMPTIONS AND SENSITIVITY

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

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

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

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

## INFLATION

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

A large share of the claims cost in obligatory insurance consists of compensation for loss of income, which in terms of legislation is usually associated with a pre-defined index for the value adjustments of compensation. In Finland, compensation is paid out in the form of vested annuities and value adjustments are dealt with off the balance sheet in a non-funded pool system. This limits the inflation risk. In Sweden, compensation is also paid out in the form of vested annuities over a long period and provisions must cover future value adjustments. The same also applies to Danish Workers Compensation insurance. This entails substantial sensitivity to changes in inflation.

In Norway and in Danish Motor Third-party Liability insurance, compensation is paid as a lump sum. Since in this case the duration is relatively short, the inflation risk is reduced. Refer to Note 5, Risks and risk management, for a sensitivity analysis of inflation.

## DISCOUNT RATE

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

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

The presentation below shows discounted provisions and discount rate by country for countries with significant claims-related annuity portfolios:

MSEK	2016	2015
<b>Denmark</b>		
Amount vested annuities	1,173	962
Discount rate	0.72%	1.71%
<b>Finland</b>		
Amount vested annuities	14,270	13,912
Amount IBNR	2,620	2,440
Discount rate	1.50%	1.50%
<b>Sweden</b>		
Amount vested annuities	4,902	4,660
Discount rate	1.65%	2.01%

Refer to Note 5, Risks and risk management, for a sensitivity analysis of the discount interest rate.

#### MORTALITY

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

#### EFFECTS OF LEGISLATIVE AMENDMENTS AND COURT PRACTICES

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

#### CHANGES IN 2016

No significant changes in methods were implemented during the year.

During the year, the reported increase in gross claims provisions amounted to SEK 1.9 billion. Effects of exchange rate changes amounted to an increase of SEK 2.5 billion, while the real change in gross claims reserves adjusted for currency effects amounted to a decrease of SEK 0.6 billion.

By geographical area, the major reserve changes were as follows:

- Claims provisions in the Swedish operation, including branches of the Industrial business area, showed only a modest decrease in total. Reserves for Accident insurance increased by SEK 0.3 billion and reserves for Liability insurance increased by SEK 0.4 billion, the latter mostly as a result of two very large reported claims. Reserves for Property insurance decreased by SEK 0.2 billion which can be

attributed to a favorable large claims result. Finally, reserves for Motor Third Party liability insurance decreased by SEK 0.5 billion, of which SEK 0.7 billion is due to a release of reserves previously set aside for an anticipated update of the mortality model, which did not in fact materialize as a study showed the present model to be adequate, while annuity reserves increased by SEK 0.2 billion due to lowered discount rates.

- Claims provisions in the Norwegian operation decreased by SEK 0.5 billion. Reserves for Workers' Compensation insurance decreased by slightly more than SEK 0.3 billion and reserves for Motor Third Party Liability insurance decreased by almost SEK 0.3 billion, while there were smaller releases in reserves for Liability insurance and Property insurance.
- Claims provisions in the Danish operation decreased by almost SEK 0.1 billion mostly due to a decrease in reserves for Liability insurance, with more than SEK 0.2 billion due to settlement of an old claim, while reserves for Accident insurance and Workers' Compensation insurance increased by a total of about SEK 0.1 billion.
- Claims provisions in the Finnish operation showed a very modest decrease in total. There was however an increase of almost SEK 0.2 billion in reserves for Property insurance, which was offset by decreases in reserves for Accident insurance, Liability insurance and Workers' Compensation insurance.
- Claims provisions in the Baltic countries showed a negligible increase.

The reinsured share of the claims provision increased by less than SEK 0.1 billion. The real change adjusted for currency effects amounted to a very small decrease in ceded claims reserves. There was some increase in ceded reserves for Liability insurance and decreases in ceded reserves for Property insurance and Workers' Compensation insurance.

#### SIGNIFICANT EVENTS

This year's outcome for large claims was lower than expected on a Nordic level. The largest claim in 2016 was a liability claim in Sweden estimated at SEK 0.3 billion.

#### CLAIMS COSTS TREND

In addition to the sensitivity analysis, prior-year estimates of the claims costs for individual claims years also represent a measure of If's ability to foresee final claims costs. The tables below show the cost trend for the claims years 2007-2016, before and after reinsurance. For claims years 2006 and earlier, the information is aggregated to one column and includes only payments made after 2002, i.e. the starting point is the closing balance for claims provisions in 2002 as well as the complete claims years 2003-2006.

The upper part of the table shows how an estimate of the total claims costs per claims year evolves annually. The lower section shows how large a share of this is presented in the balance sheet. Since If has operations in various countries, the portfolio is exposed to a number of currencies. To adjust for currency effects, the local reporting currency has been translated to SEK at the closing rate on December 31, 2016. Consequently, the table is not directly comparable to corresponding tables reported in previous years or with the income statement, since all claims years include translated information and closing rates are used throughout.

