

If P&C Insurance AS

Interim Report

4th Quarter 2018

Translation from Estonian language

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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 majority 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 280,000 policyholders and is the market leader 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 twelve months of 2018

The technical result increased from €14.2 million in 2017 to €17.9 million, corresponding to an improved combined ratio of 87.5% (89.3%).

Gross written premiums improved in all countries by a total of €23.9 million from €138.8 million in 2017 to €162.7 million.

Continued positive macroeconomic growth in the Baltic countries and premium rate actions to cover the claims cost inflation, especially in motor lines, contributed to the premium development. The performance was further supported by attractive combined insurance offerings with regard to product, service and price.

Total claims cost, inclusive of claims handling, increased slightly from €84.4 million in 2017 to €88.5 million, while the loss ratio improved to 61.9% (63.7%). The outcome benefited from lower costs for high-frequency claims, supported by favourable weather with no major weather-related events. Also, a consistent focus on underwriting excellence and careful risk assessments contributed positively to the overall performance development.

Continuous efficiency improvements and tight cost control, supported by digitalisation and automation of processes and customer interaction, kept the expense ratio stable at 25.6% (25.6%). Total operating expenses, exclusive of claims handling, increased from €34.0 to €36.5 million, mostly due to salary cost inflation.

The overall net profit after tax stood at €19.1 million in 2018, up from €15.5 million in 2017. Current tax accounted for €0.89 million representing an increase from €0.50 million in 2017.

KEY FIGURES

€000	2018	2017
Premiums written, gross	162,666	138,750
Premiums earned, net of reinsurance	142,859	132,618
Claims incurred, net of reinsurance	88,469	84,406
Operating expenses ¹	36,511	34,023
Technical result ²	17,879	14,190
Net profit	19,103	15,454
Combined ratio ³	87.5%	89.3%
Expense ratio ⁴	25.6%	25.6%
Loss ratio ⁵	61.9%	63.7%
Return on investments ⁶	-0.2%	0.8%

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)	$\frac{\text{Investment income (-) investment expenses (+) changes in fairvalue recognised in other comprehensive income}}{\text{Weighted average volume of financial investments in the period}}$

Investment result

The value of financial investments stood at €274.7 million as of 31 December 2018 a figure which is €108.3 million higher than the obligated amount stipulated under insurance contracts net of reinsurance.

Applying the full market valuation, the result from asset management decreased to -€0.68 million, down from €1.96 million in 2017, with a return ratio of -0.2% compared to the previous 0.8%. Net investment result recognised in profit amounted to €2.12 million compared to €1.76 million in 2017, while -€2.80 million was recorded in other comprehensive income, down from €0.20 million in 2017. Fixed income portfolio running yield has stayed on the same level 0.9% as last year, and duration rose to 2.6 years as opposed to 2.1 years in 2017.

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

As at 31 December 2018, the number of full-time employees was stable at 566 (573) and expenses for personnel totalled €22.5 million, an increase of €2.0 million over the year.

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

Improving digital services was the most important focus area for If in 2018. Following the successful online launch of a new travel insurance product at the end of 2017, If started offering motor own damage, home, and pet insurance products via a new online system in Latvia and Lithuania. During the year, the travel product was updated with additional rental car deductible coverage which is a novelty in the markets.

Another significant development in the digital area was If's new mobile app, launched in Latvia for health insurance customers. Using this app, customers can submit their receipts, see which healthcare services are covered by their policy and check their claims history. The app also replaces the plastic If health insurance card. The app's customer value was recognised by the European Identity & Cloud Conference held in May which awarded it the title of the Best Consumer Identity Project.

In 2018, If also launched two new important products in Estonia, starting at the beginning of the year with a business-to-business health insurance service, which enables companies to improve the wellbeing of their personnel and provide more motivating reward packages. In the second quarter, a new car insurance product, Superkasko Lux, was launched. The product provides customers with wide motor own damage insurance coverage including cover for technical failure of a vehicle, personal belongings left in a vehicle, additional assistance in accidents abroad and many other features in addition to all basic motor own damage insurance coverages. At the moment, If's Superkasko Lux probably provides the widest motor own damage insurance coverage available in the market.

Besides digitalisation, customer satisfaction remained a key focus area, as well as a strategic pillar, for If in 2018. One of the main customer focused initiatives was the establishment of a dedicated Customer Experience and Development Department, responsible for handling customer feedback and improving customer related processes. The combined efforts and activities in the customer satisfaction area resulted in a Net Promoter Score (NPS) increase of 5.7 points compared to 2017, which corresponded to a Baltic level of +67. The NPS score was based on feedback from more than 30,000 customers in 2018.

The result of If's combined efforts during 2018 is reflected in the strong financial performance, which in turn is a prerequisite for further investments in digitalisation, new products and services as well as customer and employee satisfaction. If is proud to have the strongest capital position in the Baltic non-life insurance market, which provides further safety and security to its customers and other stakeholders.

