



If P&C Insurance AS

Interim Report

1st Quarter 2020

Translation from Estonian language

Contacts and signatures

If P&C Insurance AS main field of activity is non-life insurance services.

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Beginning of reporting period:	<i>1 January 2020</i>
End of reporting period:	<i>31 March 2020</i>
Chairman of the Management Board:	<i>Andris Morozovs</i>
Auditor:	<i>KPMG Baltics OÜ</i>

If P&C Insurance AS management board have compiled 1st quarter 2020 interim report which is presented on pages 7-19.

Member of the Management Board	Heinar Olak	/Signature/	28.05.2020
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Member of the Management Board	Tiit Kolde	/Signature/	28.05.2020
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EXPLANATORY NOTE

If P&C Insurance AS (the Company, If) is a wholly-owned subsidiary of the leading Nordic property and casualty insurance group If P&C Insurance Holding Ltd (publ). If P&C Insurance Holding Ltd (publ) is owned by the Finnish company Sampo plc, listed on the Helsinki Stock Exchange. Sampo Group is also the largest shareholder of the Nordea banking group and Topdanmark, the second-largest non-life insurer in Denmark. Further it is the sole owner of Mandatum Life (life insurance).

If has been offering property and casualty insurance in the Baltic markets since 1992, covering both private individuals and corporate customers. Across the Baltic countries, If has approximately 296,000 policyholders and is one of the leading P&C companies in Estonia. If's products include property, liability, motor, marine & transport, and accident & health insurance.

The Company is registered in Estonia and operates in Latvia and Lithuania through branches. The current corporate structure enables efficient operations and claims handling across the Baltic region, with some business functions shared across all three countries.

This interim report includes the financial indicators of the Estonian unit operated by If P&C Insurance AS and the Latvian and Lithuanian branches.

Results for the three months of 2020

The technical result increased from €3.5 million in 2019 to €4.6 million and the combined ratio improved to 87.4% (90.2%).

Gross written premiums increased by a total of €2.4 million, from €40.7 million in 2019 to €43.1 million.

Baltic insurance market volumes continued to grow in 1st quarter 2020 but with a slower pace that during the past few years. Market in motor lines has been relatively competitive with reducing premium rates, also a minor premium rate decrease has been observed in property lines. If have had a competitive product offer, If gross written premium growth has exceeded the market growth in 1st quarter 2020.

Total claims cost, including claims handling, decreased slightly, falling from €23,0 million in 2019 to €22,7 million, loss ratio reduced considerable to 62.1% (65.3%) due to overall favourable claims frequency development throughout the 1st quarter 2020, supported by favourable weather conditions. Covid-19 pandemic resulted in increasing claims cost in travel insurance.

Expense ratio increased somewhat compared to 1st quarter 2019, expense increase is mainly driven by volume growth and salary inflation, also investments in marketing were higher than year before. Total operating expenses, excluding claims handling expenses, increased from €8,8 million to €9,3 million.

The overall net profit after tax increased to €5.1 million, up from €4.0 million in 1st quarter 2019.

KEY FIGURES

€000	Q1 2020	Q1 2019
Premiums written, gross	43,134	40,709
Premiums earned, net of reinsurance	36,519	35,249
Claims incurred, net of reinsurance	22,661	23,011
Operating expenses ¹	9,251	8,775
Technical result ²	4,606	3,463
Net profit	5,058	3,993
Combined ratio ³	87.4%	90.2%
Expense ratio ⁴	25.3%	24.9%
Loss ratio ⁵	62.1%	65.3%
Return on investments ⁶	-13.6%	4.5%

Formulas:

¹ Operating expenses	Insurance contract acquisition costs and administrative expenses (+) reinsurance commissions and other income
² Technical result	Premiums earned, net of reinsurance (-) claims incurred, net of reinsurance (-) operating expenses
³ Combined ratio	Expense ratio + loss ratio
⁴ Expense ratio	$\frac{\text{Operating expenses}}{\text{Premiums earned, net of reinsurance}}$
⁵ Loss ratio	$\frac{\text{Claims incurred (incl. Claims handling costs), net of reinsurance}}{\text{Premiums earned, net of reinsurance}}$
⁶ Return on investments (yearly basis)	$\frac{\text{Investment income (-) investment expenses (+) changes in fair value recognised in other comprehensive income}}{\text{Weighted average volume of financial investments in the period}}$

Investment result

The value of financial investments stood at €322.6 million as at 31 March 2020.

