

If P&C Insurance AS

Interim Report

2nd Quarter 2015

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: *1 January 2015*
End of reporting period: *30 June 2015*
CEO: *Andris Morozovs*
Auditor: *Ernst & Young Baltic AS*

If P&C Insurance AS management board have compiled 2nd quarter 2015 interim report which is presented on pages 6 - 19.

Member of the Management Board	Heinar Olak	/Signature/	28.08.2015
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Member of the Management Board	Artur Praun	/Signature/	28.08.2015
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EXPLANATORY NOTE

If P&C Insurance AS (the company or If Insurance) is fully owned by the leading Nordic non-life insurance group If P&C Insurance Holding Ltd, which is owned by Sampo Plc., a Finnish listed company on the Helsinki Stock Exchange. In addition to the non-life insurance operations conducted within If, the Sampo Group also conducts life insurance operations.

The company is registered in Estonia and also operates branches in Latvia and Lithuania. The current corporate structure contributes to making operations more efficient and improving claims handling processes even further in the Baltic region. The company's business divisions cover all of the Baltic States together, but each country has its own sales and customer service divisions in order to allow the company better adapt to its customers' needs and practices.

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 six months of 2015

Estonia is positively impacted by the improved economy in Europe. The Estonian economy grew 1.9 per cent in the second quarter, which was a surprisingly good result on the backdrop of weak export and industrial output. Economic growth in the Eurozone accelerated in the first half-year and is projected to continue at the same pace in the second half of the year. In Latvia and Lithuania, the first half of 2015 was experienced differently. The Latvian economy is expected to grow by 2.4 per cent this year, bolstered by stable export and domestic consumption. Lithuania has been hit harder than expected by the Russian sanctions and economic crisis, due to which economic growth in the second quarter was significantly weaker than projected, only 1.3 per cent.

The Baltic non-life insurance market has continued growth in 2015 and the figure for the first three months of the year was 5 per cent, showing a stable rise in insurance interest and sense of security among both individuals and companies. Developments in the external environment continue to be volatile. Both the Greek finance crisis and the Russian-Ukrainian conflict increase insecurity. In spite of the instability of the world economy and considering the moderate economic growth, If Insurance continues to post a good result.

In the first six months of 2015, If Insurance received insurance premiums of 68.8 million euros, increasing by 6 per cent year-over-year. The volume of insurance premiums increased in Estonia and Latvia, while in Latvia, the levels remained on par with last year due to increased competition. The growth is based on first-rate customer service and claims handling and increased efficiency. The growth of premium volumes was supported mostly by personal lines and Motor Own Damage insurance and slightly slower in property insurance.

The net profit of If Insurance was 9.3 million euros in the reporting period (QI-II 2014: 10.7 million euros), of which the profit of insurance activity amounted to 8.8 million euros (QI-II 2014: 9.4 million euros). A contributing factor to the strong technical result was the increase in insurance premiums and favourable outcome of claims; there were few major claims had to be paid out, and due to the warm weather in the early part of the year, the trends for vehicle-related claims was positive.

The company's combined ratio was in reporting period 85.5% (QI-II 2014: 83.9 %), which was supported by strong risk and expense ratio. The risk ratio improvement was supported by good weather conditions and smaller amount of large claims. Costs are kept under control through developing more cost-effective marketing, customer service and claims handling processes.

Investments

The assets of the company have increased from 245.2 million euros as of the beginning of the year to 255.4 million euros as at 30 June 2015. The amount of financial investments (227.7 million euros as at 30 June 2015) exceeds by 101.4 million euros the obligations under insurance contracts net of reinsurance assets, which gives the company a strong liquidity reserve.

The first half of 2015 was characterized by the ECB's QE (quantitative easing) program, which pushed market rates lower and credit spreads tighter.

During the reporting period was allocated roughly 55 million euros additionally into floating rate credit instruments which purchases were funded by selling money market instruments and government bonds. All remaining government bonds were sold as at the end of reporting period.

Fixed income portfolio running yield has stayed on the same level 1.0% (31.12.2014: 1.0%) and duration has declined as at the end of June 1.3 years (31.12.2014: 1.7 years).

In terms of outlook, the aim is to sell money market instruments by increasing investments into credit bonds.

Number of employees and workforce expenses

As of 30 June 2015, If P&C Insurance AS employed 547 full-time employees (31.12.2014: 544) and the workforce expenses totalled 9.2 million euros (QI-II 2014: 8.6 million euros).

