



If P&C Insurance AS

Interim Report

4th Quarter 2020

Translation from Estonian language

Contacts and signatures

If P&C Insurance AS main field of activity is non-life insurance services.

Business name:	<i>If P&C Insurance AS</i>
Registry code:	<i>10100168</i>
Address:	<i>Lõõtsa 8a, 11415 Tallinn</i>
Telephone:	<i>+372 777 1211</i>
E-mail:	<i>info@if.ee</i>
Web page:	<i>www.if.ee</i>
Beginning of reporting period:	<i>1 January 2020</i>
End of reporting period:	<i>31 December 2020</i>
Chairman of the Management Board:	<i>Andris Morozovs</i>
Auditor:	<i>KPMG Baltics OÜ</i>

If P&C Insurance AS management board have compiled 4th quarter 2020 interim report which is presented on pages 7-19.

Member of the Management Board	Heinar Olak	/Signature/	22.02.2021
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Member of the Management Board	Tiit Kolde	/Signature/	22.02.2021
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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), which in turn is owned by the Finnish company Sampo plc. Sampo plc is listed on the Helsinki Stock Exchange and the Sampo Group is made up of the parent company Sampo plc and its subsidiaries If P&C, Mandatum Life, Hastings and Topdanmark.

If has been offering property and casualty insurance to private individuals and corporate customers in the Baltic markets since 1992. Across the Baltic countries, If has approximately 305,000 policyholders and is one of the leading P&C companies 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 with some shared business functions across all three Baltic 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 2020

The technical result improved compared to the preceding year and amounted to €18.7 million corresponding to a combined ratio of 87.3% (87.4%).

Gross written premiums increased in total by €3.2 million, from €149.0 million in 2019 to €152.2 million.

The premium development was attributable to successful acquisition of new customers and solid renewals of existing customers, especially in the large customer segment, together with quick adaptation of products and prices to changed market conditions following from the coronavirus situation. This resulted in a decent GWP growth despite overall declining P&C market volumes in the Baltic countries.

Total claims cost for the year, including claims handling, amounted to €91.3 (89.8) million, corresponding to a loss ratio of 62.1% (61.9). The outcome benefited from overall good loss ratios across all lines of business except Travel and Corporate Property insurance. Restrictions following from the pandemic resulted in lower claims frequencies, especially in Motor lines, whereas the number of large claims was higher than expected.

Continuous efficiency improvements and tight cost control, supported by digitalisation and automation of customer interaction processes, reduced the expense ratio to 25.2% (25.5). Total operating expenses, excluding claims handling, increased to €37.1 (36.9) mainly driven by salary inflation.

The overall net profit after tax decreased to €16.6 million (€19.9) million in twelve months 2019.

KEY FIGURES

€000	2020	2019
Premiums written, gross	152,243	149,046
Premiums earned, net of reinsurance	147,101	145,070
Claims incurred, net of reinsurance	91,297	89,832
Operating expenses ¹	37,094	36,917
Technical result ²	18,710	18,321
Net profit	16,602	19,889
Combined ratio ³	87.3%	87.4%
Expense ratio ⁴	25.2%	25.5%
Loss ratio ⁵	62.1%	61.9%
Return on investments ⁶	1.4%	2.2%

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 ¹
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)	$\frac{\text{Investment income (-) investment expenses (+) changes in fair value recognised in other comprehensive income}}{\text{Weighted average volume of financial investments in the period}}$

Investment result

The value of financial investments was €296.5 million at year-end 2020.

Despite an eventful year with the coronavirus pandemic hitting at the end of Q1, the investment portfolio managed to perform relatively well. Applying the full market valuation, the profit from asset management amounted to €4.43 million (6.52), corresponding to a total return of 1.4% (2.2). Net investment return was €2.25 million (2.33) in the income statement and €2.18 million (4.18) in other comprehensive income. The average weighted credit rating for the holdings of the investment portfolio using Standard & Poor's scale was BBB- at year-end 2020 (BBB+ year-end 2019).

As a result of the reinvestments made in 2020, the duration of the fixed income portfolio increased to 3.3 years from 2.7 years at year-end 2019.