Applying the full market valuation, the result from asset management decreased to -€10.86 million, down from €3.22 million in 1st quarter 2019, with a return ratio of -13.6% compared to the previous 4.5%. Net investment result recognised in profit amounted to €0.55 million compared to €0.51 million in 1st quarter 2019, while -€11.41 million was recorded in other comprehensive income, down

from €2.72 million in 1st quarter 2019. Fixed income portfolio running yield increased slightly from 0.8% to 0.9%, and duration increased to 2.9 years as opposed to 2.7 years in 2019.

During the January and February fixed income portfolio performed well, driven by both tighter spreads and the lower underlying rates. But the brutal sell-off that was experienced due to the pandemic corona crisis in March resulted in a negative monthly return for the fixed income portfolio as well as the whole portfolio.

Our investment focus remains unchanged, i.e. we seek to find new opportunities in the European investment grade bond markets and plan to re-invest maturing bonds into medium term instruments.

Number of employees and workforce expenses

As at 31 March 2020, the number of full-time employees was 545 (31.12.2019 554) and expenses for personnel totalled €5.9 million, an increase of €0.2 million over the year.

Key activities of If P&C Insurance AS and its branches

In order to offer better service to our clients, we are constantly analysing our products and packages to fulfil different needs. Related to that we have analysed casco offerings in our local markets and we have developed our most exclusive casco package so far.

In the beginning of March 2020, we launched a new casco package in our portfolio. The package consists of almost all the possible coverages and benefits that can be found on the local markets. With this launch we have given a promise that our casco package has the widest coverage in the market.

Offering smooth service to the clients is also one of our most important focus areas. The combined efforts and activities in the customer satisfaction area resulted in the Net Promotor Score (NPS) that corresponded in first quarter of 2020 to +71.2. This indicator has increased by 0.9 points compared to the same period from previous year.

During the first quarter customers and companies worldwide entered a new situation due to coronavirus pandemic. We also had to reorganise our everyday work and customer service, within couple of days we managed to move our daily work to home offices. It went smoothly for the company because employees were already used to home offices and systems for that has been tested well in advance. Customers are already using our e-channels to buy the products and report the claims. As a result of pandemic, claim handling has been slightly challenging but even this means mainly more pictures and less meetings between people. Even before pandemic, claims handling has been to higher extent based on digital claims information.

Pandemic has changed the situation for our customers, and we have been adjusting our products and routines in order to offer the best possible customer service. For example, company owned office equipment is insured also in home-offices without any additional premium. Payment methods has been further developed in order to enable bank card payments for those customers who earlier preferred to pay by visiting our branch offices.

If continues to attract skilled professionals as an employer. If IT image and recruitment campaign “Java vs .Net” won the first place at Baltic communication awards contest, employer branding. “Java vs .Net” campaign was recognized as stand-out project bringing fun and creativity

If provides a complete range of P&C insurance products to private and corporate customers in the Baltics, working primarily via internet and phone channels. If utilizes furthermore the network of brokers and partners. Sales and customer service personnel are in central offices throughout the region. If has the fourth largest insurance portfolio in the Baltic P&C Insurance market.

