

If P&C Insurance AS

Interim Report

1st Quarter 2017

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 2017*
End of reporting period: *31 March 2017*
CEO: *Andris Morozovs*
Auditor: *Ernst & Young Baltic AS*

If P&C Insurance AS management board have compiled 1st quarter 2017 interim report which is presented on pages 7 - 19.

Member of the Management Board	Artur Praun	/Signature/	29.05.2017
Member of the Management Board	Tiit Kolde	/Signature/	29.05.2017

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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 (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.

The Company is registered in Estonia and also operates branches in Latvia and Lithuania. If Insurance provides a complete range of P&C insurance products to corporate and private customers in the Baltics. If Insurance works directly via sales points, telephone and internet, as well as through brokers and partners. If Insurance has sales and customer service offices in main towns. 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 2017

Baltic economies are developing relatively well, driven by growth in private consumption and by increase in industrial production and exports. Property and Casualty insurance market volume is growing due to the growth in economies. In addition, poor financial results in Motor segment for the entire insurance industry have resulted in price increases during past years and is adding to the P & C insurance market volume growth.

The Company’s gross written premiums increased by €0.7 million to €37.0 million (Q I 2016: €36.3 million). The Company written premiums increased fastest in Lithuania, Lithuanian market was the fastest growing non-life insurance market in Baltic’s. The Company growth was poor in Latvia, as the market, especially in Motor areas, is very competitive resulting in poor financial results for the insurance industry. The Company continued to focus on risk selection and targeted price adjustments. Gross written premiums were stable in Estonia

In Q1 2017, the technical result increased by €0.3 million to €3.2 million compared to year before (€2.9 million). The claims outcome was favourable in Q1 2017, mainly as a result of the rather mild winter weather. Claims cost, inclusive of claims handling costs, decreased by €0.8 million from € 21.7 million to €20.9 million.

The operating expenses reduced due to various efficiency measures and due to continued transfer of gross written premiums from broker distribution to Company internal distribution channels, especially Internet channel continued to grow fast.

The loss ratio, including claims handling costs, improved during Q1 2017 and amounted to 66.0% compared to 66.6% in Q1 2016. Claims frequency reduced within the most of the product areas, cost for large claims was as expected and on the same level as year before.

The combined ratio improved to 90.0% from 91.0 % in Q1 2016 mainly due to favourable claims cost development due to improving claims frequency.

The overall net profit after tax stood at €3.4 million in Q1 2017, up from €3.0 million in 1st quarter 2016.

KEY FIGURES

€000	Q1 2017	Q1 2016
Premiums written, gross	36,968	36,314
Premiums earned, net of reinsurance	31,679	32,627
Claims incurred, net of reinsurance	20,883	21,719
Operating expenses ¹	7,630	7,981
Result from insurance ²	3,167	2,926
Net profit	3,368	3,055
Combined ratio ³	90.0%	91.0%
Expense ratio ⁴	24.1%	24.4%
Loss ratio ⁵	65.9%	66.6%
Return on investments ⁶	0.4%	2.1%

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 €248.0 million as of 31st March 2017 a figure which is €114.5 million higher than the obligated amount stipulated under insurance contracts net of reinsurance.

Applying the full market valuation, profit from asset management increased to €0.23 million down from €1.22 million in 1st quarter 2016 with a return ratio of 0.38% compared to 2.07% previously. Net investment return amounted to €0.26 million as opposed to 1st quarter 2016's €0.36 million on the income statement, whilst €-0.03 million was recorded under other comprehensive income up from €0.85 million in 2016. The portfolio running yield dropped by to 0.8%, however, duration rose to 1.7 years as opposed to 1.6 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 2017 the number of full time employees in If Insurance was 586 (31.12.2016: 572) and the Company's expenses in the reporting period for personnel totalled €4.5 million (in the first three months of 2016: €4.4 million).

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

The updated Insurance Activity Act, which came into force 1st of January 2016 in Estonia, aims for increased transparency and customer protection within the insurance market. Consequently, If Insurance changed its co-operation model with its brokers. Now payment for broker services is directly handled between broker and consumer, making the cost for broker services visible.

During the first quarter of this year, new marketing communication concept "It's easy to help" was launched in Latvia and Lithuania. With our message that it is easy to help, we are encouraging the whole society to be more helpful and strengthen our image as a caring, human insurance company.

Continuously attention is paid to development of e-bureau. E-bureau functions successfully in Estonia and we make efforts to deploy the same solution as well in Latvia and Lithuania. Customers increasingly want to buy traditional insurance solutions via e-channel, and in this respect If Insurance wants to offer the best solution of the market.