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

If Insurance provides a complete range of non-life insurance products to corporate and private customers in the Baltic. If Insurance works directly via salespoints, telephone, and internet, as well as through brokers and partners. If Insurance has sales and customer service offices in main towns. If Insurance has the second largest insurance portfolio among all P&C insurance providers in the Baltic States. The number of If Insurance customers in the Baltic is approximately 350,000 including both private and corporate customers.

One of the fastest growing channels is Internet sales. During 2015 If Insurance continues to invest into the internet based solutions and is committed in bringing additional customer friendly solutions to customers.

If Insurance continues to develop its partner channel by product development and development of systems for cooperation with banks, car importers and car retailers in 2015.

Volumes from the strategic partnership with Nordea Banking Group continues to grow fast in 2015. Partnership is benefitting from both Nordea and If strong customer offers and is appreciated by customers.

A key goal for the company is to create the best customer experience in all types of contacts, particularly in cases where customers are affected by an insurance claims. Each claim case is monitored and the person reporting the claim is able to grade how he or she was dealt with and comment on the service received. The surveys show that the customers who have had an insurance claim are even more satisfied with If than those who have never reported a claim. An increasing number of customers recommend If Insurance to their friends and acquaintances after going through the claims handling process. The post-claims customer recommendation index rose to 76%.

As a leading insurance company in the Baltics, If Insurance is aware of its social responsibility. Through sponsorships and funding, the company is making consistent contributions to different projects related to claims prevention. If is also raising awareness of insurance products in society, especially in areas where insurance coverage is low or, in many cases, non-existent.

STATEMENT OF COMPREHENSIVE INCOME Q II

€000	Note	Q II 2015	Q II 2014
REVENUE			
PREMIUMS EARNED, NET OF REINSURANCE			
Premiums earned		31,827	30,361
Premiums ceded		-704	-767
TOTAL	2	31,123	29,594
OTHER INCOME			
Reinsurance commissions		46	50
Return on investments	3	131	765
Other income		13	41
TOTAL		190	856
TOTAL REVENUE		31,313	30,450
EXPENSES			
CLAIMS INCURRED, NET OF REINSURANCE			
Claims incurred, gross	4	-18,801	-17,089
Reinsurer's share in claims paid	4	150	31
TOTAL		-18,651	-17,058
EXPENSES			
Insurance contract acquisition costs	5	-5,508	-5,196
Administrative expenses	5	-2,895	-2,801
TOTAL		-8,403	-7,997
TOTAL EXPENSES		-27,054	-25,055
NET RESULT BEFORE TAXES		4,259	5,395
INCOME TAX		-118	-33
NET PROFIT FOR THE FINANCIAL PERIOD		4,141	5,362
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED IN SUBSEQUENT PERIODS:			
Change in the value of available-for-sale assets		-788	876
TOTAL		-788	876
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD		3,353	6,238

STATEMENT OF COMPREHENSIVE INCOME

€000	Note	Q I-II 2015	Q I-II 2014
REVENUE			
PREMIUMS EARNED, NET OF REINSURANCE			
Premiums earned		62,050	59,910
Premiums ceded		-1,350	-1,519
TOTAL	2	60,700	58,391
OTHER INCOME			
Reinsurance commissions		141	153
Return on investments	3	871	1,509
Other income		32	74
TOTAL		1,044	1,736
TOTAL REVENUE		61,744	60,127
EXPENSES			
CLAIMS INCURRED, NET OF REINSURANCE			
Claims incurred, gross	4	-35,395	-33,247
Reinsurer's share in claims paid	4	-265	-162
TOTAL		-35,660	-33,409
EXPENSES			
Insurance contract acquisition costs	5	-10,791	-10,230
Administrative expenses	5	-5,651	-5,553
TOTAL		-16,442	-15,783
TOTAL EXPENSES		-52,102	-49,192
NET RESULT BEFORE TAXES		9,642	10,935
INCOME TAX		-327	-248
NET PROFIT FOR THE FINANCIAL PERIOD		9,315	10,687
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED IN SUBSEQUENT PERIODS:			
Change in the value of available-for-sale assets		-614	1,723
TOTAL		-614	1,723
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD		8,701	12,410

