

If P&C Insurance AS

Interim Report

1st 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: *31 March 2015*
CEO: *Andris Morozovs*
Auditor: *Ernst & Young Baltic AS*

If P&C Insurance AS management board have compiled 1st quarter 2015 interim report which is presented on pages 6 - 18.

Member of the Management Board	Heinar Olak	/Signature/	29.05.2015
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Member of the Management Board	Artur Praun	/Signature/	29.05.2015
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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 three months of 2015

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 quarter of 2015, If Insurance received insurance premiums of 35.5 million euros, increasing by 2 per cent year-over-year. Premium volumes increased in Lithuania and Estonia, while in Latvia decreased 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 5.2 million euros in the reporting period (Q1 2014: 5.3 million euros), of which the profit of insurance activity amounted to 4.6 million euros (Q1 2014: 4.8 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 84.3% (Q1 2014: 83.3 %), 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 250.3 million euros as at 31 March 2015. The amount of financial investments (222.7 million euros as at 31 March 2015) exceeds by 100.1 million euros the obligations under insurance contracts net of reinsurance assets, which gives the company a strong liquidity reserve.

During the reporting period was allocated 15 million euros additionally into floating rate credit instruments which purchases were funded by selling money market instruments and government bonds. Fixed income portfolio running yield has stayed on the same level 1.0% (31.12.2014: 1.0%) and portfolio general duration was at the end of March 1.4 years (31.12.2014: 1.7 years).

In short terms of outlook, the aim is to continue sell negative yield government bonds and money market instruments by increasing investments into credit bonds.

Number of employees and workforce expenses

As of 31 March 2015, If P&C Insurance AS employed 548 full-time employees (31.12.2014: 544) and the workforce expenses totalled 4.5 million euros (Q1 2014: 4.2 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. The post-claims customer recommendation index rose to 70%. An increasing number of customers recommend If Insurance to their friends and acquaintances after going through the claims handling process.

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

€000	Note	Q I 2015	Q I 2014
REVENUE			
PREMIUMS EARNED, NET OF REINSURANCE			
Premiums earned		30,223	29,549
Premiums ceded		-646	-752
TOTAL	2	29,577	28,797
OTHER INCOME			
Reinsurance commissions		95	103
Return on investments	3	740	745
Other income		19	33
TOTAL		854	881
TOTAL REVENUE		30,431	29,678
EXPENSES			
CLAIMS INCURRED, NET OF REINSURANCE			
Claims incurred, gross	4	-16,594	-16,159
Reinsurer's share in claims paid	4	-415	-192
TOTAL		-17,009	-16,351
EXPENSES			
Insurance contract acquisition costs	5	-5,283	-5,035
Administrative expenses	5	-2,756	-2,752
TOTAL		-8,039	-7,787
TOTAL EXPENSES		-25,048	-24,138
NET RESULT BEFORE TAXES		5,383	5,540
INCOME TAX		-209	-216
NET PROFIT FOR THE FINANCIAL PERIOD		5,174	5,324
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED IN SUBSEQUENT PERIODS:			
Change in the value of available-for-sale assets		174	848
TOTAL		174	848
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD		5,348	6,172

STATEMENT OF FINANCIAL POSITION

€000	Note	31.03.2015	31.12.2014
ASSETS			
Cash and cash equivalents		4,537	3,353
Financial investments	6	222,746	223,279
Receivables related to insurance activities		14,362	10,762
Accrued income and prepaid expenses		4,142	3,682
Reinsurance assets	8	3,482	3,044
Deferred tax asset		147	170
Shares in subsidiary		88	88
Property, plant and equipment	7	773	788
TOTAL ASSETS		250,277	245,166
LIABILITIES AND OWNER'S EQUITY			
Liabilities related to insurance activities		6,269	5,455
Accrued expenses and prepaid revenues		4,692	4,625
Liabilities arising from insurance contracts	8	126,170	121,488
Total liabilities		137,131	131,568
Share capital		6,391	6,391
Share premium		3,679	3,679
Mandatory reserve		2,362	2,362
Revaluation reserve		2,561	2,387
Retained earnings		92,979	81,763
Net profit for the year		5,174	17,016
Total owner's equity		113,146	113,598
TOTAL LIABILITIES AND OWNER'S EQUITY		250,277	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	-	-	-	174	-	-	-	174
Profit for the year	-	-	-	-	-	-	5,174	5,174
Equity at end of March 2015	6,391	3,679	2,362	2,561	-	92,979	5,174	113,146