MSEK Claims costs, gross Claims year	2006 and prior years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
<b>Estimated claims cost</b>												
at the close of the claims year	140,313	24,548	25,756	25,783	26,841	27,637	28,004	27,045	26,885	27,179	27,566	
one year later	139,763	24,514	25,343	25,315	27,219	28,720	27,880	27,310	26,818	27,363		
two years later	138,918	24,180	24,806	25,050	26,707	28,688	28,035	27,316	26,891			
three years later	139,003	23,885	24,546	24,667	26,693	28,567	27,932	27,365				
four years later	138,914	23,455	24,329	24,492	26,626	28,306	27,623					
five years later	138,023	23,225	24,197	24,275	26,599	28,158						
six years later	137,048	23,137	24,012	24,251	26,446							
seven years later	137,006	23,010	24,071	23,986								
eight years later	137,095	23,004	23,886									
nine years later	138,152	22,832										
ten years later	137,829											
Current estimate of total claims costs	137,829	22,832	23,886	23,986	26,446	28,158	27,623	27,365	26,891	27,363	27,566	
Total disbursed	111,195	20,799	21,759	21,782	23,939	25,308	24,469	23,661	22,277	21,541	15,667	
Provisions reported in the balance sheet	26,634	2,033	2,127	2,204	2,507	2,850	3,154	3,704	4,614	5,822	11,899	67,548
<i>Of which annuities</i>	14,547	780	674	580	740	716	675	770	612	351	72	20,517
Provisions for claims- settlement costs												2,547
<b>Total provisions reported in the balance sheet</b>												<b>70,095</b>

MSEK Claims cost, net of reinsurance Claims year	2006 and prior years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
<b>Estimated claims cost</b>												
at the close of the claims year	130,512	23,621	24,643	24,701	25,535	26,139	26,145	26,575	26,511	26,733	26,983	
one year later	129,806	23,523	24,353	24,396	25,975	26,835	26,004	26,839	26,407	26,881		
two years later	129,050	23,274	23,843	24,114	25,573	26,713	26,156	26,862	26,326			
three years later	128,772	22,979	23,595	23,859	25,511	26,659	26,157	26,926				
four years later	128,856	22,575	23,409	23,696	25,482	26,368	25,899					
five years later	128,172	22,350	23,295	23,474	25,457	26,262						
six years later	127,356	22,281	23,120	23,456	25,296							
seven years later	127,360	22,156	23,181	23,221								
eight years later	127,562	22,146	23,004									
nine years later	128,517	21,966										
ten years later	128,164											
Current estimate of total claims costs	128,164	21,966	23,004	23,221	25,296	26,262	25,899	26,926	26,326	26,881	26,983	
Total disbursed	101,983	19,957	20,903	21,050	22,838	23,478	22,829	23,360	22,016	21,231	15,567	
Provisions reported in the balance sheet	26,181	2,009	2,101	2,171	2,458	2,784	3,070	3,566	4,310	5,650	11,416	65,716
<i>Of which annuities</i>	14,546	780	674	580	740	716	675	770	612	351	72	20,516
Provisions for claims- settlement costs												2,547
<b>Total provisions reported in the balance sheet</b>												<b>68,263</b>

**COMMENTS**

In 2016, If had reinsurance with self-retention of MSEK 250 per event and between MSEK 100 and 250 per risk depending on line of business.

Provisions for fixed claims-related annuities and related payments are included in the distribution by claims year above.

The Finnish discounted preliminary claims-related annuities are reported as annuities in the balance sheet. Of the total net provision for claims-related annuities of MSEK 20,516, MSEK 14,546 applies to 2006 and previous years.

## NOTE 33 Deferred tax

MSEK	Opening balance 2016	Recognized in income statement	Translation difference	Recognized in other comprehensive income	Closing balance 2016
<b>Changes in deferred tax 2016</b>					
<b>Deferred tax assets</b>					
Tax losses carried forward	0	0	0	-	0
Provisions	320	-75	10	12	267
Goodwill <sup>1)</sup>	91	0	16	-16	91
Accumulated depreciation	14	-4	0	-	10
Other temporary differences	6	0	0	-	6
<b>Total deferred tax asset</b>	<b>431</b>	<b>-79</b>	<b>26</b>	<b>-4</b>	<b>374</b>
<b>Netted deferred tax asset against deferred tax liability</b>	<b>-179</b>				<b>-141</b>
<b>Deferred tax asset according to balance sheet</b>	<b>252</b>				<b>233</b>
<b>Deferred tax liability</b>					
Equalization reserve and other similar provisions	2,162	55	88	-	2,305
Valuation of investment assets at fair value	661	-15	5	233	884
Other temporary differences	237	16	8	-	261
<b>Total deferred tax liability</b>	<b>3,060</b>	<b>56</b>	<b>101</b>	<b>233</b>	<b>3,450</b>
<b>Netted deferred tax liability against deferred tax asset</b>	<b>-179</b>				<b>-141</b>
<b>Deferred tax liability according to balance sheet</b>	<b>2,881</b>				<b>3,309</b>
<b>Deferred tax expense according to income statement 2016</b>		<b>-135</b>			

<sup>1)</sup> Goodwill pertains to the possibility of tax deductions for goodwill booked in If P&C Insurance Ltd. This goodwill is eliminated at Group level.

