

Market Risks and Investment Performance

Fixed income investments and listed equity instruments form a major part of investment portfolio of EUR 11,685 million (EUR 12,192 million). A large part of the fixed income investments was at 31 December 2017 concentrated to financial institutions. The role of real estate, private equity, biometric and other alternative investments is immaterial.

The composition of the investment portfolios by asset classes in If P&C at year end 2017 and at year end 2016 and average maturities of fixed income investments are shown in the table Investment Allocation, If P&C, 31 December 2017.

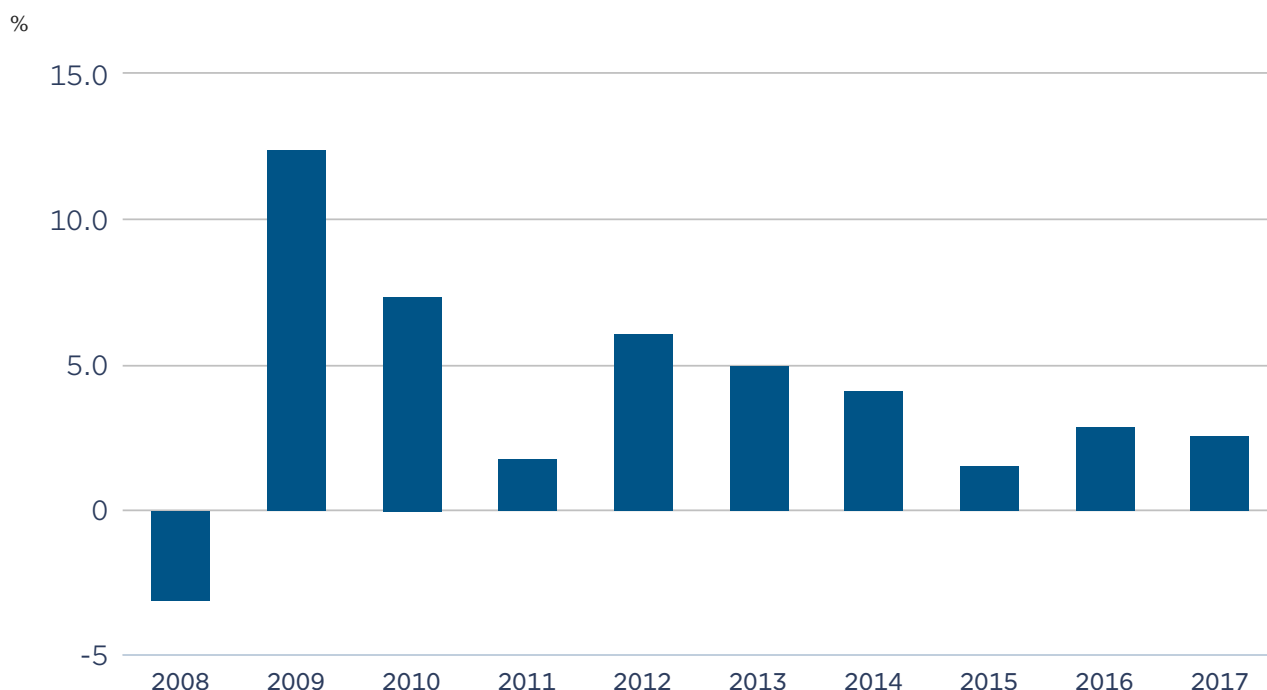
Investment Allocation If P&C, 31 December 2017 and 31 December 2016

Asset class	If P&C 31 Dec 2017			If P&C 31 Dec 2016		
	Market value, EURm	Weight	Average maturity, years	Market value, EURm	Weight	Average maturity, years
Fixed income total	10,200	87%	2.7	10,624	87%	2.8
Money market securities and cash	575	5%	0.1	992	8%	0.3
Government bonds	1,040	9%	2.5	1,231	10%	3.1
Credit bonds, funds and loans	8,584	73%	2.9	8,401	69%	3.1
Covered bonds	3,084	26%	2.6	2,967	24%	3.1
Investment grade bonds and loans	3,490	30%	2.9	3,404	28%	2.9
High-yield bonds and loans	1,344	12%	2.8	1,461	12%	3.0
Subordinated / Tier 2	343	3%	4.7	278	2%	4.5
Subordinated / Tier 1	323	3%	3.2	292	2%	3.9
Hedging swaps	0	0%	-	0	-0%	-
Policy loans	0	0%	0.0	0	0%	0.0
Listed equity total	1,448	12%	-	1,527	13%	-
Finland	0	0%	-	0	0%	-
Scandinavia	151	1%	-	1,147	9%	-
Global	1,298	11%	-	380	3%	-
Alternative investments total	39	0%	-	44	0%	-
Real estate	20	0%	-	22	0%	-
Private equity	19	0%	-	23	0%	-
Biometric	0	0%	-	0	0%	-
Commodities	0	0%	-	0	0%	-
Other alternative	0	0%	-	0	0%	-
Trading derivatives	-3	0%	-	-3	0%	-
Asset classes total	11,685	100%	-	12,192	100%	-
FX Exposure, gross position	207	0%	-	99	-	-

During 2017 equities have performed well, spreads have tightened and the market volatility has decreased somewhat. The return of investments in 2017 was 2.6 per cent. Average return of investments has been 4.1 per cent during the years

2008-2017. Returns have trended down together with lowering interest rates and tightening credit spreads. However, investment returns have been sufficient taking into account good profitability of underwriting activities.