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 2015	Q I 2014
Cash flow from operating activities			
Premiums received	2	32,416	31,978
Premiums ceded	2	-826	-994
Claims paid, incl. claims handling expenses	4, 5	-17,756	-16,576
Cash flow from reinsurance		96	322
Employee-related and service-related expenses		-8,471	-8,435
Investments in bonds and other interest-bearing securities		-38,483	-32,315
Proceeds from disposals of bonds and other interest-bearing securities		38,928	28,939
Investments in term deposits		-	-11,500
Proceeds from term deposits		-	11,100
Interest received		1,151	750
Cash flow operating activities, net		7,055	3,269
Total cash flow from investing activities			
Purchase of property, plant and equipment, intangible assets	7	-71	-660
Proceeds from disposal of property, plant and equipment, and intangible assets		-	1
Cash flow from investing activities, net		-71	-659
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		1,184	-390
Cash and cash equivalents at the beginning of the year		3,353	2,812
Cash and cash equivalents at the end of the year		4,452	2,422

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 first 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 2015	Q I 2014
Premiums written, gross	35,488	34,802
Change in the provision for unearned premiums	-5,265	-5,253
Premiums earned, gross of reinsurance	30,223	29,549
Reinsurance premiums	-1,606	-1,668
Change in the provision for unearned premiums	960	917
Premiums earned, ceded	-646	-752
TOTAL	29,577	28,797

Note 3. Return on investments

€000	Q I 2015	Q I 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	93	247
Available-for-sale financial assets		
From bonds and other interest-bearing securities	568	265
Loans and receivables		
From deposits	7	21
From cash and cash equivalents	-	1
TOTAL	668	534
<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	50	-
TOTAL	265	9
<u>Loss from disposals</u>		
Available-for-sale financial assets		
From bonds and other interest-bearing securities	-	- 1
TOTAL	-	- 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	-44	334
<i>Designated at fair value through profit or loss at inception:</i>		
From certificates of deposits	-	-
TOTAL	-44	334
<u>Investment expenses</u>	-149	-130
TOTAL RETURN ON INVESTMENTS	740	746

Reconciliation of fair value reserve of available-for-sale financial assets	Q I 2015	Q I 2014
Opening balance, available-for-sale financial assets	2,387	-32
Changes in fair value during the year, recognized in comprehensive income	174	848
Closing balance, available-for-sale financial assets	2,561	816

Note 4. Claims incurred, net of reinsurance

€000	Q I 2015	Q I 2014
Gross		
Claims paid during the year related to that year	-7,660	-7,362
Claims paid related to previous years	-10,479	-9,719
Amounts recovered from salvage and recourses	1,896	1,424
Change in the provision for claims outstanding	583	351
Claims handling costs	-934	-853
TOTAL	-16,594	-16,159
Reinsurer's share		
Claims paid during the year related to that year	-	1
Claims paid related to previous years	107	27
Change in the provision for claims outstanding	-522	-220
TOTAL	-415	-192
Net		
Claims paid during the year related to that year	-5,764	-5,937
Claims paid related to previous years	-10,372	-9,692
Claims handling costs	-934	-853
Change in the provision for claims outstanding	61	131
TOTAL	-17,009	-16,351

Note 5. Operating expenses

€000	Q I 2015	Q I 2014
Personnel expenses	-4,469	-4,237
Commissions to intermediaries	-2,836	-2,793
Data processing	-516	-592
Expenses on premises	-516	-689
Office expenses (incl. communication expenses)	-249	-267
Other operating expenses	-387	-61
TOTAL	-8,973	-8,639

Division of costs on the basis of functions:

Insurance contract acquisition costs	-5,283	-5,035
Administrative expenses	-2,756	-2,752
Claims handling expenses	-934	-852
TOTAL	-8,973	-8,639

Note 6. Financial investments

€000	31.03.2015	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	42,126	42,631
incl. with a fixed interest rate (2.375%-5.5%)	42,126	42,631
TOTAL	42,126	42,631
Available-for-sale financial assets		
From bonds and other interest-bearing securities		
- listed	102,216	98,219
- unlisted	55,189	59,222
incl. with a floating interest rate	37,106	21,077
incl. with a fixed interest rate (0.0%-3.75%)	120,300	136,364
TOTAL	157,405	157,441