STATEMENT OF COMPREHENSIVE INCOME

€000	Note	Q1 2020	Q1 2019
PREMIUMS EARNED, NET OF REINSURANCE			
Premiums earned, gross		37,264	35,972
Premiums ceded		-745	-723
TOTAL	2	36,519	35,249
OTHER INCOME			
Investment result	3	547	506
Reinsurance commissions and other income		113	129
TOTAL		660	635
TOTAL REVENUE		37,179	35,884
CLAIMS INCURRED, NET OF REINSURANCE			
Claims incurred, gross		-22,665	-22,494
Reinsurers' share of claims incurred		4	-517
TOTAL	4	-22,661	-23,011
EXPENSES			
Insurance contract acquisition costs		-5,795	-5,411
Administrative expenses		-3,570	-3,493
TOTAL	5	-9,365	-8,904
TOTAL CLAIMS AND EXPENSES		-32,026	-31,915
NET RESULT BEFORE TAXES		5,153	3,969
INCOME TAX		-95	24
NET PROFIT FOR THE FINANCIAL PERIOD		5,058	3,993
OTHER COMPREHENSIVE INCOME			
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT AND LOSS IN SUBSEQUENT PERIODS			
Change in the value of available-for-sale assets		-11,409	2,718
TOTAL		-11,409	2,718
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD		-6,351	6,711

STATEMENT OF FINANCIAL POSITION

€000	Note	31 March 2020	31 December 2019
ASSETS			
Cash and cash equivalents		12,210	17,968
Financial investments	7	322,644	318,436
Receivables related to insurance activities	6	35,116	30,311
Accrued income and prepaid expenses		4,127	4,018
Reinsurance assets	9	6,404	5,114
Investment in subsidiary		88	88
Property, plant and equipment	8	4,363	4,565
TOTAL ASSETS		384,952	380,500
LIABILITIES AND EQUITY			
Liabilities related to insurance activities		7,412	6,205
Lease liabilities		3,794	3,922
Accrued expenses and deferred income		11,537	6,039
Deferred tax liability		93	83
Liabilities arising from insurance contracts	9	191,008	183,292
Total liabilities		213,844	199,541
Share capital		6,391	6,391
Share premium		3,679	3,679
Mandatory capital reserve		2,362	2,362
Fair value reserve		-6 321	5,088
Retained earnings		159,939	143,550
Net profit for the year		5,058	19,889
Total equity		171,108	180,959
TOTAL LIABILITIES AND EQUITY		384,952	380,500

STATEMENT OF CHANGES IN EQUITY

€000	Share capital	Share premium	Mandatory capital reserve	Fair value reserve	Retained earnings	Net profit for the year	Total equity
At 1 January 2019	6,391	3,679	2,362	905	147,250	-	160,587
Dividends paid ¹⁾	-	-	-	-	-3,700	-	-3,700
Other comprehensive income	-	-	-	4,183	-	-	4,183
Net profit for the year	-	-	-	-	-	19,889	19,889
At 31 December 2019	6,391	3,679	2,362	5,088	143,550	19,889	180,959
At 1 January 2020	6,391	3,679	2,362	5,088	163,439	-	180,959
Dividends paid ¹⁾	-	-	-	-	-3,500	-	-3,500
Other comprehensive income	-	-	-	-11,409	-	-	-11,409
Net profit for the year	-	-	-	-	-	5,058	5,058
At 31 March 2020	6,391	3,679	2,362	-6,321	159,939	5,058	171,108

- ¹⁾ In March 2020, the Company distributed 3.5 million euros (2019: 3.7 million euros) in dividends to the sole shareholder. The company pays dividends from the profits made by its Latvian and Lithuanian branches. In accordance with the Estonian Income Tax Act, dividends paid from profit earned through an Estonian company's permanent establishment located in an EEA state or Switzerland and taxed there are exempt from income tax.