MSEK	Opening balance 2015	Recognized in income statement	Translation difference	Recognized in other comprehensive income	Closing balance 2015
<b>Changes in deferred tax 2015</b>					
<b>Deferred tax assets</b>					
Tax losses carried forward	0	0	0	-	0
Provisions	796	-467	21	-30	320
Goodwill <sup>1)</sup>	91	0	-15	15	91
Accumulated depreciation	18	-4	0	-	14
Other temporary differences	7	-1	0	-	6
<b>Total deferred tax asset</b>	<b>912</b>	<b>-472</b>	<b>6</b>	<b>-15</b>	<b>431</b>
<b>Netted deferred tax asset against deferred tax liability</b>	<b>-194</b>				<b>-179</b>
<b>Deferred tax asset according to balance sheet</b>	<b>718</b>				<b>252</b>
<b>Deferred tax liability</b>					
Equalization reserve and other similar provisions	2,452	-217	-73	-	2,162
Valuation of investment assets at fair value	858	35	-5	-227	661
Accumulated depreciation	87	-87	-	-	0
Other temporary differences	388	117	-5	-263	237
<b>Total deferred tax liability</b>	<b>3,785</b>	<b>-152</b>	<b>-83</b>	<b>-490</b>	<b>3,060</b>
<b>Netted deferred tax liability against deferred tax asset</b>	<b>-194</b>				<b>-179</b>
<b>Deferred tax liability according to balance sheet</b>	<b>3,591</b>				<b>2,881</b>
<b>Deferred tax expense according to income statement 2015</b>		<b>-320</b>			

<sup>1)</sup> Goodwill pertains to the possibility of tax deductions for goodwill booked in If P&C Insurance Ltd. This goodwill is eliminated at Group level.

**NOTE 34 Provision for pensions and similar obligations**

MSEK	2016	2015
Estimated present value of obligation, including social costs	2,804	2,782
Fair value of plan assets	2,048	1,958
<b>Net liability recognized in balance sheet</b>	<b>756</b>	<b>824</b>

If applies IAS 19 Employee Benefits (issued in 2011) and recognizes defined-benefit pension plans in Sweden and Norway. Other pension plans existing in the Group have either been classified as defined-contribution plans or have been classified as defined-benefit plans but recognized as defined-contribution plans, either because If lacks the information necessary to recognize them as defined-benefit plans or because they have been deemed as insignificant.

Since January 1, 2008, the main Swedish defined-benefit pension plan has been closed to new employees born in 1972 or later and the corresponding Norwegian pension plan has been closed to new employees since January 1, 2006 regardless of age. In May 2015, If decided that all employees born in 1958 or later that were covered by the Norwegian defined-benefit pension plan would be transferred to a defined-contribution plan as of January 1, 2016. As of the same date, it was also decided that existing retirees would no longer be covered by the plan, and that future retirees would cease being covered by the plan when they are no longer employed by If. Accordingly, the Norwegian pension plan now consists solely of active people employed prior to 2006 and born no later than 1957.

The pension benefits referred to are old-age pension and survivors' pension in Sweden. For Norway, old-age pension and survivors' pension are included, as well as disability pension up to July 1, 2016. Following an amendment to the plan, all employees will instead be covered by a defined-contribution plan for disability pension. A common feature of the defined-benefit plans is that the employees and survivors encompassed by the plans are entitled to a guaranteed pension that depends on the employees' service period and pensionable salary at the time of retirement. The dominating benefit is the old-age pension, which refers in part to temporary pension before the anticipated retirement age and in part to a life-long pension after the anticipated retirement age.

The retirement age for receiving early retirement pension is normally 62 years in Sweden and normally 65 years in Norway. In Sweden, premature old-age pension following a complete service period is payable at a rate of approximately 65% of the pensionable salary and applies to all employees born in 1955 or earlier and who were covered by the insurance sector's collective bargaining agreement of 2006. In Norway, premature old-age pension following a complete service period is payable at a rate of 70% of the pensionable salary and applies to all employees born in 1957 or earlier and who were employed by If in 2013.

The anticipated retirement age in connection with life-long pension is 65 years for Sweden and 67 years for Norway. In Sweden, life-long old-age pension following a complete service period is payable at a rate of 10% of the pensionable salary between 0 and 7.5 income base amounts, 65% of salary between 7.5 and 20 income base amounts and 32.5% between 20 and 30 income base amounts. In Norway, life-long old-age pension following a complete service period is payable at a rate

of 70% of the pensionable salary up to 12 National Insurance base amounts, together with the estimated statutory old-age pension. Paid-up policies and pension payments from the Swedish plans are normally indexed upwards in an amount corresponding to the change in the consumer price index. However, there is no agreement guaranteeing the value and future supplements in addition to the contractual pension benefit could either rise or fall. Pension payments from the Norwegian plans were earlier indexed upwards in an amount corresponding to 80-100% of the change in the consumer price index. Instead, as of January 1, 2016, a paid-up policy is issued on retirement, whereby If is no longer responsible for and has no obligation in respect of future indexation of the insured plans.

The pensions are primarily funded through insurance whereby the insurers establish the premiums and disburse the benefits. If's obligation is primarily fulfilled through payment of the premiums. Should the assets that are attributable to the pension benefits not be sufficient to enable the insurers to cover the guaranteed pension benefits, If could be forced to pay supplementary insurance premiums or secure the pension obligations in some other way. In addition to insured pension plans, there are also unfunded pension benefits in Norway for which If is responsible for ongoing payment.

To cover the insured pension benefits, the related capital is managed as part of the insurers' management portfolios. In such management, the characteristics of the investment assets are analyzed in relation to the characteristics of the obligations, in a process known as Asset Liability Management. New and existing asset categories are evaluated continuously in order to diversify the asset portfolios with a view to optimizing the anticipated risk-adjusted return. Any surplus that arises from management of the assets normally accrues to If and/or the insured and there is no form of transfer of the asset value to other members of the insurance collective.

The insurers and If are jointly responsible for monitoring the pension plans, including investment decisions and contributions. The pension plans are essentially exposed to similar material risks regarding the final amount of the benefits, the investment risk associated with the plan assets and the fact that the choice of discount interest rate affects their valuation in the financial statements.