The financial market outlook in 2021 is characterised by uncertainty and dependent on the development of the pandemic and geopolitical risks. If's investment strategy remains focused on finding new opportunities in the European investment grade bond markets and on re-investing maturing bonds into medium term instruments.

Number of employees and workforce expenses

As at 30 September 2020, the number of full-time employees was 547 (31.12.2019 554) and expenses for personnel totalled €23.7 million, an increase of €0.1 million over the year.

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

If offers a complete range of P&C insurance products to private individuals and corporate customers in the Baltic countries. Most of the work is carried out remotely through digital channels and phone, but customers are also served via direct sales points and strong network of brokers and partners. If is currently the fourth largest P&C insurer in the Baltic region combined.

Customer surveys confirm the importance of smooth sales and claims handling processes when choosing insurance provider. Therefore, If remains focused on developing easy-to-use products and services supported by smart digital solutions that simplify the process for the customer throughout the entire customer journey, from purchase to possible claim. If has managed to maintain excellent service levels to its customers also during the coronavirus pandemic. The situation has been facilitated by the ongoing digital shift in the market where customers become more and more used to buying insurances online and communicating with the insurance companies remotely.

The pandemic has changed the situation for many customers and If has adjusted its products and ways of working to meet new customer needs and provide the best possible service under these circumstances. For instance, company owned office equipment is insured also in home offices without any additional premium. If has also adjusted its travel insurance solutions during the year.

If continues to attract skilled professionals and strengthen its position as an attractive employer.

For several years, If has been giving Christmas charity presents to people who help others, for instance volunteer rescuers and assistant police officers in Estonia, Lifeguard Beach Association and people who help in the search for missing persons in Latvia as well as firefighters in Lithuania. If has also supported Kuressaare Hospital in Estonia and Kaunas

Hospital in Lithuania with protective equipment during the pandemic.

STATEMENT OF COMPREHENSIVE INCOME Q 4

€000	Note	Q 4 2020	Q 4 2019
PREMIUMS EARNED, NET OF REINSURANCE			
Premiums earned, gross		38,280	37,408
Premiums ceded		-911	-760
TOTAL	2	37,369	36,648
OTHER INCOME			
Investment result	3	580	659
Reinsurance commissions and other income		82	47
TOTAL		662	706
TOTAL REVENUE		38,031	37,354
CLAIMS INCURRED, NET OF REINSURANCE			
Claims incurred, gross		-22,679	-21,465
Reinsurers' share of claims incurred		181	252
TOTAL	4	-22,498	-21,213
EXPENSES			
Insurance contract acquisition costs		-6,200	-5,992
Administrative expenses		-3,641	-3,810
TOTAL	5	-9,841	-9,802
TOTAL CLAIMS AND EXPENSES		-32,339	-31,015
NET RESULT BEFORE TAXES		5,692	6,339
INCOME TAX		-3,880	-253
NET PROFIT FOR THE FINANCIAL PERIOD		1,812	6,086
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		2,227	-1,597
TOTAL		2,227	-1,597
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD		4,039	4,489

STATEMENT OF COMPREHENSIVE INCOME

€000	Note	2020	2019
PREMIUMS EARNED, NET OF REINSURANCE			
Premiums earned, gross		150,306	147,991
Premiums ceded		-3,205	-2,921
TOTAL	2	147,101	145,070
OTHER INCOME			
Investment result	3	2,252	2,334
Reinsurance commissions and other income		302	276
TOTAL		2,554	2,610
TOTAL REVENUE		149,655	147,680
CLAIMS INCURRED, NET OF REINSURANCE			
Claims incurred, gross		-91,746	-89,698
Reinsurers' share of claims incurred		449	-134
TOTAL	4	-91,297	-89,832
EXPENSES			
Insurance contract acquisition costs		-23,421	-23,003
Administrative expenses		-13,975	-14,190
TOTAL	5	-37,396	-37,193
TOTAL CLAIMS AND EXPENSES		-128,693	-127,025
NET RESULT BEFORE TAXES		20,962	20,655
INCOME TAX		-4,360	-766
NET PROFIT FOR THE FINANCIAL PERIOD		16,602	19,889
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		2,180	4,183
TOTAL		2,180	4,183
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD		18,782	24,072