STATEMENT OF COMPREHENSIVE INCOME Q IV

€000	Note	Q IV 2018	Q IV 2017
PREMIUMS EARNED, NET OF REINSURANCE			
Premiums earned, gross		37,080	35,344
Premiums ceded		-774	-845
TOTAL	2	36,306	34,499
OTHER INCOME			
Investment result	3	468	480
Reinsurance commissions and other income		33	41
TOTAL		526	521
TOTAL REVENUE		36,832	35,020
CLAIMS INCURRED, NET OF REINSURANCE			
Claims incurred, gross	4	-22,849	-20,934
Reinsurers' share of claims incurred	4	2,326	-9
TOTAL		-20,523	-20,943
EXPENSES			
Insurance contract acquisition costs	5	-6,114	-5,893
Administrative expenses	5	-3,876	-3,715
TOTAL		-9,990	-9,608
TOTAL CLAIMS AND EXPENSES		-30,513	-30,551
NET RESULT BEFORE TAXES		6,319	4,469
INCOME TAX		-254	-181
NET PROFIT FOR THE FINANCIAL PERIOD		6,065	4,288
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		-1,391	-110
TOTAL		-1,391	-110
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD		4,674	4,178

STATEMENT OF COMPREHENSIVE INCOME

€000	Note	2018	2017
PREMIUMS EARNED, NET OF REINSURANCE			
Premiums earned, gross		145,783	135,292
Premiums ceded		-2,924	-2,674
TOTAL	2	142,859	132,618
OTHER INCOME			
Investment result	3	2,119	1,761
Reinsurance commissions and other income		308	276
TOTAL		2,427	2,037
TOTAL REVENUE		145,286	134,655
CLAIMS INCURRED, NET OF REINSURANCE			
Claims incurred, gross	4	-88,825	-87,104
Reinsurers' share of claims incurred	4	356	2,698
TOTAL		-88,469	-84,406
EXPENSES			
Insurance contract acquisition costs	5	-23,298	-21,879
Administrative expenses	5	-13,520	-12,419
TOTAL		-36,818	-34,298
TOTAL CLAIMS AND EXPENSES		-125,287	-118,704
NET RESULT BEFORE TAXES		19,999	15,951
INCOME TAX		-895	-498
NET PROFIT FOR THE FINANCIAL PERIOD		19,104	15,453
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		-2,799	201
TOTAL		-2,799	201
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD		16,305	15,654

STATEMENT OF FINANCIAL POSITION

€000	Note	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents		30,142	8,011
Financial investments	6	274,731	271,960
Receivables related to insurance activities		29,649	13,055
Accrued income and prepaid expenses		4,021	4,035
Reinsurance assets	8	5,629	5,202
Deferred tax asset		-	118
Investment in subsidiary		88	88
Property, plant and equipment	7	558	442
TOTAL ASSETS		344,818	302,911
LIABILITIES AND EQUITY			
Liabilities related to insurance activities		6,277	5,463
Accrued expenses and deferred income		5,888	4,842
Liabilities arising from insurance contracts	8	172,066	145,224
Total liabilities		184,231	155,529
Share capital		6,391	6,391
Share premium		3,679	3,679
Mandatory capital reserve		2,362	2,362
Fair value reserve		905	3,704
Retained earnings		128,146	115,793
Net profit for the year		19,104	15,453
Total equity		160,587	147,382
TOTAL LIABILITIES AND EQUITY		344,818	302,911

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 2017	6,391	3,679	2,362	3,503	119,593	-	135,528
Dividends paid ¹⁾	-	-	-	-	-3,800	-	-3,800
Other comprehensive income	-	-	-	201	-	-	201
Net profit for the year	-	-	-	-	-	15,453	15,453
At 31 December 2017	6,391	3,679	2,362	3,704	115,793	15,453	147,382
At 1 January 2018	6,391	3,679	2,362	3,704	131,246	-	147,382
Dividends paid ¹⁾	-	-	-	-	-3,100	-	-3,100
Other comprehensive income	-	-	-	-2,799	-	-	-2,799
Net profit for the year	-	-	-	-	-	19,104	19,104
At 31 December 2018	6,391	3,679	2,362	905	128,146	19,104	160,587

