

SWEDBANK P&C INSURANCE AS

Interim Report

As of 31 December 2016

Business name	Swedbank P&C Insurance AS
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Principal activity	Provision of insurance services
Chairman of the Management Board	Margus Liigand
Auditors	AS Deloitte Audit Eesti

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OVERVIEW OF THE BUSINESS RESULTS

Swedbank P&C Insurance AS (hereinafter also the Company) operates through its branches in Estonia, Latvia and Lithuania. The Company provides motor own damage, motor third party liability, home and apartment building insurance and travel insurance. The Company also renders financial loss and accident insurance as well as travel insurance to credit card customers of Swedbank. The products of Swedbank P&C Insurance AS are sold through the sales channels of Swedbank. Customers can also enter into contracts by telephone and e-mail and partially via other e-channels.

Results of Business Operations of Q4 of 2016

Q4 financial results of the Company improved considerably in comparison to Q4 2015 due to improvement of the claims ratio and increase in insurance payments. Claim ratio was 55.3%, year ago 61.5%. Expense ratio was 13.3%, year ago 14.1%.

Twelve months financial results of the Company were stronger mainly due to increased insurance payments. Twelve months claim ratio increased by total of 2.7 percentage points, mainly caused by the increased claim frequency in home insurance. Net profit was lower, since the income tax on dividends was significantly higher this year.

In euros	Q4 2016	Q4 2015	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Premiums earned net of reinsurance	17 908 018	14 906 781	66 200 196	55 611 342
Claims incurred net of reinsurance	9 896 702	9 165 280	40 714 650	32 678 121
Net operating expenses	2 381 325	2 097 665	8 998 662	7 507 132
Return of insurance activities	5 629 991	3 643 836	16 486 884	15 426 089
Net profit	5 291 895	3 520 641	10 819 903	12 523 446
Net claims ratio	55.3%	61.5%	61.5%	58.8%
Net expense ratio	13.3%	14.1%	13.6%	13.5%
Combined ratio	68.6%	75.6%	75.1%	72.3%
Net claims ratio =	$\frac{\text{Claims incurred net of reinsurance}}{\text{Premiums earned net of reinsurance}}$			
Net expense ratio =	$\frac{\text{Net operating expenses}}{\text{Premiums earned net of reinsurance}}$			
Combined ratio =	Net claims ratio + net expense ratio			

Insurance premium by products and countries:

Sales results of Company in Estonia

in thousands of euros	Q4 of 2016	Proportion	12 months 2016	Proportion
Motor own damage insurance	5 423	41.5%	19 317	40.7%
Home insurance	4 196	32.1%	15 825	33.4%
Motor third party liability insurance	1 480	11.4%	5 524	11.6%
Payment protection insurance	934	7.2%	3 535	7.5%
Travel insurance	919	7.0%	2 827	6.0%
Apartment building insurance	84	0.6%	338	0.7%
Other	20	0.2%	41	0.1%
TOTAL	13 056	100%	47 407	100%

Sales Results of Company in Latvia

in thousands of euros	Q4 of 2016	Proportion	12 months 2016	Proportion
Home insurance	1 535	51.4%	5 664	52.0%
Motor own damage insurance	907	30.4%	3 193	29.3%
Motor third party liability insurance	229	7.7%	850	7.8%
Travel insurance	176	5.9%	710	6.5%
Payment protection insurance	130	4.4%	420	3.9%
Other	8	0.2%	54	0.5%
TOTAL	2 985	100%	10 891	100%

Sales Results of Company in Lithuania

in thousands of euros	Q4 of 2016	Proportion	12 months 2016	Proportion
Home insurance	2 311	62.4%	8 235	64.2%
Motor own damage insurance	517	14.0%	1 699	13.2%
Travel insurance	355	9.6%	1 212	9.5%
Payment protection insurance	483	13.0%	1 487	11.6%
Other	36	1.0%	187	1.5%
TOTAL	3 702	100%	12 820	100%

Insurance premiums have increased compared to Q4 2015 19.6%. The main source of the increase of insurance premiums is still continuing active sales in home insurance, where insurance premium growth in comparison to Q4 2015 was 21.9%. Motor own damage

insurance premiums have increased in comparison to Q4 2015 8.1%. Motor third part liability insurance sales have increased considerably in Q4 2016, which resulted in insurance premiums growth by 18.6% in comparison to Q4 2015. At the same time, payment protection insurance premiums grew by 46.1% since of the active sales of mortgage related insurance products in the Baltics and mainly due to credit card payment protection sales in Lithuania.