STATEMENT OF FINANCIAL POSITION

€000	Note	31 December 2020	31 December 2019
ASSETS			
Cash and cash equivalents		52,880	17,968
Financial investments	7	296,496	318,436
Receivables related to insurance activities	6	31,178	30,311
Accrued income and prepaid expenses		4,003	4,018
Reinsurance assets	9	5,786	5,114
Investment in subsidiary		88	88
Property, plant and equipment	8	3,160	4,565
TOTAL ASSETS		393,591	380,500
LIABILITIES AND EQUITY			
Liabilities related to insurance activities		7,644	6,205
Lease liabilities		2,779	3,922
Accrued expenses and deferred income		6,708	6,039
Deferred tax liability		75	83
Liabilities arising from insurance contracts	9	196,144	183,292
Total liabilities		213,350	199,541
Share capital		6,391	6,391
Share premium		3,679	3,679
Mandatory capital reserve		2,362	2,362
Fair value reserve		7,268	5,088
Retained earnings		143,939	143,550
Net profit for the year		16,602	19,889
Total equity		180,241	180,959
TOTAL LIABILITIES AND EQUITY		393,591	380,500

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 2019	6,391	3,679	2,362	905	147,250	-	160,587
Dividends paid ¹⁾	-	-	-	-	-3,700	-	-3,700
Other comprehensive income	-	-	-	4,183	-	-	4,183
Net profit for the year	-	-	-	-	-	19,889	19,889
At 31 December 2019	6,391	3,679	2,362	5,088	143,550	19,889	180,959
At 1 January 2020	6,391	3,679	2,362	5,088	163,439	-	180,959
Dividends paid ¹⁾	-	-	-	-	-19,500	-	-19,500
Other comprehensive income	-	-	-	2,180	-	-	2,180
Net profit for the year	-	-	-	-	-	16,602	16,602
At 31 December 2020	6,391	3,679	2,362	7,268	143,939	16,602	180,241

- ¹⁾ In 2020, the Company distributed 19.5 million euros (2019: 3.7 million euros) in dividends to the sole shareholder. 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	2020	2019
Cash flow from operating activities			
Premiums received		151,579	148,492
Premiums ceded		-2,571	-2,944
Claims paid, incl. claims handling expenses		-80,481	-79,797
Cash flow from reinsurance		344	787
Employee-related and service-related expenses		-35,626	-36,215
Investments in bonds and other interest-bearing securities		-85,379	-74,271
Proceeds from disposals of bonds and other interest-bearing securities		100,114	50,248
Investments in term deposits		-5,000	-15,000
Proceeds from term deposits		15,000	-
Interest received		2,507	2,630
Interest paid		-10	-12
Income tax paid		-4,508	-764
Net cash flow from operating activities		55,969	-6,846
Cash flow from investing activities			
Purchase of property, plant and equipment		-205	-372
Proceeds from disposal of property, plant and equipment		1	2
Net cash flow from investing activities		-204	-370
Cash flow from financing activities			
Dividends paid		-19,500	-3,700
Repayment of lease liability		-1,353	-1,258
Net cash flow from financing activities		-20,853	-4,958
Change in cash flow		34,912	-12,174
Cash and cash equivalents at beginning of reporting period		17,968	30,142
Cash and cash equivalents at end of reporting period		52,880	17,968

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 2020 was prepared in conformity with the IFRS and the interpretations issued by IFRIC, which have been approved by the EU. The applied standards and interpretations are described in Company’s accounting policies for the financial year 2020. The financial statements are available on Company’s website at www.if.ee.