Annual Investment Returns at Fair Values 2008–2017 If P&C



If P&C's investment management strategy is conservative, with a low equity share and low fixed-income duration.

The performance and market risk is actively monitored and controlled by the Investment Control Committee on a monthly basis and reported to the ORSA Committee

quarterly. In addition, the allocation limits, issuer and counterparty limits, the sensitivity limits for interest rates and credit spreads as well as regulatory capital requirements are regularly monitored.

Market Risks of Fixed Income and Equity Instruments

Spread Risk and Equity Risk

Spread risk and equity risk are derived only from the asset side of the balance sheet. Exposures in fixed income and equity instruments are presented by Sectors, Asset Classes and Rating in below table that also include counterparty risk exposures relating to reinsurance and derivative transactions. Counterparty default risks are described in more detail in

section [Counterparty default risks](#). Due to differences in the reporting treatment of derivatives, the figures in the table are not fully comparable with other tables in this annual report.

Exposures by Sector, Asset Class and Rating If P&C, 31 December 2017

EURm	AAA		AA+	A+	BBB+	BB+	Non-rated	Fixed income total	Listed equities	Other	Counterparty risk	Total	Change 31 Dec 2016
	AA-	A-	BBB-	C	D								
Basic Industry	0	0	31	58	1	0	52	143	40	0	0	183	23
Capital Goods	0	0	89	53	0	0	30	173	521	0	0	694	-4
Consumer Products	0	106	222	301	0	0	76	706	311	0	0	1,017	49
Energy	0	41	30	0	53	0	154	278	6	0	0	284	-137
Financial Institutions	0	968	1,250	444	22	0	26	2,710	28	0	6	2,744	-370

Governments	92	0	0	0	0	0	0	92	0	0	0	92	-31
Government Guaranteed	43	77	0	0	0	0	0	120	0	0	0	120	-36
Health Care	7	10	32	42	0	0	8	99	66	0	0	166	23
Insurance	0	0	40	63	27	0	22	152	0	0	60	212	-5
Media	0	0	0	0	0	0	22	22	0	0	0	22	-13
Packaging	0	0	0	0	0	0	5	5	0	0	0	5	0
Public Sector, Other	674	155	0	0	0	0	0	829	0	0	0	829	-123
Real Estate	0	6	92	80	8	0	489	674	0	20	0	694	91
Services	0	0	0	65	23	0	89	177	0	0	0	177	-12
Technology and Electronics	8	0	36	0	0	0	34	78	5	0	0	83	-21
Telecommunications	0	0	0	120	0	0	49	169	60	0	0	229	18
Transportation	0	72	7	53	0	0	167	299	7	0	0	306	-73
Utilities	0	0	31	244	46	0	44	364	0	0	0	364	-77
Others	0	26	0	0	0	0	12	39	0	0	0	39	22
Asset-backed Securities	0	0	0	0	0	0	0	0	0	0	0	0	0
Covered Bonds	3,020	63	0	0	0	0	0	3,084	0	0	0	3,084	117
Funds	0	0	0	0	0	0	0	0	403	19	0	422	20
Clearing House	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	3,845	1,525	1,860	1,523	180	0	1,279	10,212	1,448	39	66	11,765	-538
Change 31 Dec 2016	-17	-413	-162	274	-142	0	45	-413	-78	-5	-42	-538	

Most of the fixed income exposures are in investment grade issues and currently the role of Nordic covered bonds and Nordic banks as issuers is central. Within fixed income investments part of the money market securities, cash and investment grade government bonds form a liquidity buffer.

In regards to equities most of the equity investments are in Scandinavian markets that are selectively picked direct

investments. When investing in non-Nordic equities, funds or other assets, third party managed investments are mainly used. The changes of Equity positions during the year can be seen from the table Breakdown of Listed Equity Investments by Geographical regions, If P&C, 31 December 2017 and 31 December 2016.

Breakdown of Listed Equity Investments by Geographical Regions If P&C, 31 December 2017 and 31 December 2016

If P&C	31 Dec 2017		31 Dec 2016	
	%	EURm	%	EURm
Denmark	0%	5	1%	9
Norway	10%	149	13%	195
Sweden	62%	891	62%	944
Finland	0%	0	0%	0
Western Europe	10%	151	11%	162
East Europe	0%	0	0%	0
North America	6%	87	6%	88
Latin America	2%	28	2%	25
Far East	9%	137	7%	105
Japan	0%	0	0%	0
Total		1,448		1,527

Market Risks of Balance Sheet

Asset and Liability Management (ALM) Risk

ALM risk is defined in [Appendix 2 \(Risk Definitions\)](#).