When applying IAS 19, the pension obligations are calculated, as is the pension cost attributable to the fiscal period, using actuarial methods. Pension rights are considered to have been vested straight line during the service period. The calculation of pension obligations is based on future anticipated pension payments and includes assumptions regarding mortality, employee turnover and salary growth. The nominally calculated obligation is discounted to the present value using interest rates based on the extrapolated yield-curves in Sweden and in Norway for AAA and AA corporate bonds, including mortgage-backed bonds, as at 30 November, approximately updated to reflect market conditions mid-December. The discount rate



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

The following tables contain a number of material assumptions, specifications of pension costs, assets and liabilities and a sensitivity analysis showing the potential effect on the obligations of reasonable changes in those assumptions as

at the end of the fiscal year. As apparent from the tables, the said amendment to the insured disability plan in Norway has been taken into account when preparing the annual accounts for 2016 and had a not immaterial impact on both recognized costs and assets and obligations. The carrying amounts have been stated including special payroll tax in Sweden (24.26%) and a corresponding fee in Norway (14.1%-19.1%).

MSEK	2016			2015		
	Sweden	Norway	Total	Sweden	Norway	Total
<b>Distribution by country</b>						
<b>Income statement and other comprehensive income</b>						
Current service cost	51	34	85	54	82	136
Past service cost	4	-64	-60	1	-1,456	-1,455
<b>Total cost, defined benefit pensions in technical result</b>	<b>55</b>	<b>-30</b>	<b>25</b>	<b>55</b>	<b>-1,374</b>	<b>-1,319</b>
Interest expense on net pension liability	9	11	20	12	30	42
Remeasurements of the net pension liability in other comprehensive income	79	-23	56	-86	-41	-127
<b>Net cost (income), defined benefit pensions in comprehensive income</b>	<b>143</b>	<b>-42</b>	<b>101</b>	<b>-19</b>	<b>-1,385</b>	<b>-1,404</b>
<b>In addition, defined contribution pension cost excl. social costs</b>			<b>548</b>			<b>407</b>
<b>Balance sheet</b>						
Estimated present value of obligation, including social costs	1,969	835	2,804	1,803	979	2,782
Fair value of plan assets	1,582	466	2,048	1,433	525	1,958
<b>Net liability recognized in balance sheet</b>	<b>387</b>	<b>369</b>	<b>756</b>	<b>370</b>	<b>454</b>	<b>824</b>
<b>Distribution by asset class</b>						
Bonds, level 1	39%	54%		39%	50%	
Bonds, level 2	0%	13%		1%	13%	
Equities, level 1	28%	6%		26%	5%	
Equities, level 3	10%	3%		10%	3%	
Properties, level 3	11%	12%		10%	12%	
Other, level 1	2%	9%		4%	14%	
Other, level 2	6%	3%		6%	3%	
Other, level 3	4%	0%		4%	0%	
<b>Significant actuarial assumptions, etc.</b>						
Discount rate	2.75%	2.75%		3.00%	2.50%	
Future salary increases	2.75%	3.00%		2.75%	3.00%	
Price inflation	1.75%	2.00%		1.75%	2.00%	
Mortality table	FFFS 2007:31 +1 year	K2013		FFFS 2007:31 +1 year	K2013	
Average duration of pension liabilities	22 years	13 years		21 years	14 years	
Expected contributions to the defined benefit plans during 2017 and 2016	91	25		90	38	
<b>Sensitivity analysis</b>						
Discount rate, +0.50%	-236	-56	-292	-211	-68	-279
Discount rate, -0.50%	270	62	332	244	75	319
Future salary increases, +0.25%	79	7	86	73	13	86
Future salary increases, -0.25%	-73	-7	-80	-66	-13	-79
Expected longevity, +1 year	76	21	97	67	21	88

MSEK	Funded plans		Unfunded plans	
	2016	2015	2016	2015
<b>Distribution of obligations on funded and unfunded plans</b>				
Estimated present value of obligation, including social costs	2 484	2 451	320	331
Fair value of plan assets	2 048	1 958	-	-
<b>Net liability recognized in balance sheet</b>	<b>436</b>	<b>493</b>	<b>320</b>	<b>331</b>



MSEK	2016	2015
<b>Specification of change in net liability</b>		
<b>Pension obligations</b>		
On Jan 1	2,782	6,235
Current service cost	85	136
Past service cost	-60	-1,455
Interest expense	76	143
Actuarial gains (-)/losses (+) on financial assumptions	78	39
Actuarial gains (-)/losses (+) on demographic assumptions	-	-
Actuarial gains (-)/losses (+), experience adjustments	22	-129
Translation differences on foreign plans	93	-139
Benefits paid and social costs paid	-204	-230
Settlements	-68	-1,818
<b>Present value of obligations on Dec 31</b>	<b>2,804</b>	<b>2,782</b>

	2016	2015
<b>Fair value of plan assets</b>		
On Jan 1	1,958	3,744
Interest income	56	101
Difference between actual return and calculated interest income	44	37
Contributions paid	147	242
Translation differences on foreign plans	48	-198
Benefits paid	-137	-150
Settlements	-68	-1,818
<b>Fair value of plan assets on Dec 31</b>	<b>2,048</b>	<b>1,958</b>

## NOTE 35 Other provisions

MSEK	2016	2015
<b>Change in other provisions</b>		
<b>Opening balance</b>	<b>464</b>	<b>593</b>
Provisions utilized during the fiscal year	-196	-187
Unutilized provisions reversed during the fiscal year	-12	-43
Provisions added during the fiscal year	69	108
Translation difference	8	-7
<b>Closing balance<sup>1)</sup></b>	<b>333</b>	<b>464</b>

<sup>1)</sup> Of which MSEK 257 (337) to be settled later than 12 months after the balance-sheet date.