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 Insurance 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	2020	2019
Premiums written, gross	152,242	149,046
Change in the provision for unearned premiums	-1,936	-1,055
Premiums earned, gross	150,306	147,991
Reinsurance premiums	-3,509	-2,837
Change in the provision for unearned premiums	304	-84
Premiums ceded	-3,205	-2,921
TOTAL	147,101	145,070

Note 3. Investment result

€000	2020	2019
<u>Interest income/expense on:</u>		
Available-for-sale financial assets		
Bonds and other interest-bearing securities	2,988	2,774
Loans and receivables		
Term deposits	7	18
Cash and cash equivalents	1	-
Lease liabilities	-10	-12
TOTAL	2,986	2,780
<u>Gain from the disposal of:</u>		
Available-for-sale financial assets		
Bonds and other interest-bearing securities	263	345
TOTAL	263	345
<u>Gain/loss from the change in the value of:</u>		
Exchange rate changes	-50	-28
TOTAL	-50	-28
Investment expenses	-947	-763
TOTAL INVESTMENT RESULT	2,252	2,334
 Reconciliation of the fair value reserve of available-for-sale financial assets		
	2020	2019
Opening balance, available-for-sale financial assets	5,088	905
Changes in fair value during the year, recognised in other comprehensive income	2,443	4,528
Realised gain recognised in profit or loss	-263	-345
Closing balance, available-for-sale financial assets	7,268	5,088
Change in the fair value reserve of available-for-sale financial assets during the year	2,180	4,183

Note 4. Claims incurred, net of reinsurance

€000	2020	2019
Gross		
Claims paid related to the reporting period	-64,252	-64,248
Claims paid related to previous periods	-20,653	-20,954
Amounts recovered from salvage and subrogation	8,550	10,158
Change in the provision for claims outstanding	-10,915	-10,172
Claims handling expenses	-4,476	-4,482
TOTAL	-91,746	-89,698
Reinsurers' share		
Claims paid related to the reporting period	67	80
Claims paid related to previous periods	25	214
Change in the provision for claims outstanding	357	-428
TOTAL	449	-134
Net		
Claims paid related to the reporting period	-64,185	-64,168
Claims paid related to previous periods	-20,628	-20,740
Amounts recovered from salvage and subrogation	8,550	10,158
Change in the provision for claims outstanding	-10,558	-10,600
Claims handling expenses	-4,476	-4,482
TOTAL	-91,297	-89,832

Note 5. Expenses

€000	2020	2019
Salaries and remuneration	-18,454	-17,856
Social security costs	-3,939	-3,671
Other personnel expenses	-1,279	-2,044
Total personnel expenses	-23,672	-23,571
Commissions to intermediaries	-9,127	-9,076
Data processing	-2,731	-2,473
Expenses on premises	-2,159	-2,170
Office expenses (incl. communication expenses)	-692	-857
Other operating expenses	-3,491	-3,528
TOTAL	-41,872	-41,675

Division of costs on the basis of functions:

Insurance contract acquisition costs	-23,421	-23,003
Administrative expenses	-13,975	-14,190
Claims handling expenses	-4,476	-4,482
TOTAL	-41,872	-41,675

Note 6. Receivables related to insurance activities

€000	31 Dec 2020	31 Dec 2019
Receivables related to direct insurance activities, incl.	30,947	30,058
- policyholders	26,846	25,850
- intermediaries	2,263	2,110
- subrogation with significant recoverability	1,362	1,570
- salvages	279	422
- other	197	106
Receivables related to reinsurance	159	202
Other receivables	72	51
TOTAL	31,178	30,311

Note 7. Financial investments

€000	31 Dec 2020	31 Dec 2019
Available-for-sale financial assets		
Bonds and other interest-bearing securities		
- listed	280,211	287,382
- unlisted	11,279	16,036
Incl. with a floating interest rate	4,226	59,931
Incl. with a fixed interest rate (0.125 -3.75%; 31.12.2019: 0.0%-3.75%)	287,264	243,487
TOTAL	291,490	303,418
Loans and receivables		
Term deposits	5,006	15,018
TOTAL FINANCIAL INVESTMENTS	296,496	318,436

Bonds and other interest-bearing securities by issuers

€000	31 Dec 2020	31 Dec 2019
Issued by Estonian financial institutions	3,855	2,039
Issued by Estonian companies	1,535	1,528
Issued by foreign governments	2,639	2,606
Issued by foreign financial institutions	117,554	146,718
Issued by foreign companies	165,907	150,527
TOTAL	291,490	303,418

Ratings of bond issuers (S&P)

