

If P&C Insurance AS

Interim Report

1st Quarter 2018

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 2018*
End of reporting period: *31 March 2018*
CEO: *Andris Morozovs*
Auditor: *KPMG Baltics OÜ*

If P&C Insurance AS management board have compiled 1st quarter 2018 interim report which is presented on pages 7 - 19.

Member of the Management Board	Artur Praun	/Signature/	31.05.2018
Member of the Management Board	Heinar Olak	/Signature/	31.05.2018

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EXPLANATORY NOTE

“If P&C Insurance AS” (the Company or If) is fully owned by the leading Nordic non-life insurance group “If P&C Insurance Holding Ltd (publ)”, 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 via Mandatum Life. Sampo Group is also the major shareholder of the Nordea banking group.

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 310,000 policyholders and is the market leader in Estonia.

The company is Estonian registered in operating in Latvia and Lithuania through branches. The current corporate structure enables efficient operations and claims handling across the Baltic region. Some of the business functions are common for all three Baltic countries, however each country has its own independent sales and customer service functions.

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 2018

The relatively good macroeconomic development continued in Baltic countries in first quarter 2018. If’s technical result increased from €3.2 million in 1st quarter 2017 to €3.4 million. If’s gross written premium on the Baltic market during the first three months of 2018 were €54.5 million compared to €37.0 million in the same period of 2017. First quarter 2018 was affected by an adjustment in premium recognition. The growth in premiums was also driven by continued premium rate increases in Motor lines. Claims trend was positive and contributed to the performance improvement.

The company has made some adjustments regarding gross written premium recognition from 2018 having full period gross written premium recognised in accounts at the inception of risk coverage (=insurance contract start date) for the majority of the Estonian business, instead of previously reported installments of the insurance premium which has become due during the reporting period.

The adjustment has no overall impact on the equity of the company but significantly improve and refine accounting data capture, gaining the numerous benefits like harmonisation across Baltic countries and If Group, better approximation of the gross written premium value from Solvency II perspective, improvement in follow-up analysis for internal management reporting when comparing and interpreting results among Baltic countries, better actuarial process for unearned premium calculation. Please see more comment under Note 2.

The overall net profit after tax stood at €3.7 million (in the first three months of 2017: €3.4 million), combined ratio was nearly the same 90,1% as the same period year before.

KEY FIGURES

€000	Q1 2018	Q1 2017
Premiums written, gross	54,503	36,968
Premiums earned, net of reinsurance	34,319	31,679
Claims incurred, net of reinsurance	22,120	20,883
Operating expenses ¹	8,805	7,630
Result from insurance ²	3,394	3,167
Net profit	3,675	3,368
Combined ratio ³	90.1%	90.0%
Expense ratio ⁴	25.7%	24.1%
Loss ratio ⁵	64.4%	65.9%
Return on investments ⁶	0.2%	0.4%

Formulas:

¹ Operating expenses	Insurance contract acquisition costs and administrative expenses (+) reinsurance commissions and other income
² Result from insurance	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)	$\frac{\text{Investment income (-) investment expenses (+) changes in fairvalue recognized in other comprehensive income}}{\text{Weighted average volume of financial investments in the period}}$

Investment result

The value of financial investments stood at €274.5 million as of 31st March 2018 a figure which is €114.3 million higher than the obligated amount stipulated under insurance contracts net of reinsurance.

Applying the full market valuation, profit from asset management decreased to €0.16 million down from €0.23 million in 1st quarter 2017 with a return ratio of 0.2% compared to 0.4% previously. Net investment return amounted to €0.55 million as opposed to 1st quarter 2016's €0.26 million on the income statement, whilst €-0.39 million was recorded under other comprehensive income down from €-0.03 million in 2016. Fixed income portfolio running yield has stayed on the same level 0.9% as last year, and duration rose to 2.2 years as opposed to 2.1 years in 2016.