€000	31.03.2015	31.12.2014
Loans and receivables		
Term deposits	23,214	23,207
TOTAL	23,214	23,207
FINANCIAL INVESTMENTS TOTAL	222,746	223,279

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

€000	31.03.2015	31.12.2014
Issued by Estonian companies	4,547	4,455
Issued by foreign governments	17,037	29,212
Issued by foreign financial institutions	109,814	114,233
Issued by foreign companies	68,134	52,172
TOTAL	199,532	200,072

Ratings of bond issuers (S&P)

	Percentage of fair value	
	31.03.2015	31.12.2014
AAA	14.9%	11.3%
AA+ until AA-	43.8%	49.1%
A+ until A-	15.6%	12.9%
BBB+ until BBB-	18.3%	19.4%
BB	0.6%	0.6%
Non rated	6.8%	6.7%
TOTAL	100%	100%

Division of bonds and other fixed income securities by maturity terms

€000	31.03.2015	31.12.2014
up to 1 year	58,171	72,256
1-2 years	60,092	34,470
2-5 years	68,979	81,175
5-10 years	12,290	12,171
TOTAL	199,532	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	-	-	69	69
Acquisition cost 31.03.2015	-	-	3,114	3,114
-incl. fully depreciated	-	-	1,847	1,847
Depreciation charge for the year	-	-	-84	-84
Accumulated depreciation 31.03.2015	-	-	-2,341	-2,341
Net book value 31.03.2015	-	-	773	773

Note 8. Liabilities related to insurance contracts and reinsurance assets

€000	31.03.2015	31.12.2014
Gross		
Provision for incurred and reported claims and claims handling expenses	55,506	56,320
Provision for incurred but not reported claims	25,327	25,096
Provision for unearned premiums	45,337	40,072
TOTAL	126,170	121,488
Reinsurer's share		
Provision for incurred and reported claims and claims handling expenses	1,725	2,252
Provision for incurred but not reported claims	264	260
Provision for unearned premiums	1,493	532
TOTAL	3,482	3,044
Net		
Provision for incurred and reported claims and claims handling expenses	53,781	54,068
Provision for incurred but not reported claims	25,063	24,836
Provision for unearned premiums	43,844	39,540
TOTAL	122,688	118,444

Note 9. 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

Insurance contracts with total premiums of €1 thousand were concluded with the management individuals in the financial period (2014 3 months: €1 thousand). The Management Board members received a total of €262 thousand in remuneration, including social tax (2014 3 months: €282 thousand). No termination benefits were paid to members of the Management Board during the reporting period (2014 3 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 2015	Q I 2014	Q I 2015	Q I 2014
If P&C Insurance Ltd (Sweden)	1,097	1,034	15	10
If P&C Insurance Company Ltd (Finland)	31	135	2	10

Receivables and payables related to the above transactions as of 31.03.2015 and 31.12.2014:

€000	31.03.2015	31.12.2014
Receivables		
If P&C Insurance Ltd (Sweden)	110	11
Payables		
If P&C Insurance Ltd (Sweden)	1,113	549
If P&C Insurance Company Ltd (Finland)	28	-

Other related party transactions, transactions with other group companies

€000	Services purchased		Services rendered	
	Q I 2015	Q I 2014	Q I 2015	Q I 2014
Mandatum Life Insurance Baltic SE	-	-	2	1
Nordea Group companies	122	87	124	125
If P&C Insurance Ltd (Sweden)	-	-	24	204
If P&C Insurance Company Ltd (Finland)	-	-	-	11
Sampo plc.	112	101	-	-
If IT Services	-	-	3	66
Support Services AS	1	-	9	9

Receivables and payables related to the above transactions as of 31.03.2015 and 31.12.2014:

€000	31.03.2015	31.12.2014
Receivables		
Mandatum Life Insurance Baltic SE	-	3
Nordea Group companies	37	43
If P&C Insurance Ltd (Sweden)	112	89

	31.03.2015	31.12.2014
Payables		
Nordea Group companies	19	21
Sampo Plc.	112	111
Support Services AS	81	-

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

€000	31.03.2015	31.12.2014
Financial assets		
Nordea Group companies	16,332	31,132

€000	Q I 2015	Q I 2014
Investment income/expense		
Nordea Group companies	9	25