Other provisions consist of funds amounting to MSEK 102 (155) reserved for future expenses attributable to previously implemented or planned future organizational changes. The development of more efficient administrative and claims-adjustment processes and structural changes in distribution channels are resulting in organizational changes affecting all business areas. In addition to the provisions attributable to restructuring measures, the item includes employer contributions of MSEK 26 (24) reserved for commitments attributable to endowment policies and provisions for law suits and other uncertain obligations amounting to MSEK 205 (277).

## NOTE 36 Creditors arising out of direct insurance

MSEK	2016	2015
Payables to policyholders	1,583	1,380
Payables to insurance brokers	81	85
Payables to insurance companies	28	37
<b>Total<sup>1)</sup></b>	<b>1,692</b>	<b>1,502</b>

<sup>1)</sup> Of which MSEK - (-) to be settled later than 12 months after the closing date.

## NOTE 37 Other creditors

MSEK	2016	2015
Tax debt (current)	899	659
Accounts payable	101	148
Securities settlement liabilities	0	0
Creditor, patient-insurance pool for the public sector	1,126	1,061
Premium Tax	464	450
Employee withholding taxes	132	115
Other Tax	57	61
Other creditors	261	206
<b>Total<sup>1)</sup></b>	<b>3,040</b>	<b>2,700</b>

<sup>1)</sup> Of which MSEK 958 (916) matures later than 12 months after the closing date.

## NOTE 38 – Other accruals and deferred income

MSEK	2016	2015
Accrued interest expense, subordinated debt	11	7
Other accrued expense	1,631	1,625
Deferred income	1	6
<b>Total</b>	<b>1,643</b>	<b>1,638</b>

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

**NOT 39 – Pledged assets**

MSEK Pledged assets and equivalent securities for own liabilities and for commitments reported as provisions, each type individually		
	2016	2015
Other financial investment assets	2,364	2,223
Cash and bank	4	3
<b>Total</b>	<b>2,368</b>	<b>2,226</b>

MSEK Pledged assets and the pledging purposes were distributed as follows:		
	2016	2015
<b>Financial investment assets</b>		
Collateral for insurance undertakings	2,211	2,223
Collateral for futures trading	153	0
<b>Total</b>	<b>2,364</b>	<b>2,223</b>
<b>Cash and bank balances</b>		
Collateral for insurance undertakings	2	1
Collateral for permission to conduct insurance operations	1	1
Security for rent	1	1
<b>Total</b>	<b>4</b>	<b>3</b>
<b>Total</b>	<b>2,368</b>	<b>2,226</b>

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

MSEK Policyholders' beneficiary rights <sup>1)</sup>		
	2016	2015
Assets covered by policyholders' beneficiary rights	76,482	72,773
Technical provisions, net	-50,264	-58,187
<b>Surplus of registered securities</b>	<b>26,218</b>	<b>14,586</b>

<sup>1)</sup> The Register of Assets Covering Technical Provisions that was in force up to and including 2015, has been replaced by the Register of Priority Rights, implying that the amounts related to 2015 and 2016 are not fully comparable. The major differences are the principles for which assets that can be included in the register; and that the technical provisions are to be valued according to Solvency II regulations.

**NOTE 40 – Contingent liabilities and other commitments**

MSEK		
	2016	2015
Surety and guarantee undertakings	37	48
Other commitments	143	139
<b>Total</b>	<b>180</b>	<b>187</b>

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

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

**NOTE 41 – Events after the balance date**

If is investigating the possibility of extending the use of the partial internal model through a transformation of the Finnish subsidiary If P&C Insurance Company Ltd into a branch office of the Swedish subsidiary If P&C Insurance Ltd (publ), and the Boards have adopted a jointly prepared Merger plan. The merger will be subject to the approvals of

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

With respect to certain IT systems that If and Sampo use jointly, If P&C Insurance Holding Ltd has undertaken to indemnify Sampo for any costs caused by If that Sampo may incur, in relation to the owners of the IT- systems.

If P&C Insurance Company Ltd has outstanding commitments to private equity funds totaling MEUR 15, which is the maximum amount that the company has committed to invest in the funds. Capital will be called to these funds over several years as the funds make investments.

the relevant authorities. The change would be in line with If's business model as the Swedish company already consists of If's Swedish, Norwegian and Danish businesses through a branch structure and further enhances If Group's capital situation and its risk management structure.

The Russian subsidiary CJSC If Insurance was liquidated in the beginning of 2017.

# NOTES TO THE PARENT COMPANY

## NOTE 1 – Result from associates

MSEK	2016	2015
Dividend	1	1
Gain/loss on sale <sup>1)</sup>	2,342	-4
Impairment <sup>2)</sup>	-25	-
<b>Total</b>	<b>2,318</b>	<b>-3</b>

<sup>1)</sup> Whereof Topdanmark A/S MSEK 2,347, Urzus group AS MSEK 5 and Watercircles

Skandinavia AS MSEK -10.

<sup>2)</sup> Consists of Contemi Holding AS.