STATEMENT OF FINANCIAL POSITION

€000	Note	30.06.2015	31.12.2014
ASSETS			
Cash and cash equivalents		5,295	3,353
Financial investments	6	227,703	223,279
Receivables related to insurance activities		13,628	10,762
Accrued income and prepaid expenses		4,323	3,682
Reinsurance assets	8	3,397	3,044
Deferred tax asset		156	170
Shares in subsidiary		88	88
Property, plant and equipment	7	761	788
TOTAL ASSETS		255,351	245,166
LIABILITIES AND OWNER'S EQUITY			
Liabilities related to insurance activities		5,363	5,455
Accrued expenses and prepaid revenues		3,814	4,625
Liabilities arising from insurance contracts	8	129,675	121,488
Total liabilities		138,852	131,568
Share capital		6,391	6,391
Share premium		3,679	3,679
Mandatory reserve		2,362	2,362
Revaluation reserve		1,773	2,387
Retained earnings		92,979	81,763
Net profit for the year		9,315	17,016
Total owner's equity		116,499	113,598
TOTAL LIABILITIES AND OWNER'S EQUITY		255,351	245,166

STATEMENT OF CHANGES IN EQUITY

€000

	Share capital	Share premium	Mandatory reserve	Revaluation reserve		Retained earnings	Net profit for the year	Total equity
				Available-for-sale-financial assets	Foreign currency translation reserve			
Equity at beginning of 2014	6,391	3,679	2,362	-32	3	84,760	-	97,163
Paid dividends	-	-	-	-	-	-3,000	-	-3,000
Other comprehensive income	-	-	-	2,419	-3	3	-	2,419
Profit for the year	-	-	-	-	-	-	17,016	17,016
Equity at end of 2014	6,391	3,679	2,362	2,387	-	81,763	17 016	113,598
Equity at beginning of 2015	6,391	3,679	2,362	2,387	-	98,779	-	113,598
Paid dividends ¹⁾	-	-	-	-	-	-5,800	-	-5,800
Other comprehensive income	-	-	-	-614	-	-	-	-614
Profit for the year	-	-	-	-	-	-	9,315	9,315
Equity at end of June 2015	6,391	3,679	2,362	1,773	-	92,979	9,315	116,499

¹⁾ In the 2014 annual report, the management board proposed to distribute 5,800,000 euros (2013 annual report: 3,000,000 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. The purpose of the provision is to incentivize the free movement of capital and likewise to ensure conformity with EU law.

STATEMENT OF CASH FLOWS

€000	Note	Q I-II 2015	Q I-II 2014
Cash flow from operating activities			
Premiums received	2	66,040	63,050
Premiums ceded	2	-1,710	-2,004
Claims paid, incl. claims handling expenses	4, 5	-34,483	-32,872
Cash flow from reinsurance		176	402
Employee-related and service-related expenses		-18,271	-16,180
Investments in bonds and other interest-bearing securities		-85,476	-62,045
Proceeds from disposals of bonds and other interest-bearing securities		79,904	49,240
Investments in term deposits		-11,500	-23,200
Proceeds from term deposits		11,500	26,900
Interest received		1,704	1,140
Cash flow operating activities, net		7,884	4,431
Total cash flow from investing activities			
Purchase of property, plant and equipment, intangible assets	7	-145	-975
Proceeds from disposal of property, plant and equipment, and intangible assets		3	31
Cash flow from investing activities, net		-142	-944
Cash from from financing activities			
Paid dividends		-5,800	-3,000
Cash flow from financing activities, net		-5,800	-3,000
Change in cash flow, net		1,942	487
Cash and cash equivalents at the beginning of the year		3,353	2,812
Cash and cash equivalents at the end of the year		5,295	3,299

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 2014 was prepared in conformity with the IFRS and the interpretations issued by IFRIC, which have been approved by the EU. The same accounting policies were applied in preparing the second quarter of 2015 interim report.

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 Holding Ltd (Sweden) 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	Q I-II 2015	Q I-II 2014
Premiums written, gross	68,804	64,837
Change in the provision for unearned premiums	-6,754	-4,927
Premiums earned, gross of reinsurance	62,050	59,910
Reinsurance premiums	-2,076	-2,163
Change in the provision for unearned premiums	726	644
Premiums earned, ceded	-1,350	-1,519
TOTAL	60,700	58,391