Important Events during the Quarter

Swedbank P&C Insurance AS continued with the digitalization process and activities to increase the availability of products in e-channels. The number of policies submitted in the internet bank increased significantly during the fourth quarter.

During the fourth quarter the Company updated the motor own damage insurance terms & conditions and unified the product contents in the Baltic States.

In October, the Company carried out the birthday week campaign during which the clients were given an opportunity to submit the motor own damage, home and travel insurance policies for a discounted price.

During the Q4 2016, Swedbank P&C Insurance AS became a market leader in the travel insurance in Estonia. The Company continuously holds the leading position on the Estonian market in home and motor own damage insurances for private customers.

Assets of the Company

The assets of the Company increased compared to Q3 EUR 5.8 million (10.4%) and formed EUR 61.3 million. The volume of financial investments increased during the quarter by EUR 5.7 million (17.1%) and formed EUR 38.7 million. The financial investments of the Company exceeded the technical liabilities 1.5 times.

Number of Employees and Staff Costs

As of 31 December 2016, the Company employed 103 people – 58 in Estonia, 19 in Latvia and 26 in Lithuania. Labour costs of Q4 were EUR 661.2 thousand (Q4 2015: EUR 624.8 thousand).

STATEMENT OF FINANCIAL POSITION

In euros	Note	31.12.2016	31.12.2015
ASSETS			
Cash and cash equivalents		13 621 772	7 184 894
Financial investments	2	38 655 459	41 062 598
Bonds		25 153 925	24 443 886
Term deposits		13 501 534	16 618 712
Receivables related to insurance activities		3 777 726	3 429 443
Accrued income and prepaid expenses		122 480	136 589
Reinsurance assets	3	5 130 244	3 972 649
Receivables		1 711 359	1 397 887
Technical provisions		3 418 885	2 574 762
Deferred tax assets		22 283	1 423
Tangible assets		5 977	10 728
Total assets		61 335 941	55 798 324
LIABILITIES AND EQUITY			
Liabilities related to insurance activities	4	25 881 824	22 396 482
Technical provisions		23 511 766	20 354 424
Liabilities related to reinsurance		1 879 971	1 605 585
Other		490 087	436 473
Other liabilities	5	1 357 358	1 256 331
Total liabilities		27 239 182	23 652 813
Equity			
Share capital		21 210 000	7 210 000
Share premium		1	1
Statutory legal reserve		721 000	721 000
Retained earnings		1 345 855	11 091 064
Net profit for current period		10 819 903	12 523 446
Total equity		34 096 759	32 145 511
Total liabilities and equity		61 335 941	55 798 324

STATEMENT OF COMPREHENSIVE INCOME

In euros	Note	Q4 of 2016	Q4 of 2015	01.01.2016 31.12.2016	01.01.2015 31.12.2015
Premiums earned, net of reinsurance	6				
Premiums earned		18 926 201	15 812 818	70 208 209	59 250 623
Reinsurance premium		-1 018 183	-906 037	-4 008 013	-3 639 281
TOTAL		17 908 018	14 906 781	66 200 196	55 611 342
Claims incurred, net of reinsurance	7				
Claims incurred, gross		9 621 500	9 174 394	40 890 915	32 715 452
Claims handling expenses		729 433	582 628	2 675 022	2 114 512
Share of reinsurance in claims incurred		-454 231	-591 742	-2 851 287	-2 151 843
TOTAL		9 896 702	9 165 280	40 714 650	32 678 121
Operating expenses					
Acquisition costs, net of reinsurance	9	1 116 099	901 969	3 974 790	2 875 412
Administrative expenses	10	1 182 738	1 139 993	4 716 892	4 412 807
Other operating expenses		82 488	55 703	306 980	218 913
TOTAL		2 381 325	2 097 665	8 998 662	7 507 132
Return of insurance activities		5 629 991	3 643 836	16 486 884	15 426 089
Investment income and expenses, net	11	-66 456	73 610	201 600	122 001
Other income		0	67	501	3 205
Other expenses		61 062	69 269	231 584	284 727
Profit before income tax		5 502 473	3 648 244	16 457 401	15 266 568
Income tax		231 437	128 097	5 658 357	2 743 616
Deferred income tax		-20 859	-494	-20 859	-494
Net profit for the period		5 291 895	3 520 641	10 819 903	12 523 446
Total comprehensive income for the period		5 291 895	3 520 641	10 819 903	12 523 446