STATEMENT OF CASH FLOWS

€000	Note	Q1 2020	Q1 2019
Cash flow from operating activities			
Premiums received	2	38,130	37,146
Premiums ceded	2	-743	-1,028
Claims paid, incl. claims handling expenses	4, 5	-20,941	-20,545
Cash flow from reinsurance		108	464
Employee-related and service-related expenses		-8,407	-8,480
Investments in bonds and other interest-bearing securities		-27,250	-15,948
Proceeds from disposals of bonds and other interest-bearing securities		16,837	1,294
Investments in term deposits		-	-5,000
Interest received		637	458
Interest paid		-3	-3
Income tax paid		-299	-618
Net cash flow from operating activities		-1,931	-12,260
Cash flow from investing activities			
Purchase of property, plant and equipment		10	-151
Proceeds from disposal of property, plant and equipment		1	-
Net cash flow from investing activities		11	-151
Cash flow from financing activities			
Dividends paid		-3,500	-3,700
Repayment of lease liability		-337	-313
Net cash flow from financing activities		-3,837	-4,013
Change in cash flow		-5,757	-16,424
Cash and cash equivalents at beginning of reporting period		17,968	30,142
Cash and cash equivalents at end of reporting period		12,211	13,718

NOTES TO THE INTERIM FINANCIAL STATEMENTS

Note 1. Accounting principles and basis of estimations used in the preparation of the financial statements

This interim report has been prepared in conformity with the IAS 34 “Interim Financial Reporting” requirements for condensed interim financial statements.

The If P&C Insurance AS annual report for the financial year ended 31 December 2019 was prepared in conformity with the IFRS and the interpretations issued by IFRIC, which have been approved by the EU. The applied standards and interpretations are described in Company’s accounting policies for the financial year 2019. The financial statements are available on Company’s website at www.if.ee.

Though the company forms the group together with its subsidiary Support Services AS and is the consolidating entity, the Company has elected in accordance with IFRS 10 paragraph 4 not to present consolidated financial statements and presented only separate financial statements. The Company is a wholly-owned subsidiary of If P&C Insurance Holding Ltd (publ) and the parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards (IFRS). Consolidated financial statements of the parent are available at websites www.if.se and www.sampo.com under section *Figures-Annual report*.

Note 2. Premiums earned, net of reinsurance

€000	Q1 2020	Q1 2019
Premiums written, gross	43,134	40,709
Change in the provision for unearned premiums	-5,870	-4,737
Premiums earned, gross	37,264	35,972
Reinsurance premiums	-2,033	-1,906
Change in the provision for unearned premiums	1,288	1,183
Premiums ceded	-745	-723
TOTAL	36,519	35,249

Note 3. Investment result

€000	Q1 2020	Q1 2019
<u>Interest income/expense on:</u>		
Available-for-sale financial assets		
Bonds and other interest-bearing securities	682	693
Loans and receivables		
Term deposits	2	4
Cash and cash equivalents	-	1
Lease liabilities	-3	-3
TOTAL	681	695
<u>Gain from the disposal of:</u>		
Available-for-sale financial assets		
Bonds and other interest-bearing securities	87	-
TOTAL	87	-
<u>Gain/loss from the change in the value of:</u>		
Exchange rate changes	-10	-5
TOTAL	-10	-5
Investment expenses	-211	-184
TOTAL INVESTMENT RESULT	547	506
Reconciliation of the fair value reserve of available-for-sale financial assets		
	Q1 2020	Q1 2019
Opening balance, available-for-sale financial assets	5,088	905
Changes in fair value during the year, recognised in other comprehensive income	-11,322	2,718
Realised gain recognised in profit or loss	-87	-
Closing balance, available-for-sale financial assets	-6,321	3,623
 Change in the fair value reserve of available-for-sale financial assets during the year	 -11,409	 -2,718