Note 3. Return on investments

€000	Q I-II 2015	Q I-II 2014
<u>Interest income/expense</u>		
Financial assets at fair value through profit and loss		
<i>Classified as held for trading</i>		
From bonds and other interest-bearing securities	648	628
Available-for-sale financial assets		
From bonds and other interest-bearing securities	671	570
Loans and receivables		
From deposits	14	40
From cash and cash equivalents	1	2
TOTAL	1,334	1,240
<u>Profit from disposals</u>		
Financial assets at fair value through profit or loss		
<i>Classified as held for trading</i>		
From bonds and other fixed income securities	215	9
Available-for-sale financial assets		
From bonds and other interest-bearing securities	153	-
TOTAL	368	9
<u>Loss from disposals</u>		
Available-for-sale financial assets		
From bonds and other interest-bearing securities	-1	-1
TOTAL	-1	-1
<u>Profit/loss from change in fair value</u>		
Financial assets at fair value through profit or loss		
<i>Classified as held for trading</i>		
From bonds and other fixed income securities	-531	536
TOTAL	-531	536
<u>Investment expenses</u>	-299	-275
TOTAL RETURN ON INVESTMENTS	871	1,509

Reconciliation of fair value reserve of available-for-sale financial assets	Q I-II 2015	Q I-II 2014
Opening balance, available-for-sale financial assets	2,387	-32
Changes in fair value during the year, recognized in comprehensive income	-614	1,724
Closing balance, available-for-sale financial assets	1,773	1,692

Note 4. Claims incurred, net of reinsurance

€000	Q I-II 2015	Q I-II 2014
Gross		
Claims paid during the year related to that year	-22,149	-19,414
Claims paid related to previous years	-13,726	-14,214
Amounts recovered from salvage and recourses	3,808	2,418
Change in the provision for claims outstanding	-1,432	-259
Claims handling costs	-1,896	-1,778
TOTAL	-35,395	-33,247
Reinsurer's share		
Claims paid during the year related to that year	-	35
Claims paid related to previous years	109	325
Change in the provision for claims outstanding	-374	-522
TOTAL	-265	-162
Net		
Claims paid during the year related to that year	-18,341	-16,961
Claims paid related to previous years	-13,617	-13,889
Claims handling costs	-1,896	-1,778
Change in the provision for claims outstanding	-1,806	-781
TOTAL	-35,660	-33 409

Note 5. Operating expenses

€000	Q I-II 2015	Q I-II 2014
Personnel expenses	-9,177	-8,568
Commissions to intermediaries	-5,332	-5,127
Data processing	-1,102	-1,304
Expenses on premises	-1,023	-1,225
Office expenses (incl. communication expenses)	-527	-508
Other operating expenses	-1,177	-829
TOTAL	-18,338	-17,561

Division of costs on the basis of functions:

Insurance contract acquisition costs	-10,791	-10,230
Administrative expenses	-5,651	-5,553
Claims handling expenses	-1,896	-1,778
TOTAL	-18,338	-17,561

Note 6. Financial investments

€000	30.06.2015	31.12.2014
Financial assets measured at fair value through profit and loss		
<i>Classified as held for trading</i>		
Bonds and other interest-bearing securities		
- listed	41,797	42,631
incl. with a fixed interest rate (2.375%-5.5%)	41,797	42,631
TOTAL	41,797	42,631
Available-for-sale financial assets		
From bonds and other interest-bearing securities		
- listed	122,588	98,219
- unlisted	40,109	59,222
incl. with a floating interest rate	79,463	21,077
incl. with a fixed interest rate (0.03%-3.75%; 2014: 0.0%-3.75%)	83,234	136,364
TOTAL	162,697	157,441

€000	30.06.2015	31.12.2014
Loans and receivables		
Term deposits	23,209	23,207
TOTAL	23,209	23,207
FINANCIAL INVESTMENTS TOTAL	227,703	223,279

**Division of bonds and other fixed income securities
by issuers**

€000	30.06.2015	31.12.2014
Issued by Estonian companies	4,535	4,455
Issued by foreign governments	-	29,212
Issued by foreign financial institutions	119,410	114,233
Issued by foreign companies	80,549	52,172
TOTAL	204,494	200,072

Ratings of bond issuers (S&P)

	Percentage of fair value	
	30.06.2015	31.12.2014
AAA	6.1%	11.3%
AA+ until AA-	42.2%	49.1%
A+ until A-	26.8%	12.9%
BBB+ until BBB-	17.8%	19.4%
BB	0.5%	0.6%
Non rated	6.6%	6.7%
TOTAL	100%	100%

Division of bonds and other fixed income securities by maturity terms

€000	30.06.2015	31.12.2014
up to 1 year	38,601	72,256
1-2 years	55,330	34,470
2-5 years	93,889	81,175
5-10 years	16,674	12,171
TOTAL	204,494	200,072