STATEMENT OF CASH FLOWS

In euros	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Cash flow from / used in operating activities	12 635 329	15 428 620
Insurance premium collected	71 637 885	60 406 721
Claims, recourses and handling expenses paid	-40 659 078	-31 076 705
Settlements with reinsurers	-1 146 189	-1 441 700
Operating expenses paid	-11 694 443	-9 686 646
Income tax paid	-5 506 356	-2 779 226
Other income and expenses	3 510	6 176
Cash flow from / used in investing activities	2 612 896	-6 010 255
Acquisition of fixed tangible assets	-4 386	-4 413
Interest collected	701 563	426 164
Acquisition of bonds	-9 866 831	-23 726 350
Disposal of bonds	8 806 600	10 123 910
Placed in term deposits	-15 300 000	-26 600 000
Proceeds from matured term deposits	18 386 711	33 835 950
Investment expenses paid	-110 761	-65 516
Cash flow used in financing activities	-8 800 000	-11 500 000
Distribution of dividends	-22 800 000	-11 500 000
Proceeds from issuance of shares	14 000 000	0
TOTAL CASH FLOW	6 448 225	-2 081 635
Cash and cash equivalents at beginning of the period	7 184 894	9 270 039
Change in cash and cash equivalents	6 448 225	-2 081 635
Effect of exchange rate changes	-11 347	-3 510
Cash and cash equivalents at end of the period	13 621 772	7 184 894

STATEMENT OF CHANGES IN EQUITY

In euros	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
As at 01.01.2015	7 210 000	1	300 002	23 737 139	31 247 142
Net profit for the period	0	0	0	12 523 446	12 523 446
Distribution of dividends	0	0	0	-11 500 000	-11 500 000
Change in Statutory legal reserve	0	0	420 998	-420 998	0
Fair value adjustment of share based payment at the settlement date	0	0	0	-125 077	-125 077
As at 31.12.2015	7 210 000	1	721 000	24 214 510	32 145 511
Net profit for the period	0	0	0	10 819 903	10 819 903
Proceeds from issuance of shares	14 000 000	0	0	0	14 000 000
Distribution of dividends	0	0	0	-22 800 000	-22 800 000
Fair value adjustment of share based payment at the settlement date	0	0	0	-68 655	-68 655
As at 31.12.2016	21 210 000	1	721 000	12 165 758	34 096 759

NOTES TO THE INTERIM REPORT

NOTE 1. ACCOUNTING POLICIES AND PROCEDURES USED

The interim report of Q4 of 2016 of Swedbank P&C Insurance AS has been prepared in compliance with requirements of International Accounting Standard IAS 34 "Interim Financial Reporting" for abbreviated interim reports. This interim report makes use of the same accounting methods as the annual accounts of Swedbank P&C Insurance AS prepared for the financial year that ended on 31 December 2015. The comparative data of this interim report are figures of Q4 of 2015.

The presentation currency of Swedbank P&C Insurance AS is the euro. All of the amounts in this report have been recorded with an accuracy of one euro, unless indicated otherwise. All other currencies, except the local accounting currency, are considered foreign currencies.

The preparation of the report in compliance with International Financial Reporting Standards presumes assumptions and judgments of the management having an impact on balances of reported assets and liabilities and revenue and expenses of the reporting period. The judgments and assumptions have been made in accordance with the best knowledge of the management and taking into account the factors that are considered reasonable under the given circumstances. The judgments and assumptions are consistently reviewed.

NOTE 2. FINANCIAL INVESTMENTS

The contents of the investment portfolio managed by Swedbank Investeerimisfondid AS:

In euros	31.12.2016		31.12.2015	
Instruments of fixed interest rate	25 153 925	48.1%	24 443 886	59.5%
Term deposits	13 501 534	25.8%	16 618 712	40.4%
Cash in investment portfolio	13 621 772	26.1%	42 559	0.1%
TOTAL	52 277 231	100.0%	41 105 157	100.0%

NOTE 3. REINSURANCE ASSETS

In euros	31.12.2016	31.12.2015
Technical provisions	3 418 885	2 574 762
Reinsurer's share in provision for unearned premiums	778 422	687 141
Reinsurer's share in provision for outstanding claims	2 640 463	1 887 621
Receivables	1 711 359	1 397 887
Reinsurance commissions	461 813	397 029
Share of reinsurance in claims	1 141 722	922 323
Refundable reinsurance premium	107 824	78 535
TOTAL	5 130 244	3 972 649