The prevailing low interest rate environment is a serious challenge for the investment portfolio. The strong involvement of the European Central Bank in the fixed income markets has resulted in a downward spiral for European short and long term rates, which means that it is increasingly difficult to re-invest maturing instruments at attractive levels. However, 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

On 31st March 2018, the number of full time employees in If was 563 (31.12.2017: 573) and the Company's expenses for personnel totalled €5.5 million (in the first three months of 2017: €4.5 million).

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

The first quarter of 2018 was marked by new product launches and improvement of our digital offering in all three Baltic countries. In the beginning of the year, the new business-to-business product – health insurance – was launched in Estonia. Using this service, companies can improve the wellbeing of their personnel and provide employees with a more motivating rewards package.

While health insurance is a new product in Estonia, in Latvia it is popular already for quite a while. During the first quarter, we were putting a lot of efforts in creating a brand-new health insurance mobile app which will be launched soon. It will help our customers to get information about their health insurance plan easily and report claims in just a few clicks.

Improving digital services was a great focus for us in the beginning of the year. Following a successful launch of the new travel insurance product on our web-shops in the end of last year, we started to offer pet insurance and home insurance via our e-channels in Latvia and Lithuania.

Besides new products and digitalisation, preparation project for the new General Data Protection Regulation (GDPR) was in the spotlight. The whole organisation was involved: from participating in on-line and physical training to completing extensive to-do lists, in order to be fully GDPR-ready before May 25, when the new regulation will come into force.

Despite the fact that customer satisfaction is high, and it improved even more during the first quarter of the year, we have appointed a dedicated team to work with customer feedback. This shows our commitment to provide our clients with the best quality services and willingness to ensure that using our insurances is as smooth as possible.

If provides a complete range of P&C insurance products to private and corporate customers in the Baltics, working primarily via telephone and internet channels, as well as direct sales points. Furthermore, If utilizes a network of brokers and partners. Sales and customer service staff are located in central offices throughout the region and today If has the third largest insurance portfolio among all P&C insurance providers in the Baltic States.

STATEMENT OF COMPREHENSIVE INCOME

€000	Note	Q I 2018	Q I 2017
PREMIUMS EARNED, NET OF REINSURANCE			
Premiums earned		35,011	32,294
Premiums ceded		-692	-614
TOTAL	2	34,319	31,680
OTHER INCOME			
Return on investments	3	552	260
Reinsurance commissions and other income		145	116
TOTAL		697	376
TOTAL REVENUE		35,016	32,056
CLAIMS INCURRED, NET OF REINSURANCE			
Claims incurred, gross	4	-22,104	-21,227
Reinsurer's share in claims paid	4	-16	344
TOTAL		-22,120	-20,883
EXPENSES			
Insurance contract acquisition costs	5	-5,720	-4,983
Administrative expenses	5	-3,230	-2,764
TOTAL		-8,950	-7,747
TOTAL CLAIMS AND EXPENSES		-31,070	-28,630
NET RESULT BEFORE TAXES		3,946	3,426
INCOME TAX		-271	-58
NET PROFIT FOR THE FINANCIAL PERIOD		3,675	3,368
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED IN SUBSEQUENT PERIODS:			
Change in the value of available-for-sale assets		-390	-28
TOTAL		-390	-28
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD		3,285	3,340

STATEMENT OF FINANCIAL POSITION

€000	Note	31.03.2018	31.12.2017
ASSETS			
Cash and cash equivalents		9,275	8,011
Financial investments	6	274,494	271,960
Receivables related to insurance activities		31,318	13,055
Accrued income and prepaid expenses		4,609	4,035
Reinsurance assets	8	6,457	5,202
Deferred tax asset		-	118
Investment in subsidiary		88	88
Property, plant and equipment	7	525	442
TOTAL ASSETS		326,766	302,911
LIABILITIES AND OWNER'S EQUITY			
Liabilities related to insurance activities		7,004	5,463
Accrued expenses and prepaid revenues		5,587	4,842
Liabilities arising from insurance contracts	8	166,608	145,224
Total liabilities		179,199	155,529
Share capital		6,391	6,391
Share premium		3,679	3,679
Mandatory reserve		2,362	2,362
Fair value reserve		3,314	3,704
Retained earnings		128,146	115,793
Net profit for the year		3,675	15,453
Total owner's equity		147,567	147,382
TOTAL LIABILITIES AND OWNER'S EQUITY		326,766	302,911