Note 4. Claims incurred, net of reinsurance

€000	Q1 2020	Q1 2019
Gross		
Claims paid related to the reporting period	-10,353	-9,364
Claims paid related to previous periods	-11,941	-12,723
Amounts recovered from salvage and subrogation	2,533	2,736
Change in the provision for claims outstanding	-1,846	-2,075
Claims handling expenses	-1,058	-1,068
TOTAL	-22,665	-22,494
Reinsurers' share		
Claims paid related to the reporting period	-	-
Claims paid related to previous periods	-	208
Change in the provision for claims outstanding	4	-725
TOTAL	4	-517
Net		
Claims paid related to the reporting period	-10,353	-9,364
Claims paid related to previous periods	-11,941	-12,515
Amounts recovered from salvage and subrogation	2,533	2,736
Change in the provision for claims outstanding	-1,842	-2,800
Claims handling expenses	-1,058	-1,068
TOTAL	-22,661	-23,011

Note 5. Expenses

€000	Q1 2020	Q1 2019
Salaries and remuneration	-4,499	-4,407
Social security costs	-961	-812
Other personnel expenses	-478	-443
Total personnel expenses	-5,938	-5,662
Commissions to intermediaries	-2,528	-2,436
Data processing	-516	-486
Expenses on premises	-564	-560
Office expenses (incl. communication expenses)	-176	-232
Other operating expenses	-701	-596
TOTAL	-10,423	-9,972

Division of costs on the basis of functions:

Insurance contract acquisition costs	-5,795	-5,411
Administrative expenses	-3,570	-3,493
Claims handling expenses	-1,058	-1,068
TOTAL	-10,423	-9,972

Note 6. Receivables related to insurance activities

€000	31 Mar 2020	31 Dec 2019
Receivables related to direct insurance activities, incl.	34,882	30,058
- policyholders	30,374	25,850
- intermediaries	2,265	2,110
- subrogation with significant recoverability	1,679	1,570
- salvages	435	422
- other	129	106
Receivables related to reinsurance	183	202
Other receivables	51	51
TOTAL	35,116	30,311

Note 7. Financial investments

€000	31 Mar 2020	31 Dec 2019
Available-for-sale financial assets		
Bonds and other interest-bearing securities		
- listed	292,148	287,382
- unlisted	15,493	16,036
Incl. with a floating interest rate	55,355	59,931
Incl. with a fixed interest rate (0.125 -3.75%; 31.12.2019: 0.0%-3.75%)	252,286	243,487
TOTAL	307,641	303,418
Loans and receivables		
Term deposits	15,003	15,018
TOTAL FINANCIAL INVESTMENTS	322,644	318,436

Bonds and other interest-bearing securities by issuers

€000	31 Mar 2020	31 Dec 2019
Issued by Estonian financial institutions	2,045	2,039
Issued by Estonian companies	1,511	1,528
Issued by foreign governments	2,620	2,606
Issued by foreign financial institutions	154,574	146,718
Issued by foreign companies	146,891	150,527
TOTAL	307,641	303,418

Ratings of bond issuers (S&P)

	Percentage of fair value	
	31 Mar 2020	31 Dec 2019
AAA	2.6%	2.7%
AA+ until AA-	19.3%	18.0%
A+ until A-	32.1%	33.0%
BBB+ until BBB-	31.9%	31.3%
BB	1.7%	1.9%
Non rated	12.4%	13.1%
TOTAL	100%	100%

Bonds and other interest-bearing securities by maturity terms

€000	31 Mar 2020	31 Dec 2019
Up to 1 year	61,998	64,614
1-2 years	28,204	32,985
2-5 years	167,654	172,871
5-10 years	49,785	32,948
TOTAL	307,641	303,418

Deposits by maturity terms

€000	31 Mar 2020	31 Dec 2019
Up to 6 months	-	5,017
6-12 months	15,003	10,001
TOTAL	15,003	15,018