In April we launched a new bonus program If Plus for private customers in Estonia. This is a new approach to the whole Estonian insurance market, as in this form only If Insurance offers bonus program which values customer loyalty. Making the program we aim to give as many as possible private customers to get part from If Plus bonuses. For the customer, it means in particular the possibility to obtain more insurance coverages with favorable price.

In Lithuania, we are continuing our efforts to make the remote channels – internet, telephone and email – the primary channels to serve our private customers. We are happy that nearly 95% of the private customers are now being served remotely – it both saves our customers' time and makes our sales more efficient. Customers also use our new self-service and payment terminals in the regional offices.

STATEMENT OF COMPREHENSIVE INCOME

€000	Note	Q I 2017	Q I 2016
PREMIUMS EARNED, NET OF REINSURANCE			
Premiums earned		32,294	33,193
Premiums ceded		-614	-566
TOTAL	2	31,680	32,627
OTHER INCOME			
Return on investments	3	260	365
Reinsurance commissions and other income		116	103
TOTAL		376	468
TOTAL REVENUE		32,056	33,095
CLAIMS INCURRED, NET OF REINSURANCE			
Claims incurred, gross	4	-21,227	-21,936
Reinsurer's share in claims paid	4	344	217
TOTAL		-20,883	-21,719
EXPENSES			
Insurance contract acquisition costs	5	-4,983	-5,484
Administrative expenses	5	-2,764	-2,601
TOTAL		-7,747	-8,085
TOTAL CLAIMS AND EXPENSES		-28,630	-29,804
NET RESULT BEFORE TAXES		3,426	3,291
INCOME TAX		-58	-
NET PROFIT FOR THE FINANCIAL PERIOD		3,368	3,291
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED IN SUBSEQUENT PERIODS:			
Change in the value of available-for-sale assets		-28	854
TOTAL		-28	854
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD		3,340	4,145

STATEMENT OF FINANCIAL POSITION

€000	Note	31.03.2017	31.12.2016
ASSETS			
Cash and cash equivalents		19,273	12,178
Financial investments	6	247,976	244,971
Receivables related to insurance activities		14,543	11,097
Accrued income and prepaid expenses		4,136	3,734
Reinsurance assets	8	3,902	2,717
Deferred tax asset		90	128
Investment in subsidiary		88	88
Property, plant and equipment	7	557	595
TOTAL ASSETS		290,565	275,508
LIABILITIES AND OWNER'S EQUITY			
Liabilities related to insurance activities		6,144	4,878
Accrued expenses and prepaid revenues		11,972	4,490
Liabilities arising from insurance contracts	8	137,381	130,612
Total liabilities		155,497	139,980
Share capital		6,391	6,391
Share premium		3,679	3,679
Mandatory reserve		2,362	2,362
Revaluation reserve		3,475	3,503
Retained earnings		115,793	106,004
Net profit for the year		3,368	13,589
Total owner's equity		135,068	135,528
TOTAL LIABILITIES AND OWNER'S EQUITY		290,565	275,508

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 2016	6,391	3,679	2,362	1,421	112,904	-	126,757
Paid dividends ¹⁾	-	-	-	-	-6,900	-	-6,900
Other comprehensive income	-	-	-	2,082	-	-	2,082
Profit for the year	-	-	-	-	-	13,589	13,589
Equity at end of 2016	6,391	3,679	2,362	3,503	106,004	13,589	135,528
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	-	-	-	-28	-	-	-28
Profit for the year	-	-	-	-	-	3,368	3,368
Equity as at 31.03.2017	6,391	3,679	2,362	3,475	115,793	3,368	135,068

- ¹⁾ In March 2017, the Company distributed 3.8 million euros (2016: 6.9 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 2017	Q1 2016
Cash flow from operating activities			
Premiums received	2	34,217	32,882
Premiums ceded	2	-712	-920
Claims paid, incl. claims handling expenses	4, 5	-19,294	-19,442
Cash flow from reinsurance		143	69
Employee-related and service-related expenses		-8,118	-7,590
Investments in bonds and other interest-bearing securities		-13,216	-16,941
Proceeds from disposals of bonds and other interest-bearing securities		16,896	9,507
Proceeds from term deposits		-	13,000
Interest received		1,194	1,124
Income tax paid		-177	-240
Cash flow operating activities, total		10,933	11,449
Cash flow from investing activities			
Purchase of property, plant and equipment	7	-40	-36
Proceeds from disposal of property, plant and equipment		2	1
Cash flow from investing activities, total		-38	-35
Cash flow from financing activities			
Paid dividends		-3,800	-6,900
Cash flow from financing activities		-3,800	-6,900
Change in cash flow		7,095	4,514
Cash and cash equivalents at the beginning of the year		12,178	10,115
Cash and cash equivalents at the end of the year		19,273	14,629