STATEMENT OF CHANGES IN EQUITY

€000	Share capital	Share premium	Mandatory reserve	Fair value reserve	Retained earnings	Net profit for the year	Total equity
Equity at beginning of 2017	6,391	3,679	2,362	3,503	119,593	-	135,528
Paid dividends ¹⁾	-	-	-	-	-3,800	-	-3,800
Other comprehensive income	-	-	-	201	-	-	201
Net profit for the year	-	-	-	-	-	15,453	15,453
Equity at end of 2017	6,391	3,679	2,362	3,704	115,793	15,453	147,382
Equity at beginning of 2018	6,391	3,679	2,362	3,704	131,246	-	147,382
Paid dividends ¹⁾	-	-	-	-	-3,100	-	-3,100
Other comprehensive income	-	-	-	-390	-	-	-390
Net profit for the year	-	-	-	-	-	3,675	3,675
Equity at end of March 2018	6,391	3,679	2,362	3,314	128,146	3,675	147,567

- ¹⁾ In March 2018, the Company distributed 3.1 million euros (2017: 3.8 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 2018	Q1 2017
Cash flow from operating activities			
Premiums received	2	37,226	34,217
Premiums ceded	2	-703	-712
Claims paid, incl. claims handling expenses	4, 5	-20,589	-19,294
Cash flow from reinsurance		106	143
Employee-related and service-related expenses		-9,188	-8,118
Investments in bonds and other interest-bearing securities		-15,410	-13,216
Proceeds from disposals of bonds and other interest-bearing securities		12,449	16,896
Interest received		759	1,194
Income tax paid		-113	-177
Cash flow operating activities, total		4,537	10,933
Cash flow from investing activities			
Purchase of property, plant and equipment	7	-174	-40
Proceeds from disposal of property, plant and equipment		1	2
Cash flow from investing activities, total		-173	-38
Cash flow from financing activities			
Paid dividends		-3,100	-3,800
Cash flow from financing activities		-3,100	-3,800
Change in cash flow		1,264	7,095
Cash and cash equivalents at the beginning of the year		8,011	12,178
Cash and cash equivalents at the end of the year		9,275	19,273

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 2017 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 2018 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	Q1 2018	Q1 2017
Premiums written, gross	54,503	36,968
Change in the provision for unearned premiums	-19,492	-4,674
Premiums earned, gross of reinsurance	35,011	32,294
Reinsurance premiums	-1,970	-1,462
Change in the provision for unearned premiums	1,278	848
Premiums earned, ceded	-692	-614
TOTAL	34,319	31,680

Gross written premium recognition in 2018 has been adjusted compared to 2017. If has started to recognise full period insurance premium at the inception of risk coverage for the Estonian business and there has been a one-off effect on recognised gross premium written during the first quarter. However, there is only a minor effect on gross premium earned and on the result of the company as a whole. The one-off effect has been derived from the policies issued in 2017 and valid as at the 1st January 2018 where in 2017 only installment amount has been recognised. Due to the adjustment regarding gross written premium recognition, the premium amount for the remaining period of such policies has been booked in January 2018 in line with the adjusted method introduced.