Note 8. Property, plant and equipment

€000	Right-of-use: Buildings	Other PPE
Net book value as at 31 December 2018	-	558
First application of IFRS 16 as at 1 January	5,154	-
Acquisition	26	326
Disposal	-	-18
Acquisition cost as at 31 December 2019	5,180	2,259
-incl. fully depreciated	-	1,199
Depreciation charge for the year	-1,265	-314
Depreciation charge of sales and disposals	-	34
Accumulated depreciation as at 31 December 2019	-1,265	-1,609
Net book value as at 31 December 2019	3,915	650
Acquisition	209	6
Disposal	-	-16
Acquisition cost as at 31 March 2020	5,389	2,249
-incl. fully depreciated	-	1,221
Depreciation charge for the year	-338	-79
Depreciation charge of sales and disposals	-	16
Accumulated depreciation as at 31 March 2020	-1,604	-1,671
Net book value as at 31 March 2020	3,785	578

Note 9. Liabilities related to insurance contracts and reinsurance assets

€000	31 Mar 2020	31 Dec 2019
Gross		
Provision for incurred and reported claims and claims handling expenses	86,595	85,826
Provision for incurred but not reported claims	35,923	34,846
Provision for unearned premiums	68,490	62,620
TOTAL	191,008	183,292
Reinsurer's share		
Provision for incurred and reported claims and claims handling expenses	4,232	4,236
Provision for incurred but not reported claims	239	231
Provision for unearned premiums	1,933	647
TOTAL	6,404	5,114
Net		
Provision for incurred and reported claims and claims handling expenses	82,363	81,590
Provision for incurred but not reported claims	35,684	34,615
Provision for unearned premiums	66,557	61,973
TOTAL	184,604	178,178

Note 10. Related party transactionsRelated parties

The company's shareholders, enterprises under the joint control of or enterprises controlled by the company, the company's staff, Management Board and Supervisory Board members, their close relatives and other individuals over whom the above persons have significant influence, are considered related parties.

Transactions with members of the Management Board and members of the Supervisory Board

The Management Board members received a total of €382 thousand in remuneration, including social tax (Q1 2019: €353 thousand). There were paid termination benefits during the reporting period €73 thousand (Q1 2019: €0) to members of the Management Board. No remuneration was paid to members of the Supervisory Board.

Insurance contracts with total premiums of €2 thousand were concluded with the management individuals in the financial period (Q1 2019: €2 thousand).

Reinsurance transactions with group companies

The company has concluded reinsurance contracts with If P&C Insurance Ltd (publ).

€000	Calculated reinsurance premiums		Indemnifications and commissions received	
	Q1 2020	Q1 2019	Q1 2020	Q1 2019
If P&C Insurance Ltd (publ)	1,256	1,063	3	5

Receivables and payables related to the above transactions as at 31 March 2020 and 31 December 2019:

€000	31 Mar 2020	31 Dec 2019
Receivables		
If P&C Insurance Ltd (publ)	-	-
Payables		
If P&C Insurance Ltd (publ)	1,448	637

Other related party transactions, transactions with other group companies

€000	Services purchased		Services rendered	
	Q1 2020	Q1 2019	Q1 2020	Q1 2019
Mandatum Life Insurance Baltic SE	-	-	6	7
Nordea Group companies	4	51	-	59
If P&C Insurance Ltd (publ)	3	3	61	50
Sampo plc	163	150	-	-
If IT Services A/S	131	115	-	-
Total	301	319	67	116

Receivables and payables related to the above transactions as at 31 March 2020 and 31 December 2019:

€000	31 Mar 2020	31 Dec 2019
Receivables		
Mandatum Life Insurance Baltic SE	3	-
Payables		
Sampo plc	163	163
If P&C Insurance Ltd (publ)	2	7
If IT Services A/S	34	36
Total	199	206

If Insurance has acquired financial assets and has earned investment income from the following group companies:

€000	31 Mar 2020	31 Dec 2019
Financial assets		
Nordea Group companies	4,875	5,141

€000	Q1 2020	Q1 2019
Investment income/expense		
Nordea Group companies	11	4