## NOTE 2 – Interest income and similar income items

MSEK	2016	2015
Interest income, Group companies	11	4
Other interest income	6	6
<b>Total</b>	<b>17</b>	<b>10</b>

## NOTE 3 – Interest expense and similar expense items

MSEK	2016	2015
Interest expense, Group companies	-6	-8
Interest expense, other	-14	-
Other	-2	-
<b>Total</b>	<b>-22</b>	<b>-8</b>

## NOTE 4 – Taxes

MSEK	2016	2015
Current tax	-1	-1
Deferred tax	-	-
<b>Total tax in the income statement</b>	<b>-1</b>	<b>-1</b>

MSEK	2016	2015
<b>Difference between reported tax and tax based on current Swedish tax rate</b>		
Profit before taxes	2,482	6,077
Tax according to current tax rate, 22%	-546	-1,337
Non-taxable dividend from Group companies, associated companies and other holdings	35	1,337
Non-taxable/non-deductible capital gain/loss and impairment loss	510	-1
<b>Reported tax in the income statement</b>	<b>-1</b>	<b>-1</b>

## NOTE 5 – Shares in Group companies

	Country	Number of shares	Holding %	Carrying amount, MSEK	
				2016	2015
If P&C Insurance Ltd (publ), corp. reg. no. 516401-8102	Sweden	1,044,306	100	12,080	12,080
If Livförsäkring AB, corp. reg. no. 516406-0252	Sweden	10,000	100	73	73
Nordic Assistance AB, corp. reg. no. 559058-0824 <sup>1)</sup>	Sweden	50,000	100	7	-
If IT Services A/S	Denmark	501	100	1	1
If Vahinkovakuutusyhtiö Oy/If P&C Insurance Company Ltd	Finland	960,000	100	4,435	4,435
If P&C Insurance AS	Estonia	6,391,165	100	442	442
CJSC If Insurance (in liquidation)	Russia	1,000	100	90	90
<b>Total</b>				<b>17,128</b>	<b>17,121</b>

<sup>1)</sup> Capital contribution to the company amounts to MSEK 7.

**NOTE 6 – Shares in associated companies**

	Country	Number of shares	Holding %	Carrying amount, MSEK	
				2016	2015
CAB Group AB, corp.reg.no. 556131-2223	Sweden	1,209	22.0	7	7
Topdanmark A/S <sup>1)</sup>	Denmark	-	-	-	5,008
SQS International A/S <sup>2)</sup>	Denmark	219,450	10.2	51	-
Urzus Group AS <sup>1)</sup>	Norway	-	-	-	25
Contemi Holding AS <sup>3)</sup>	Norway	28,572	28.6	0	25
Watercircles Skandinavia AS <sup>1)</sup>	Norway	-	-	-	70
Svithun Rogaland Assurance AS	Norway	6,530	33.0	13	13
<b>Total</b>				<b>71</b>	<b>5,148</b>

<sup>1)</sup> The companies have been divested during the year.

<sup>2)</sup> Besides the holding in If P&C Insurance Holding Ltd, the subsidiary If P&C Insurance Ltd owns 320,150 shares, corresponding to 15.0%.

<sup>3)</sup> The company has been written down with MSEK 25 during the year.

**NOTE 7 – Subordinated debt**

MSEK	Original nominal value	Maturity	Interest rate	2016		2015	
				Fair value <sup>1)</sup>	Carrying amount	Fair value <sup>1)</sup>	Carrying amount
Subordinated loan, issued in 2016	MSEK 1,500	30 years	3-month STIBOR + 2.25%	1,467	1,489	-	-
Subordinated loan, issued in 2016	MSEK 500	30 years	2.415%	496	497	-	-
<b>Total</b>				<b>1,963</b>	<b>1,986</b>	<b>-</b>	<b>-</b>

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

The loan of MSEK 1,500 is issued with variable interest rate terms. After ten years the margin is increased by one percentage point. It includes terms stating the right of redemption after five years and at any interest payment date thereafter. The loan is listed on the Luxembourg Stock Exchange (BdL Market).

The loan of MSEK 500 is issued with fixed interest rate terms for the first five years. After that period, it becomes subject to variable interest rate but it also includes terms stating the right of redemption at this point in time or at any interest payment date thereafter. The loan is listed on the Luxembourg Stock Exchange (BdL Market).

**NOTE 8 – Contingent liabilities and other commitments**

MSEK	2016	2015
Surety and guarantee undertakings	-	-
<i>On behalf of Group companies</i>	-	-

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

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

With respect to certain IT systems that If and Sampo use jointly, If P&C Insurance Holding Ltd has undertaken to indemnify Sampo for any costs caused by If that Sampo may incur in relation to the owners of the systems.

**NOTE 9 – Appropriation of earnings**

Funds available for appropriation by the Annual Meeting in accordance with the balance sheet amount to MSEK 14,981, including the net profit for the year of MSEK 2,481.

The Board of Directors and President propose that the amount be appropriated as follows:

MSEK	
To be distributed as dividends to shareholders	0
To be carried forward	14,981
	<b>14,981</b>

# SIGNATURES

We hereby certify that the consolidated financial statements have been prepared in accordance with international accounting principles as adopted by the European Union and provides a true and fair view of the Group's financial position and results. The Annual Report has been prepared in accordance with generally accepted accounting principles and provides a true and fair view of the Parent Company's financial position

and results. The Board of Directors' Report for the Group and the Parent Company provides a true and fair overview of the development of the Group and Parent Company's operations, financial position and result and describes the significant risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm, March 8, 2017

**Kari Stadigh**  
Chairman of the Board

**Peter Johansson**  
Board member

**Patrick Lapveteläinen**  
Board member

**Torbjörn Magnusson**  
Board member, President and CEO

Our audit report was issued on March 8, 2017  
Ernst & Young AB

**Hamish Mabon**  
Authorized Public Accountant

# AUDITOR'S REPORT

To the general meeting of the shareholders of If P&C Insurance Holding Ltd (publ), corporate identity number 556241-7559

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

### OPINIONS

We have audited the annual accounts and consolidated accounts of If P&C Insurance Holding Ltd (publ) for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 4-75 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of December 31, 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Insurance Companies and present fairly, in all material respects, the financial position of the group as of December 31, 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Insurance Companies.