	Percentage of fair value	
	31 Dec 2020	31 Dec 2019
AAA	2.1%	2.7%
AA+ until AA-	9.0%	18.0%
A+ until A-	18.6%	33.0%
BBB+ until BBB-	50.5%	31.3%
BB	2.4%	1.9%
Non rated	17.4%	13.1%
TOTAL	100%	100%

Bonds and other interest-bearing securities by maturity terms

€000	31 Dec 2020	31 Dec 2019
Up to 1 year	10,530	64,614
1-2 years	34,251	32,985
2-5 years	187,426	172,871
5-10 years	59,283	32,948
TOTAL	291,490	303,418

Deposits by maturity terms		
€000	31 Dec 2020	31 Dec 2019
Up to 6 months	5,006	5,017
6-12 months	-	10,001
TOTAL	5,006	15,018

Note 8. Property, plant and equipment

€000	Right-of-use: Buildings	Other PPE
Net book value as at 31 December 2018	-	558
First application of IFRS 16 as at 1 January	5,154	-
Acquisition	26	326
Disposal	-	-18
Acquisition cost as at 31 December 2019	5,180	2,259
-incl. fully depreciated	-	1,199
Depreciation charge for the year	-1,265	-314
Depreciation charge of sales and disposals	-	34
Accumulated depreciation as at 31 December 2019	-1,265	-1,609
Net book value as at 31 December 2019	3,915	650
Acquisition	209	205
Sales and disposal		-886
Acquisition cost as at 31 Dec 2020	5,389	1,578
-incl. fully depreciated	-	873
Depreciation charge for the year	-1,356	-319
Depreciation charge of sales and disposals	-	741
Accumulated depreciation as at 31 Dec 2020	-2,621	-1,186
Net book value as at 31 Dec 2020	2,768	392

Note 9. Liabilities related to insurance contracts and reinsurance assets

€000	31 Dec 2020	31 Dec 2019
Gross		
Provision for incurred and reported claims and claims handling expenses	96,616	85,826
Provision for incurred but not reported claims	34,971	34,846
Provision for unearned premiums	64,557	62,620
TOTAL	196,144	183,292
Reinsurer's share		
Provision for incurred and reported claims and claims handling expenses	4,599	4,236
Provision for incurred but not reported claims	235	231
Provision for unearned premiums	952	647
TOTAL	5,786	5,114
Net		
Provision for incurred and reported claims and claims handling expenses	92,017	81,590
Provision for incurred but not reported claims	34,736	34,615
Provision for unearned premiums	63,605	61,973
TOTAL	190,358	178,178

Note 10. 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 €1,005 thousand in remuneration, including social tax (2019: €1,255 thousand). There were paid termination benefits including social tax during the reporting period €73 thousand (2019: €0) to members of the Management Board. No remuneration was paid to members of the Supervisory Board.

Insurance contracts with total premiums of €9 thousand were concluded with the management individuals in the financial period (2019: €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	
	2020	2019	2020	2019
If P&C Insurance Ltd (publ)	1,994	1,599	13	10

There are no receivables and following payables related to the above transactions as at 31 December 2020 and 31 December 2019:

€000	31 Dec 2020	31 Dec 2019
Payables		
If P&C Insurance Ltd (publ)	1,222	637

Other related party transactions, transactions with other group companies

€000	Services purchased		Services rendered	
	2020	2019	2020	2019
Mandatum Life Insurance Baltic SE	-	-	9	8
Nordea Group companies	54	445	-	210
If P&C Insurance Ltd (publ)	11	12	243	208
Sampo plc	667	627	-	-
If IT Services A/S	531	482	-	-
Total	1,263	1,566	252	426

There are no receivables and following payables related to the above transactions as at 31 December 2020 and 31 December 2019:

€000	31 Dec 2020	31 Dec 2019
Payables		
Mandatum Life Insurance Baltic SE	1	-
Sampo plc	169	163
If P&C Insurance Ltd (publ)	11	7
If IT Services A/S	63	36
Total	244	206

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

€000	31 Dec 2020	31 Dec 2019
Financial assets		
Nordea Group companies	5,160	5,141