NOTE 4. LIABILITIES RELATED TO INSURANCE ACTIVITIES

In euros	31.12.2016	31.12.2015
Technical provisions	23 511 766	20 354 424
Provision for unearned premiums	6 339 972	5 430 158
Provision for outstanding claims	17 075 465	14 826 986
Unexpired risk reserve	96 329	97 280
Liabilities related to reinsurance	1 879 971	1 605 585
Reinsurance premium	1 755 409	1 502 783
Reinsurance share in recoveries	95 994	81 994
Refundable commissions	28 568	20 808
Other liabilities	490 087	436 473
Policyholders	101 727	58 599
Other	388 359	377 874
TOTAL	25 881 824	22 396 482

NOTE 5. OTHER LIABILITIES

In euros	31.12.2016	31.12.2015
Accounts payable	56 340	61 036
Accrued expenses	1 272 605	1 150 789
Other liabilities	28 413	44 506
TOTAL	1 357 358	1 256 331

Accrued expenses

In euros	31.12.2016	31.12.2015
Liabilities from share-based bonus program	552 485	617 130
Deferred reinsurance commission	206 282	182 093
Reserve for unused vacation	143 180	110 050
Taxes payable	370 658	238 834
Other	0	2 682
TOTAL	1 272 605	1 150 789

NOTE 6. PREMIUMS EARNED NET OF REINSURANCE

In euros	Q4 of 2016	Q4 of 2015	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Gross premium (see Note 8)	19 743 035	16 506 648	71 118 023	59 861 764
Change in provisions for unearned premium	-816 834	-693 830	-909 814	-611 141
Premiums earned	18 926 201	15 812 818	70 208 209	59 250 623
Reinsurance premium	-1 046 307	-905 381	-4 099 294	-3 664 117
Reinsurers' share in change of unearned premiums provision	28 124	-656	91 281	24 836
Reinsurance premium	-1 018 183	-906 037	-4 008 013	-3 639 281
TOTAL	17 908 018	14 906 781	66 200 196	55 611 342

NOTE 7. CLAIMS INCURRED, NET OF REINSURANCE

In euros	Q4 of 2016	Q4 of 2015	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Claims incurred, gross amount	9 621 500	9 174 394	40 890 915	32 715 452
Claims paid (see Note 8)	11 612 612	9 107 625	42 240 180	32 380 429
Change in the claims provision	-938 927	857 740	2 248 479	3 205 375
Amounts recovered from salvage and recourses	-1 050 735	-799 213	-3 596 793	-2 905 808
Change in Unexpired risk reserve	-1 450	8 242	-951	35 456
Claims handling expenses	729 433	582 628	2 675 022	2 114 512
Direct claims handling expenses	379 754	282 393	1 317 595	1 020 296
Indirect claims handling expenses	349 679	300 235	1 357 427	1 094 216
Staff costs	268 441	227 755	1 013 461	827 371
Depreciation of fixed assets	678	1 024	3 559	4 151
Other	80 560	71 456	340 407	262 694
Reinsurers` share of claims incurred	-454 231	-591 742	-2 851 287	-2 151 843
Reinsurers` share in claims paid	-576 482	-450 144	-2 098 445	-1 584 737
Reinsurers` share in change of claims provisions	122 251	-141 598	-752 842	-567 106
TOTAL	9 896 702	9 165 280	40 714 650	32 678 121

NOTE 8. GROSS PREMIUM AND CLAIMS PAID BY PRODUCTS

In euros	Q4 of 2016	Q4 of 2015	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Gross premium				
Motor own damage insurance	6 847 104	6 334 411	24 209 422	22 698 291
Home insurance	8 041 785	6 594 607	29 723 769	23 548 835
Motor third party liability insurance	1 709 442	1 440 766	6 373 955	5 634 580
Travel insurance	1 449 907	938 317	4 749 129	3 746 536
Payment protection insurance	1 546 732	1 058 852	5 441 707	3 685 388
Apartment building insurance	83 803	70 704	338 445	300 395
Other	64 262	68 991	281 596	247 739
TOTAL	19 743 035	16 506 648	71 118 023	59 861 764
Claims paid				
Motor own damage insurance	5 097 224	4 430 661	18 977 926	16 758 691
Home insurance	4 228 219	2 830 617	14 180 785	8 838 870
Motor third party liability insurance	1 153 140	958 860	4 227 483	3 492 772
Travel insurance	798 444	676 011	3 674 802	2 575 322
Payment protection insurance	295 352	193 048	1 069 428	653 923
Apartment building insurance	21 457	10 844	64 880	28 852
Other	18 776	7 584	44 876	31 999
TOTAL	11 612 612	9 107 625	42 240 180	32 380 429