- 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	2018	2017
Cash flow from operating activities			
Premiums received	2	146,876	137,400
Premiums ceded	2	-2,925	-2,589
Claims paid, incl. claims handling expenses	4, 5	-79,064	-76,234
Cash flow from reinsurance		-117	357
Employee-related and service-related expenses		-36,216	-34,335
Investments in bonds and other interest-bearing securities		-74,372	-80,902
Proceeds from disposals of bonds and other interest-bearing securities		46,522	54,228
Investments in term deposits		-	-30,400
Proceeds from term deposits		22,400	30,000
Interest received		2,705	2,699
Income tax paid		-124	-421
Net cash flow from operating activities		25,685	-197
Cash flow from investing activities			
Purchase of property, plant and equipment	7	-457	-174
Proceeds from disposal of property, plant and equipment		3	4
Net cash flow from investing activities		-454	-170
Cash flow from financing activities			
Dividends paid		-3,100	-3,800
Net cash flow from financing activities		-3,100	-3,800
Change in cash flow		22,131	-4,167
Cash and cash equivalents at beginning of year		8,011	12,178
Cash and cash equivalents at end of year		30,142	8,011

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 4th quarter 2018 interim report, however with some adjustments to refine the inclusion of relevant premium income.

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 (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	2018	2017
Premiums written, gross	162,666	138,750
Change in the provision for unearned premiums	-16,883	-3,458
Premiums earned, gross	145,783	135,292
Reinsurance premiums	-3,018	-2,615
Change in the provision for unearned premiums	94	-59
Premiums ceded	-2,924	-2,674
TOTAL	142,859	132,618

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 instalment 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. Investment result

€000	2018	2017
<u>Interest income/expense on:</u>		
Financial assets at fair value through profit or loss		
<i>Classified as held for trading</i>		
Bonds and other interest-bearing securities	247	619
Available-for-sale financial assets		
Bonds and other interest-bearing securities	2,400	1,915
Loans and receivables		
Term deposits	3	8
Cash and cash equivalents	1	1
TOTAL	2,651	2,543
<u>Gain from the disposal of:</u>		
Financial assets at fair value through profit or loss		
<i>Classified as held for trading</i>		
Bonds and other interest-bearing securities	198	-
Available-for-sale financial assets		
Bonds and other interest-bearing securities	396	430
TOTAL	594	430
<u>Gain/loss from the change in the fair value of:</u>		
Financial assets at fair value through profit or loss		
<i>Classified as held for trading</i>		
Bonds and other interest-bearing securities	-420	-530
TOTAL	-420	-530
Investment expenses	-706	-682
TOTAL INVESTMENT RESULT	2,119	1,761
 Reconciliation of the fair value reserve of available-for-sale financial assets		
	2018	2017
Opening balance, available-for-sale financial assets	3,704	3,503
Changes in fair value during the year, recognised in other comprehensive income	-2,403	631
Realised gain recognised in profit or loss	-396	-430
Closing balance, available-for-sale financial assets	905	3,704
Change in the fair value reserve of available-for-sale financial assets during the year	-2,799	201

Note 4. Claims incurred, net of reinsurance

€000	2018	2017
Gross		
Claims paid related to the reporting period	-62,326	-59,140
Claims paid related to previous periods	-21,650	-21,214
Amounts recovered from salvage and subrogation	9,456	8,534
Change in the provision for claims outstanding	-9,960	-11,153
Claims handling expenses	-4,345	-4,131
TOTAL	-88,825	-87,104
Reinsurers' share		
Claims paid related to the reporting period	2	119
Claims paid related to previous periods	18	35
Change in the provision for claims outstanding	336	2,544
TOTAL	356	2,698
Net		
Claims paid related to the reporting period	-62,324	-59,021
Claims paid related to previous periods	-21,632	-21,179
Amounts recovered from salvage and subrogation	9,456	8,534
Change in the provision for claims outstanding	-9,624	-8,609
Claims handling expenses	-4,345	-4,131
TOTAL	-88,469	-84,406

Note 5. Expenses

€000	2018	2017
Salaries and remuneration	-15,771	-14,511
Social security costs	-4,700	-4,351
Other personnel expenses	-2,063	-1,614
Total personnel expenses	-22,534	-20,476
Commissions to intermediaries	-9,817	-9,379
Data processing	-2,298	-2,213
Expenses on premises	-2,224	-2,175
Office expenses (incl. communication expenses)	-960	-1,024
Other operating expenses	-3,330	-3,162
TOTAL	-41,163	-38,429

Division of costs on the basis of functions:

Insurance contract acquisition costs	-23,298	-21,879
Administrative expenses	-13,520	-12,419
Claims handling expenses	-4,345	-4,131
TOTAL	-41,163	-38,429

Note 6. Financial investments

€000	31 Dec 2018	31 Dec 2017
Financial assets measured at fair value through profit or loss		
<i>Classified as held for trading</i>		
Bonds and other interest-bearing securities		
- listed, with a fixed interest rate (31 December 2017: 4.25-5.5%)	-	10,725
Available-for-sale financial assets		
Bonds and other interest-bearing securities		
- listed	261,854	230,022
- unlisted	12,877	8,813
Incl. with a floating interest rate	71,837	95,293
Incl. with a fixed interest rate (0.0%-3.75%)	202,894	143,542
TOTAL	274,731	238,835
Loans and receivables		
Term deposits	-	22,400
TOTAL FINANCIAL INVESTMENTS	274,731	271,960