Note 3. Return on investments

€000	Q1 2018	Q1 2017
<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	110	244
Available-for-sale financial assets		
From bonds and other interest-bearing securities	545	375
Loans and receivables		
From deposits	1	3
From cash and cash equivalents	-	-
TOTAL	656	622
<u>Profit from disposals</u>		
Available-for-sale financial assets		
From bonds and other interest-bearing securities	162	-
TOTAL	162	-
<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	-97	-191
TOTAL	-97	-191
Investment expenses	-169	-171
TOTAL RETURN ON INVESTMENTS	552	260
Reconciliation of fair value reserve of available-for-sale financial assets		
	Q1 2018	Q1 2017
Opening balance, available-for-sale financial assets	3,704	3,503
Unrealized result, available-for-sale financial assets, recognized in comprehensive income	-228	-28
Realized result, recognized in income statement	-162	-
Closing balance, available-for-sale financial assets	3,314	3,476
Total result in fair value available-for-sale financial assets during the year	-390	-28

Note 4. Claims incurred, net of reinsurance

€000	Q1 2018	Q1 2017
Gross		
Claims paid during the year related to that year	-8,717	-8,465
Claims paid related to previous years	-12,788	-11,906
Amounts recovered from salvage and recourses	2,353	2,172
Change in the provision for claims outstanding	-1,893	-2,095
Claims handling costs	-1,059	-933
TOTAL	-22,104	-21,227
Reinsurer's share		
Claims paid during the year related to that year	-	2
Claims paid related to previous years	3	5
Change in the provision for claims outstanding	-19	337
TOTAL	-16	344
Net		
Claims paid during the year related to that year	-8,717	-8,463
Claims paid related to previous years	-12,785	-11,901
Amounts recovered from salvage and regresses	2,353	2,172
Change in the provision for claims outstanding	-1,912	-1,758
Claims handling expenses	-1,059	-933
TOTAL	-22,120	-20,883

Note 5. Expenses

€000	Q1 2018	Q1 2017
Personnel expenses	-5,510	-4,537
Commissions to intermediaries	-2,982	-2,392
Data processing	-513	-425
Expenses on premises	-546	-528
Office expenses (incl. communication expenses)	-297	-220
Other operating expenses	-161	-578
TOTAL	-10,009	-8,680

Division of costs on the basis of functions:

Insurance contract acquisition costs	-5,720	-4,983
Administrative expenses	-3,230	-2,764
Claims handling expenses	-1,059	-933
TOTAL	-10,009	-8,680

Note 6. Financial investments

€000	31.03.2018	31.12.2017
Financial assets measured at fair value through profit and loss		
<i>Classified as held for trading</i>		
Bonds and other interest-bearing securities		
- listed, with a fixed interest rate (4.25%-5.5%)	10,451	10,725
Available-for-sale financial assets		
From bonds and other interest-bearing securities		
- listed	231,718	230,022
- unlisted	9,924	8,813
incl. with a floating interest rate	85,158	95,293
incl. with a fixed interest rate (0.0%-3.75%)	156,484	143,542
TOTAL	241,642	238,835
Loans and receivables		
Term deposits	22,401	22,400
FINANCIAL INVESTMENTS TOTAL	274,494	271,960

Term deposits earn an annual interest 0.01-0.03%.

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

€000	31.03.2018	31.12.2017
Issued by Estonian companies	4,168	4,168
Issued by foreign governments	2,488	2,497
Issued by foreign financial institutions	112,533	105,699
Issued by foreign companies	132,904	137,196
TOTAL	252,093	249,560

Ratings of bond issuers (S&P)

	Percentage of fair value	
	31.03.2018	31.12.2017
AAA	2.0%	2.0%
AA+ until AA-	18.5%	18.7%
A+ until A-	32.7%	34.4%
BBB+ until BBB-	30.8%	29.3%
BB	1.2%	0.9%
Non rated	14.8%	14.7%
TOTAL	100%	100%

Division of bonds and other fixed income securities by maturity terms

€000	31.03.2018	31.12.2017
up to 1 year	16,568	4,168
1-2 years	52,655	54,020
2-5 years	135,411	146,318
5-10 years	47,459	45,054
TOTAL	252,093	249,560