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 2016 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 2017 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 2017	Q1 2016
Premiums written, gross	36,968	36,315
Change in the provision for unearned premiums	-4,674	-3,122
Premiums earned, gross of reinsurance	32,294	33,193
Reinsurance premiums	-1,462	-1,354
Change in the provision for unearned premiums	848	788
Premiums earned, ceded	-614	-566
TOTAL	31,680	32,627

Note 3. Return on investments

€000	Q1 2017	Q1 2016
<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	244	325
Available-for-sale financial assets		
From bonds and other interest-bearing securities	375	359
Loans and receivables		
From deposits	3	7
From cash and cash equivalents	-	-
TOTAL	622	691
<u>Profit from disposals</u>		
Available-for-sale financial assets		
From bonds and other interest-bearing securities	-	10
TOTAL	-	10
<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	-191	-173
TOTAL	-191	-173
Investment expenses	-171	-163
TOTAL RETURN ON INVESTMENTS	260	365
Reconciliation of fair value reserve of available-for-sale financial assets		
	Q1 2017	Q1 2016
Opening balance, available-for-sale financial assets	3,504	1,421
Unrealized result, available-for-sale financial assets, recognized in comprehensive income	-28	864
Realized result, recognized in income statement	-	-10
	3	
Closing balance, available-for-sale financial assets	3,476	2 275
Total result in fair value available-for-sale financial assets during the year	-28	854

Note 4. Claims incurred, net of reinsurance

€000	Q1 2017	Q1 2016
Gross		
Claims paid during the year related to that year	-8,465	-10,160
Claims paid related to previous years	-11,906	-10,658
Amounts recovered from salvage and recourses	2,172	2,256
Change in the provision for claims outstanding	-2,095	-2,481
Claims handling costs	-933	-893
TOTAL	-21,227	-21,936
Reinsurer's share		
Claims paid during the year related to that year	2	0
Claims paid related to previous years	5	16
Change in the provision for claims outstanding	337	201
TOTAL	344	217
Net		
Claims paid during the year related to that year	-8,463	-10,160
Claims paid related to previous years	-11,901	-10,642
Amounts recovered from salvage and regresses	2,172	2,256
Change in the provision for claims outstanding	-1,758	-2,280
Claims handling costs	-933	-893
TOTAL	-20,883	-21,719

Note 5. Expenses

€000	Q1 2017	Q1 2016
Personnel expenses	-4,537	-4 427
Commissions to intermediaries	-2,392	-2 680
Data processing	-425	-488
Expenses on premises	-528	-513
Office expenses (incl. communication expenses)	-220	-241
Other operating expenses	-578	-628
TOTAL	-8,680	-8 977

Division of costs on the basis of functions:

Insurance contract acquisition costs	-4,983	-5 484
Administrative expenses	-2,764	-2 601
Claims handling expenses	-933	-892
TOTAL	-8,680	-8 977

Note 6. Financial investments

€000	31.03.2017	31.12.2016
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 (2.375%-5.5%)	21,126	35,722
Available-for-sale financial assets		
From bonds and other interest-bearing securities		
- listed	198,137	180,499
- unlisted	6,708	6,748
incl. with a floating interest rate	97,041	93,405
incl. with a fixed interest rate (0.00%-3.75%; 31.12.2016: 0.04%-3.75%)	107,804	93,842
TOTAL	204,845	187,247
Loans and receivables		
Term deposits	22,005	22,002
FINANCIAL INVESTMENTS TOTAL	247,976	244,971

Term deposits earn an annual interest 0.05% (as of 31.12.2016: 0.05%).