Bonds and other interest-bearing securities by issuers

€000	31 Dec 2018	31 Dec 2017
Issued by Estonian companies	1,527	4,168
Issued by foreign governments	2,527	2,497
Issued by foreign financial institutions	125,207	105,699
Issued by foreign companies	145,470	137,196
TOTAL	274,731	249,560

Ratings of bond issuers (S&P)

	Percentage of fair value	
	31 Dec 2018	31 Dec 2017
AAA	4.0%	2.0%
AA+ until AA-	15.1%	18.7%
A+ until A-	34.2%	34.4%
BBB+ until BBB-	30.5%	29.3%
BB	2.3%	0.9%
Non rated	13.9%	14.7%
TOTAL	100%	100%

Bonds and other interest-bearing securities by maturity terms

€000	31 Dec 2018	31 Dec 2017
Up to 1 year	33,100	4,168
1-2 years	74,473	54,020
2-5 years	120,860	146,318
5-10 years	46,298	45,054
TOTAL	274,731	249,560

Deposits by maturity terms

€000	31 Dec 2018	31 Dec 2017
6-12 months	-	22,400
TOTAL	-	22,400

Note 7. Property, plant and equipment

€000	Other PPE
Net book value as at 31 December 2016	<u>595</u>
Acquisition	175
Write-off	-31
Disposal	-29
Acquisition cost as at 31 December 2017	1,796
-incl. fully depreciated	525
Depreciation charge for the year	-325
Depreciation charge of sales and disposals	57
Accumulated depreciation as at 31 December 2017	-1,354
Net book value as at 31 December 2017	<u>442</u>
Acquisition	457
Write-off	-332
Disposal	-34
Acquisition cost as at 31 December 2018	1,887
-incl. fully depreciated	1,089
Depreciation charge for the year	-333
Depreciation charge of sales and disposals	358
Accumulated depreciation as at 31 December 2018	-1,329
Net book value as at 31 December 2018	<u>558</u>

Note 8. Liabilities related to insurance contracts and reinsurance assets

€000	31 Dec 2018	31 Dec 2017
Gross		
Provision for incurred and reported claims and claims handling expenses	77,852	69,016
Provision for incurred but not reported claims	32,649	31,525
Provision for unearned premiums	61,565	44,683
TOTAL	172,066	145,224
Reinsurer's share		
Provision for incurred and reported claims and claims handling expenses	4,690	4,282
Provision for incurred but not reported claims	206	277
Provision for unearned premiums	733	643
TOTAL	5,629	5,202
Net		
Provision for incurred and reported claims and claims handling expenses	73,162	64,734
Provision for incurred but not reported claims	32,443	31,248
Provision for unearned premiums	60,832	44,040
TOTAL	166,437	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 €1,284 thousand in remuneration, including social tax (2017: €1,061 thousand). No termination benefits were paid to members of the Management Board during the reporting period (2017: €0). No remuneration was paid to members of the Supervisory Board.

Insurance contracts with total premiums of €10 thousand were concluded with the management individuals in the financial period (2017: €10 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	
	2018	2017	2018	2017
If P&C Insurance Ltd (publ)	1,779	1,693	25	16

Receivables and payables related to the above transactions as at 31 December 2018 and 31 December 2017:

€000	31 Dec 2018	31 Dec 2017
Receivables		
If P&C Insurance Ltd (publ)	4	4
Payables		
If P&C Insurance Ltd (publ)	683	626

Other related party transactions, transactions with other group companies

€000	Services purchased		Services rendered	
	2018	2017	2018	2017
Mandatum Life Insurance Baltic SE	-	-	17	17
Nordea Group companies	439	333	752	622
If P&C Insurance Ltd (publ)	34	73	235	521
Sampo plc	564	522	-	-
If IT Services A/S	467	419	-	-
Support Services AS	-	-	-	97
Total	1,504	1,347	1,004	1,257

Receivables and payables related to the above transactions as at 31 December 2018 and 31 December 2017:

€000	31 Dec 2018	31 Dec 2017
Receivables		
Nordea Group companies	89	79
If P&C Insurance Ltd (publ)	-	13
Total	89	92

€000	31 Dec 2018	31 Dec 2017
Payables		
Mandatum Life Insurance Baltic SE	-	2
Nordea Group companies	18	59
Sampo plc	146	135
If P&C Insurance Ltd (publ)	25	2
Total	189	198

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

€000	31 Dec 2018	31 Dec 2017
Financial assets		
Nordea Group companies	-	22,400

€000	2018	2017
Investment income/expense		
Nordea Group companies	3	7