Deposits by maturity terms

€000	31.03.2018	31.12.2017
6-12 months	22,401	22,400
TOTAL	22,401	22,400

Note 7. Property, plant and equipment

€000	Other PPE
Net book value 31.12.2016	595
Acquisition	175
Write-off	-31
Disposal	-29
Acquisition cost 31.12.2017	1,796
-incl. fully depreciated	525
Depreciation charge for the year	-325
Depreciation charge of sales and disposals	57
Accumulated depreciation 31.12.2017	-1,354
Net book value 31.12.2017	442
Acquisition	174
Write-off	-
Disposal	-5
Acquisition cost 31.03.2018	1,965
-incl. fully depreciated	569
Depreciation charge for the year	-89
Depreciation charge of sales and disposals	4
Accumulated depreciation 31.03.2018	-1,440
Net book value 31.03.2018	525

Note 8. Liabilities related to insurance contracts and reinsurance assets

€000	31.03.2018	31.12.2017
Gross		
Provision for incurred and reported claims and claims handling expenses	69,311	69,016
Provision for incurred but not reported claims	33,122	31,525
Provision for unearned premiums	64,175	44,683
TOTAL	166,608	145,224
Reinsurer's share		
Provision for incurred and reported claims and claims handling expenses	4,268	4,282
Provision for incurred but not reported claims	273	277
Provision for unearned premiums	1,917	643
TOTAL	6,458	5,202
Net		
Provision for incurred and reported claims and claims handling expenses	65,043	64,734
Provision for incurred but not reported claims	32,849	31,248
Provision for unearned premiums	62,258	44,040
TOTAL	160,150	140,022

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

The Management Board members received a total of €321 thousand in remuneration, including social tax (2017 Q1: €203 thousand). No termination benefits were paid to members of the Management Board during the reporting period (2017 Q1: €0). No remuneration was paid to members of the Supervisory Board.

Insurance contracts with total premiums of €1 thousand were concluded with the management individuals in the financial period (2017 Q1: €1 thousand).

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. Finnish company If P&C Insurance Company Ltd was merged with Swedish

company If P&C Insurance Ltd from 01.10.2017 and operates now as a branch.

€000	Calculated reinsurance premiums		Indemnifications and commissions received	
	Q1 2018	Q1 2017	Q1 2018	Q1 2017
If P&C Insurance Ltd (Sweden)	1,167	969	12	10
If P&C Insurance Company Ltd (Finland)	-	-16	-	-1
Total	1,167	953	12	9

Receivables and payables related to the above transactions as of 31.03.2018 and 31.12.2017:

€000	31.03.2018	31.12.2017
Receivables		
If P&C Insurance Ltd (Sweden)	4	4
Payables		
If P&C Insurance Ltd (Sweden)	1,323	626

Other related party transactions, transactions with other group companies

€000	Services purchased		Services rendered	
	Q1 2018	Q1 2017	Q1 2018	Q1 2017
Mandatum Life Insurance Baltic SE	-	-	12	11
Nordea Group companies	104	67	158	132
If P&C Insurance Ltd (Sweden)	19	29	94	35
If P&C Insurance Company Ltd (Finland)	-	-	-	47
Sampo Plc	137	127	-	-
If IT Services A/S	277	269	-	-
Support Services AS	-	-	-	26
Total	537	492	264	251

Receivables and payables related to the above transactions as of 31.03.2018 and 31.12.2017:

€000	31.03.2018	31.12.2017
Receivables		
Nordea Group companies	5	-
If P&C Insurance Ltd (Sweden)	71	79
Support Services AS	15	13
Total	91	92

	31.03.2018	31.12.2017
Payables		
Mandatum Life Insurance Baltic SE	-	2
Nordea Group companies	23	59
Sampo Plc	137	135
If P&C Insurance Ltd (Sweden)	10	2
Total	170	198

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

€000	31.03.2018	31.12.2017
Financial assets		
Nordea Group companies	22,401	22,400

€000	Q1 2018	Q1 2017
Investment income/expense		
Nordea Group companies	1	3