Note 7. Property, plant and equipment

€000	Land	Buildings	Other PPE	TOTAL
Net book value 31.12.2013	2	77	602	681
Acquisition	-	-	541	541
Write-off	-	-	-415	-415
Disposal	-2	-142	-331	-475
Acquisition cost 31.12.2014	-	-	3,045	3,045
-incl. fully depreciated	-	-	1,783	1,783
Depreciation charge for the year	-	-2	-330	-332
Depreciation charge of sales and disposals	-	67	722	789
Accumulated depreciation 31.12.2014	-	-	-2,257	-2,257
Net book value 31.12.2014	-	-	788	788
Acquisition	-	-	142	142
Write-off	-	-	-7	-7
Disposal	-	-	-3	-3
Acquisition cost 30.06.2015	-	-	3,177	3,177
-incl. fully depreciated	-	-	1,915	1,915
Depreciation charge for the year	-	-	-167	-167
Depreciation charge of sales and disposals	-	-	8	8
Accumulated depreciation 30.06.2015	-	-	-2,416	-2,416
Net book value 30.06.2015	-	-	761	761

Note 8. Liabilities related to insurance contracts and reinsurance assets

€000	30.06.2015	31.12.2014
Gross		
Provision for incurred and reported claims and claims handling expenses	56,716	56,320
Provision for incurred but not reported claims	26,132	25,096
Provision for unearned premiums	46,827	40,072
TOTAL	129,675	121,488
Reinsurer's share		
Provision for incurred and reported claims and claims handling expenses	1,867	2,252
Provision for incurred but not reported claims	271	260
Provision for unearned premiums	1,259	532
TOTAL	3,397	3,044
Net		
Provision for incurred and reported claims and claims handling expenses	54,849	54,068
Provision for incurred but not reported claims	25,861	24,836
Provision for unearned premiums	45,568	39,540
TOTAL	126,278	118,444

Note 9. Related party transactions*Related 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

Insurance contracts with total premiums of €4 thousand were concluded with the management individuals in the financial period (2014 6 months: €6 thousand). The Management Board members received a total of €439 thousand in remuneration, including social tax (2014 6 months: €422 thousand). No termination benefits were paid to members of the Management Board during the reporting period (2014 6 months: €0). According to the conditions of the contract concluded with the members of the Management Board, termination benefit up to 12 months shall be paid if the contract is terminated. No remuneration was paid to members of the Supervisory Board in 2015 and 2014.

Reinsurance transactions with group companies

The company has concluded reinsurance contracts with If P&C Insurance Ltd (Sweden) and If P&C Insurance Company Ltd (Finland), insurance companies incorporated under the parent company If P&C Insurance Holding Ltd group.

€000	Calculated reinsurance premiums		Indemnifications and commissions received	
	Q I-II 2015	Q I-II 2014	Q I-II 2015	Q I-II 2014
If P&C Insurance Ltd (Sweden)	1,325	1,267	114	9
If P&C Insurance Company Ltd (Finland)	36	151	3	11

Receivables and payables related to the above transactions as of 30.06.2015 and 31.12.2014:

€000	30.06.2015	31.12.2014
Receivables		
If P&C Insurance Ltd (Sweden)	104	11
Payables		
If P&C Insurance Ltd (Sweden)	632	549
If P&C Insurance Company Ltd (Finland)	34	-

Other related party transactions, transactions with other group companies

€000	Services purchased		Services rendered	
	Q I-II 2015	Q I-II 2014	Q I-II 2015	Q I-II 2014
Mandatum Life Insurance Baltic SE	-	-	11	21
Nordea Group companies	248	157	268	273
If P&C Insurance Ltd (Sweden)	-	-	49	275
If P&C Insurance Company Ltd (Finland)	-	-	-	11
Sampo Plc	226	205	-	-
If IT Services	-	-	9	70
Support Services AS	1	2	18	18

Receivables and payables related to the above transactions as of 30.06.2015 and 31.12.2014:

€000	30.06.2015	31.12.2014
Receivables		
Mandatum Life Insurance Baltic SE	5	3
Nordea Group companies	60	43
If P&C Insurance Ltd (Sweden)	-	89

	30.06.2015	31.12.2014
Payables		
Nordea Group companies	18	21
Sampo Plc.	114	111

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

€000	30.06.2015	31.12.2014
Financial assets		
Nordea Group companies	10,022	31,132

€000	Q I-II 2015	Q I-II 2014
Investment income/expense		
Nordea Group companies	8	60