Division of bonds and other fixed income securities by issuers		
€000	31.03.2017	31.12.2016
Issued by Estonian companies	4,322	4,314
Issued by foreign governments	2,493	2,505
Issued by foreign financial institutions	111,183	107,192
Issued by foreign companies	107,973	108,957
TOTAL	225,971	222,968

Ratings of bond issuers (S&P)	Percentage of fair value	
	31.03.2017	31.12.2016
AAA	5.4%	4.6%
AA+ until AA-	26.5%	29.7%
A+ until A-	29.1%	31.5%
BBB+ until BBB-	28.2%	27.1%
BB	0.9%	0.5%
Non rated	9.9%	6.6%
TOTAL	100%	100%

Division of bonds and other fixed income securities by maturity terms		
€000	31.03.2017	31.12.2016
up to 1 year	23,298	38,170
1-2 years	22,220	6,818
2-5 years	162,785	164,089
5-10 years	17,668	13,892
TOTAL	225,971	222,969

Deposits by maturity terms		
€000	31.03.2017	31.12.2016
up to 6 months	-	-
6-12 months	22,005	22,002
TOTAL	22,002	22,002

Note 7. Property, plant and equipment

€000	Other PPE
Net book value 31.12.2015	765
Acquisition	206
Write-off	-1,343
Disposal	-88
Acquisition cost 31.12.2016	1,681
-incl. fully depreciated	514
Depreciation charge for the year	-335
Depreciation charge of sales and disposals	1,390
Accumulated depreciation 31.12.2016	-1,086
Net book value 31.12.2016	595
Acquisition	40
Disposal	-10
Acquisition cost 31.03.2017	1,711
-incl. fully depreciated	520
Depreciation charge for the year	-77
Depreciation charge of sales and disposals	9
Accumulated depreciation 31.03.2017	-1,154
Net book value 31.03.2017	557

Note 8. Liabilities related to insurance contracts and reinsurance assets

€000	31.03.2017	31.12.2016
Gross		
Provision for incurred and reported claims and claims handling expenses	62,036	62,165
Provision for incurred but not reported claims	29,446	27,222
Provision for unearned premiums	45,899	41,225
TOTAL	137,381	130,612
Reinsurer's share		
Provision for incurred and reported claims and claims handling expenses	2,109	1,780
Provision for incurred but not reported claims	243	235
Provision for unearned premiums	1,550	702
TOTAL	3,902	2,717
Net		
Provision for incurred and reported claims and claims handling expenses	59,927	60,385
Provision for incurred but not reported claims	29,203	26,987
Provision for unearned premiums	44,349	40,523
TOTAL	133,479	127,895

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 €203 thousand in remuneration, including social tax (2016 Q1: €256 thousand). No termination benefits were paid to members of the Management Board during the reporting period (2016: €0). No remuneration was paid to members of the Supervisory Board in 2017 and 2016.

Insurance contracts with total premiums of €1 thousand were concluded with the management individuals in the financial period (2016 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.

€000	Calculated reinsurance premiums		Indemnifications and commissions received	
	Q1 2017	Q1 2016	Q1 2017	Q1 2016
If P&C Insurance Ltd (Sweden)	969	872	10	8
If P&C Insurance Company Ltd (Finland)	-16	32	-1	3
Total	953	904	9	11

Receivables and payables related to the above transactions as of 31.03.2017 and 31.12.2016:

€000	31.03.2017	31.12.2016
Receivables		
If P&C Insurance Ltd (Sweden)	2	-
Payables		
If P&C Insurance Ltd (Sweden)	1,074	498
If P&C Insurance Company Ltd (Finland)	23	38
Total	1,097	536

Other related party transactions, transactions with other group companies

€000	Services purchased		Services rendered	
	Q1 2017	Q1 2016	Q1 2017	Q1 2016
Mandatum Life Insurance Baltic SE	-	-	11	13
Nordea Group companies	67	103	132	124
If P&C Insurance Ltd (Sweden)	29	-	35	32
If P&C Insurance Company Ltd (Finland)	-	-	47	-
Sampo Plc	127	121	-	-
If IT Services A/S	269	-	-	4
Support Services AS	-	-	26	9
Total	492	224	251	182

Receivables and payables related to the above transactions as of 31.03.2017 and 31.12.2016:

€000	31.03.2017	31.12.2016
Receivables		
Mandatum Life Insurance Baltic SE	4	-
Nordea Group companies	64	65
If P&C Insurance Ltd (Sweden)	13	13
Support Services AS	-	1
Total	81	79

	31.03.2017	31.12.2016
Payables		
Mandatum Life Insurance Baltic SE	-	2
Nordea Group companies	5	20
Sampo Plc	127	126
If P&C Insurance Ltd (Sweden)	35	7
Total	167	155

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

€000	31.03.2017	31.12.2016
Financial assets		
Nordea Group companies	22,005	22,002

€000	Q1 2017	Q1 2016
Investment income/expense		
Nordea Group companies	3	7