A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts, and the corporate governance statement is in accordance with the Annual Accounts Act.

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

### BASIS FOR OPINIONS

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

### KEY AUDIT MATTERS

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

### VALUATION AND EXISTENCE OF OTHER FINANCIAL INVESTMENT ASSETS

As of December 31, 2016 other financial investment assets amounted to 112 billion SEK, which constitutes 83% of the Group's total assets. Other financial assets valued at fair value amounted to 111 billion SEK. Financial instruments valued at fair value are classified in different levels in a fair value hierarchy (level 1, 2 and 3), where level 1 consist of financial instruments for which quoted market prices on active markets for identical assets or liabilities are available. For financial instruments in level 2, assumptions and estimates might be required when establishing the fair value, however, the need of assumptions and estimates is significantly lower than what

is required for establishing fair value for financial instruments in level 3. As of December 31, 2016, 72% of other financial investments assets valued at fair value are classified as level 1, 28% as level 2 and 0% as level 3. The balance sheet item other financial investments assets exists only in the Group, not in the Parent company.

Information on valuation of other financial investments assets is found in note 1 Accounting policies, note 2 Significant considerations and assessments affecting the Financial Statements and note 5 Risks and risk management. Further, information is found in note 22 Other financial investment assets and derivative liabilities.

Due to the size of other financial investment assets in relation to total assets, and the fact that the valuation of financial instrument in level 2 requires management to make assumptions and estimates to some degree, valuation and existence of other financial investments assets has been assessed as a Key Audit Matter in our audit. We have verified the existence through confirmations obtained from external counter parties. Further, we have assessed the group's process for valuation of financial instruments, valuation methods and, when relevant, the reasonableness in management's assumptions and estimates when calculating fair values. We have tested a sample of key controls in the valuation process and independently valued a sample of financial instruments. The result of our independent valuation has been compared to the group's valuation and differences analyzed.

We have also examined whether the disclosures made in the financial statements regarding other financial investment are appropriate.

### VALUATION OF PROVISION FOR CLAIMS OUTSTANDING

As of December 31 2016, provision for claims outstanding amounted to 70 billion SEK, which constitutes 66% of the Group's total liabilities. The balance sheet item provision for claims outstanding exists only in the Group, not in the Parent company.

Information on provision for claims outstanding is found in note 1 Accounting policies, note 2 Significant considerations and assessments affecting the financial statements and note 5 Risks and risk management. Further, information is found in note 32 Technical provisions, gross.

The provision for claims outstanding is designed to cover anticipated future payments for all claims incurred, including claims not yet reported to the group, referred to as IBNR provision. The provision for claims outstanding is calculated using statistical methods or through individual assessments of individual claims.

Due to the size of provision for claims outstanding in relation to total liabilities, and the fact that the valuation requires management to make assumptions and estimates, valuation of provision for claims outstanding has been assessed as a Key Audit Matter in our audit. We have examined the group's provision process and assessed if significant risks are covered by existing controls. We have further assessed the reasonableness in methods and assumptions used and performed independent valuations of provisions for claims outstanding for the classes of insurance requiring the highest degree of management judgement. In our audit we have utilized our internal actuarial specialists to assist in the audit procedures performed over provision for claims outstanding.

We have also examined whether the disclosures made in the financial statements regarding other provision for claims outstanding are appropriate.

## OTHER INFORMATION THAN THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 2-3 and 79-82. The Board of Directors and the President are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND AND THE PRESIDENT

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

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

## AUDITOR'S RESPONSIBILITIES

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

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

- Identify and assess the risks of material misstatement of the

annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the company's and the group's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the President.
- Conclude on the appropriateness of the Board of Directors' and the President's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

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

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

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



that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### OPINIONS

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the President of If P&C Insurance Holding Ltd (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

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

### BASIS FOR OPINIONS

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

### RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE PRESIDENT

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

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

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

### AUDITOR'S RESPONSIBILITIES

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

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

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

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

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

Stockholm, March 8, 2017

Ernst & Young AB

Hamish Mabon  
Authorized Public Accountant

**Torbjörn Magnusson**  
Born 1963  
President and Chief Executive Officer  
Employed 1999  
Resident in Stockholm

**Knut Arne Alsaker**  
Born 1973  
Chief Financial Officer  
Employed 2000  
Resident in Täby

**Dag Rehme**  
Born 1970  
Chief Legal Counsel  
Employed 2006  
Resident in Stockholm

**Johan Börjesson**  
Born 1967  
Head of Human Resources  
Employed 2005  
Resident in Lidingö

**Poul Steffensen<sup>1)</sup>**  
Born 1964  
Head of Industrial business area  
Employed 1999  
Resident in Birkerød

**Karin Friberg**  
Born 1959  
Chief Risk Officer  
Employed 1999  
Resident in Stockholm

**Morten Thorsrud**  
Born 1971  
Head of Private business area  
Employed 2002  
Resident in Nesbru

**Ivar Martinsen**  
Born 1961  
Head of Commercial business area  
Employed 1999  
Resident in Oslo

**Kjell Rune Tveita**  
Born 1963  
Head of IT and Group Services  
Employed 1999  
Resident in Lørenskog

**Katarina Mohlin**  
Born 1961  
Head of Corporate Communications  
Employed 2004  
Resident in Stockholm

**Timo Vuorinen**  
Born 1964  
President If P&C Insurance Company Ltd <sup>3)</sup>  
Employed 2003  
Resident in Espoo

**Andris Morozovs <sup>2)</sup>**  
Born 1977  
Head of Baltic business area  
Employed 1999  
Resident in Ozolnieki

**Ricard Wennerklint**  
Born 1969  
Vice President and Deputy Chief Executive Officer  
Employed 1999  
Resident in Stockholm