The ALM risk is taken into account through the risk appetite framework and its management and governance are based on If P&C's Investment Policies. In general to maintain the ALM risk within the overall risk appetite, the cash flows of insurance liabilities are matched by investing in fixed income instruments denominated in same currencies as liabilities or in case assets with healthy risk return ratios are not available in liability's currency derivatives are used. During the current low interest rate environment the liquidity of assets has been special focus of investment strategy.

Interest Rate Risk

In general If P&C Group is negatively affected when interest rates are decreasing or staying at low levels, because the longer duration of liabilities in If P&C Group than the duration of assets. If P&C has over the years decreased its combined ratio to counteract falling interest rates. Interest rate sensitivity in terms of the average duration of fixed income investments in If P&C was 1.4. The respective duration of insurance liabilities in If P&C was 6.5. Interest rate risk is managed by changing the duration of assets and interest rate derivatives based on the market view and risk appetite.

In the financial accounts most of the technical provisions are nominal, while a significant part, namely the annuity and annuity IBNR reserves, are discounted using interest rates in accordance with regulatory rules. Thereby If P&C is, from a financial accounting perspective, mainly exposed to changes in inflation and the regulatory discount rates. From an economic perspective, in which the cash flows of insurance liabilities are discounted with prevailing interest rates, If P&C is exposed to changes both in inflation and nominal interest rates. For more information see the table Sensitivities of Technical Provisions, If P&C, 2017 in the [Non-life Underwriting Risks](#) section.

Currency Risk

If P&C writes insurance policies that are mostly denominated in the Scandinavian currencies and in euro. In If P&C, the FX-transaction risk is reduced by matching technical provisions with investment assets in the corresponding currencies or by using currency derivatives. Hence, the so called structural FX risk is first mitigated as a rule after which If P&C can open short or long FX positions (active FX risk) within its FX risk limits. The transaction risk positions of If P&C against SEK are shown in the table Transaction Risk Position, If P&C 31 December 2017. The table shows the net transaction risk exposures and the changes in the value of positions given a 10 per cent decrease in the value of the base currency.

Transaction Risk Position If P&C, 31 December 2017

	Base currency	EUR	USD	JPY	GBP	SEK	NOK	CHF	DKK	Other	Total, net
If P&C	SEKm										
Insurance operations		-3,472	-96	0	-2	-25	-2,125	-9	-820	-15	-6,564
Investments		1,876	1,495	0	0	0	2,147	0	68	1	5,587
Derivatives		1,494	-1,397	0	3	28	56	9	750	11	955
Total transaction risk, net position, If P&C		-101	2	0	1	3	79	0	-2	-4	-22
Sensitivity: SEK -10%		-10	0	0	0	0	8	0	0	0	-2

If P&C's transaction risk position in SEK represents exposure in foreign subsidiaries/branches within If P&C with base currency other than SEK

In addition to transaction risk, If P&C is also exposed to translation risk which at group level stems from foreign operations with other base currencies than SEK. Translation risk, and its management principles in Sampo Group, are described in the [Appendix 4: Profitability, Risks and Capital](#).

Liquidity Risk

In If P&C, liquidity risk is limited, since premiums are collected in advance and large claims payments are usually known a long time before they fall due. Liquidity risks are managed by cash management functions which are

responsible for liquidity planning. Liquidity risk is reduced by having investments that are readily tradable in liquid markets. The available liquid financial assets, being that part of the assets which can be converted into cash at a specific point in time, are analysed and reported to the ORSA Committee.

According to Contractual Maturity, If P&C, 31 December 2017. The average maturity of fixed income investments was 2.7 years in If P&C. The table shows the financing requirements resulting from expected cash inflows and outflows arising from financial assets and liabilities as well as technical provisions.

The maturities of technical provisions and financial assets and liabilities are presented in the table Cash Flows

Cash Flows According to Contractual Maturity If P&C, 31 December 2017

EURm	Carrying amount total			Cash flows						
	Carrying amount total	Carrying amount without contractual maturity	Carrying amount with contractual maturity	2018	2019	2020	2021	2022	2023-2032	2033-
If P&C										
Financial assets	13,115	1,883	11,232	2,836	2,098	2,321	2,322	1,426	325	318
of which interest rate swaps	0	0	0	0	0	0	0	0	0	0
Financial liabilities	940	15	925	-722	-12	-13	-326	-3	0	0
of which interest rate swaps	2	0	2	-1	-1	-1	0	-3	0	0
Net technical provisions	8,900	0	8,900	-3,019	-1,048	-628	-504	-310	-2,038	-1,885

In the table, financial assets and liabilities are divided into contracts that have an exact contractual maturity profile, and other contracts. Only the carrying amount is shown for the other contracts. In addition, the table shows expected cash flows for net technical provisions, which by their nature, are associated with a certain degree of uncertainty.

If P&C Group has a relatively low amount of financial liabilities and thus Group's respective refinancing risk is relatively small.