NOTE 9. ACQUISITION COSTS, NET OF REINSURANCE

In euros	Q4 of 2016	Q4 of 2015	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Staff costs	0	15 848	6 398	55 268
Other operating expenses	462 553	290 664	1 516 597	744 788
Outsourced services	887 175	786 209	3 378 658	2 842 059
Depreciation and impairment of fixed assets	0	0	0	84
Reinsurance commission	-226 176	-190 579	-902 674	-773 369
Change of accrued reinsurance commissions	-7 453	-173	-24 189	6 582
TOTAL	1 116 099	901 969	3 974 790	2 875 412

NOTE 10. ADMINISTRATIVE EXPENSES

In euros	Q4 of 2016	Q4 of 2015	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Staff costs	392 769	381 170	1 537 889	1 504 877
Other operating expenses	638 234	668 142	2 616 677	2 406 980
Outsourced services	150 646	88 926	557 032	493 625
Depreciation and impairment on fixed assets	1 089	1 755	5 294	7 325
TOTAL	1 182 738	1 139 993	4 716 892	4 412 807

NOTE 11. INVESTMENT REVENUE AND EXPENSES

In euros	Q4 of 2016	Q4 of 2015	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Interest income	161 450	163 748	609 600	371 822
Change in value of financial assets at fair value with changes through statement of profit and loss	-197 047	-57 695	-352 759	-168 233
Net losses from financial investments	0	-4 662	64 116	-10 825
Realised gains/losses from changes in currency rates	-1 751	-946	-7 510	-4 563
Other investment management expenses	-29 108	-26 835	-111 847	-66 200
TOTAL	-66 456	73 610	201 600	122 001

NOTE 12. RELATED PARTIES

Transactions with related parties are transactions with the parent company and other Group companies, members of the supervisory board and management board, persons close to them and companies in which they have a considerable holding. The parent company of the Company is Swedbank AS, which holds 100% of the voting rights. The parent company of the Swedbank Group is Swedbank AB (publ), Sweden.

Transactions and balances with related parties have been reported as follows:

In euros	Swedbank AS	Other Group companies	TOTAL
Receivables and liabilities as of 31.12.2016			
Cash and deposits	5 729 854	12 891 918	18 621 772
Receivables from insurance activities	212 557	170 740	383 297
Accrued interest	0	-1 632	-1 632
TOTAL	5 942 411	13 061 026	19 003 437
Other liabilities	0	8 855	8 855
TOTAL	0	13 069 881	19 012 292
Receivables and liabilities as of 31.12.2015			
Cash and deposits	13 116 758	6 768 136	19 884 894
Receivables from insurance activities	107 366	134 972	242 338
Accrued interest	19 641	-1 011	18 630
TOTAL	13 243 765	6 902 097	20 145 862
Other liabilities	0	16 734	16 734
TOTAL	0	16 734	16 734

In euros	Q4 of 2016	Q4 of 2015	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Intermediary fee				
Swedbank AS	-448 189	-381 889	-1 647 484	-1 464 490
Other Group companies	-542 697	-498 492	-1 701 171	-1 346 075
TOTAL	-990 886	-880 381	-3 348 655	-2 810 565
Revenue from insurance premium				
Swedbank AS	625 061	319 349	1 738 352	1 409 539
Other Group companies	542 123	501 276	2 086 908	1 909 728
TOTAL	1 167 184	820 625	3 825 260	3 319 267
Interests				
Swedbank AS	235	5 341	1 362	62 444
Other Group companies	22 203	-1 012	2 487	738
TOTAL	22 438	4 329	3 849	63 182
Other purchases				
Swedbank AS	-384 920	-363 918	-1 620 975	-1 312 142
Other Group companies	-388 208	-281 877	-1 468 589	-1 028 089
TOTAL	-773 128	-645 795	-3 089 564	-2 340 231
Other sales				
Other Group companies	0	0	0	1 961
TOTAL	0	0	0	1 961