<sup>1)</sup> Entered at September 1, 2016.

<sup>2)</sup> Entered at February 8, 2017.

<sup>3)</sup> And also head of Baltic business area until February 8, 2017.

# GLOSSARY AND DEFINITIONS

## **ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT**

Net return on average technical provisions, with deductions for deferred acquisition costs, the technical result before allocated interest and average outstanding balances. The allocated investment return is based on risk-free interest.

## **ALLOCATED INVESTMENT RETURN TRANSFERRED TO THE TECHNICAL ACCOUNT**

Allocated investment return transferred from the non-technical account excluding the part added to the annuity result by means of a reduction of costs for the upward adjustment of the annuity provision.

## **CAPITAL BASE (SOLVENCY I)**

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

## **CAPTIVE**

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

## **CLAIMS FREQUENCY**

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

## **CLAIMS RATIO**

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

## **COMBINED RATIO**

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

## **COST OF INSURANCE OPERATIONS**

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

## **COST RATIO<sup>1)</sup>**

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

## **CREDIT RISK**

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

## **DIRECT INSURANCE**

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

## **DIRECT INVESTMENT RETURN**

Total sum of operating surplus from land and buildings, dividends on shares and participations and interest income.

## **DURATION**

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

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

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

## **ECONOMIC CAPITAL**

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

## **EXPENSE RATIO**

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

## **GROSS PREMIUMS WRITTEN**

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

## **IBNR PROVISION**

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

## **IMPACT OF CHANGES IN EXCHANGE RATES**

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

## **INSURANCE MARGIN <sup>1)</sup>**

Technical result less other technical income and other operating expense in relation to premiums earned on own account, expressed as a percentage.

## **INVESTMENT ASSETS**

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

## **INVESTMENT RETURN**

Net of following income and costs: interest income/expense, dividend on shares and participations, surplus/deficits from own properties, management costs, realized and unrealized

<sup>1)</sup> Refers to alternative performance measurements.

changes in fair value of real estate, shares and participations and interest-bearing securities, and exchange-rate gains/losses. Return pertaining to associated companies is not included. If recognizes the main part of unrealized value changes on shares and participations and interest-bearing securities in other comprehensive income.

#### **LIQUIDITY RISK**

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

#### **MARKET RISK**

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

#### **NET PREMIUMS WRITTEN**

Gross premiums written less ceded reinsurance premiums.

#### **OPERATING EXPENSES IN INSURANCE OPERATIONS**

Expenses related to the acquisition or renewal of insurance contracts plus corporate administration costs.

#### **OWN FUNDS (CAPITAL BASE) (SOLVENCY II)**

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

#### **PREMIUMS EARNED**

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

#### **PRIOR-YEAR CLAIMS RESULT**

Profit or loss that arises when claims originating from a prior year are either finally settled or revalued.

#### **PROPERTY AND CASUALTY INSURANCE**

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

#### **PROVISION FOR UNEARNED PREMIUMS AND UNEXPIRED RISKS**

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

#### **PROVISION FOR CLAIMS OUTSTANDING**

Liability item in the balance sheet consisting of the estimated

value of claims incurred but not yet paid and the expected operating expenses for the settlement of the claims.

#### **REINSURANCE**

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

#### **RETENTION**

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

#### **RETURN ON EQUITY <sup>1)</sup>**

Result for the year, adjusted for unrealized gains and losses on investments assets recognized in other comprehensive income, less full tax in relation to average shareholders' equity.

#### **RISK RATIO <sup>1)</sup>**

Total sum of insurance claims on own account, excluding claims-adjustment costs, in relation to premiums earned on own account, expressed as a percentage.

#### **RISK SELECTION**

The insurer's intentional selection of the type of risks to be included in the portfolio.

#### **RUN-OFF BUSINESS**

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

#### **SOLVENCY CAPITAL**

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

#### **SOLVENCY RATIO**

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

#### **SOLVENCY CAPITAL REQUIREMENT (SCR)**

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

#### **SOLVENCY REQUIREMENT (SOLVENCY I)**

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

#### **TECHNICAL PROVISIONS**

Provisions for unearned premiums, unexpired risks and claims outstanding.

#### **TECHNICAL RESULT**

Premiums earned on own account less claims costs and operating expenses on own account, plus the allocated

<sup>1)</sup> Refers to alternative performance measurements.

investment return transferred to the technical accounts and other technical income.

**TECHNICAL RESULT BEFORE INVESTMENT RETURN**

Item in the technical accounts comprising premiums earned on own account less claims and operating expenses on own account in the insurance operations.

**TOTAL INVESTMENT RETURN**

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

**UNDERWRITING**

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

**UNDERWRITING RISK**

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





**CONTACT:**

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