If P&C Insurance AS

Annual Report 2021

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Translation from Estonian original

Business name:	If P&C Insurance AS
Registry code:	10100168
Address:	Lõõtsa 8a, 11415 Tallinn
Telephone:	+372 777 1211
E-mail:	info@if.ee
Web page:	www.if.ee
Main field of activity:	non-life insurance services
Beginning of financial year:	1 January 2021
End of financial year:	31 December 2021
Chairman of the Management Board:	Andris Morozovs
Auditor:	Deloitte Audit Eesti AS

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Management Report

Organization

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 320,000 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.

Legal structure of the company

If P&C Insurance AS (Estonia)
reg. no.10100168

Branch in Latvia
If P&C Insurance AS Latvijas filiāle
reg. no. 40103201449

Branch in Lithuania
If P&C Insurance AS filialas
reg. no. 302279548

Five-year summary

€000	**2021**	**2020**	**2019**	**2018**	**2017**
Premiums written, gross	168,756	152,242	149,046	162,666	138,750
Premiums earned, net of reinsurance	156,062	147,101	145,070	142,859	132,618
Claims incurred, net of reinsurance	97,405	91,297	89,832	88,469	84,406
Operating expenses [1]	39,109	37,094	36,917	36,511	34,023
Technical result [2]	19,548	18,710	18,321	17,879	14,190
Net profit	18,170	16,602	19,889	19,103	15,454
Combined ratio [3]	87.5%	87.3%	87.4%	87.5%	89.3%
Expense ratio [4]	25.1%	25.2%	25.5%	25.6%	25.6%
Loss ratio [5]	62.4%	62.1%	61.9%	61.9%	63.7%
Financial investments	276,198	296,496	318,436	274,731	271,960
Return on investments [6]	0.0%	1.4%	2.2%	-0.2%	0.8%
Total assets	405,332	393,591	380,500	344,818	302,911
Equity	177,653	180,241	180,959	160,587	147,382

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	$\frac{\text{Claims incurred, net of reinsurance}}{\text{Premiums earned, net of reinsurance}}$
[6] Return on investments	$\frac{\text{Investment income (-) investment expenses (+) changes in fair value recognised in other comprehensive income}}{\text{Weighted average volume of financial investments in the period}}$

Results from operations

Results

The technical result improved compared to the preceding year and amounted to €19.5 million (€18.7 million in 2020), corresponding to a combined ratio of 87.5% (87.3% in 2020).

Premiums written

Gross premiums written for the year amounted to €168.8 million (€152.2 million in 2020).

The premium development was attributable to successful acquisition of new customers and solid renewals of existing customers, both in the large customer segment as well as in Private and Commercial small- and medium customer segments. Products and pricing were further adjusted to the changed market conditions following from the recovery from the Covid-19 situation, resulting in market leading GWP growth.

Claims and operating expenses

Total claims cost for the year, including claims handling cost, amounted to €97.4 million (€91.3 million in 2020), corresponding to a loss ratio of 62.4% (62.1% in 2020). In general, claims cost benefited from overall decent frequency developments following from the continued pandemic restrictions, 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 25.1% (25.2% in 2020). Total operating expenses, excluding claims handling, increased to €39.1 million (€37.1 million in 2020) mainly driven by salary inflation.

Investment result

The value of financial investments was €276.2 million at year-end 2021 (€296.5 million in 2020).

Activity in the portfolio was fairly limited due to unfavorable market conditions for the investment grade bonds.
Net investment return was €2.52 million (€2.25 million in 2020) in the income statement and -€2.56 million (€2.18 million in 2020) in other comprehensive income. The total investment return was +0.0% (1.4% in 2020) and -0.04m€ (4.43 m€ in 2020) in absolute terms.

The average weighted credit rating for the holdings of the investment portfolio using Standard & Poor's scale was BBB- at year-end 2021 (BBB- year-end 2020). As a result of the reinvestments made in 2021, the duration of the fixed income portfolio decreased to 2.8 years from 3.3 years at year-end 2020.

The prevailing low interest rate environment remains a challenge for the portfolio. There are also several uncertainties around the Eurozone economy as well as increasing geopolitical tensions ongoing. However, the investment focus has remained unchanged, i.e. new opportunities in the European investment grade bond markets are seeked and to re-invest maturing bonds into medium term instruments are planned.

Net profit and tax

The overall net profit after tax for the year increased to €18.2 million (€16.6 million in 2020) and the current tax amounted to €3.90 million (4.36 million in 2020).

Risk management

Risk is an essential and inherent element of If´s business activities and operating environment. A high-quality Risk Management System is a prerequisite for running the business effectively and for ensuring stable results.

The objectives of the Risk Management System are to create value for If´s stakeholders by securing its long-term solvency, minimising the risk of unexpected financial loss and giving input to business decisions by considering the effects on risk and capital. The risks and Risk Management system of If are described in Note 2.

If compiles and publishes an annual comprehensive Solvency and Financial Condition Report, which is available to the public on the company website if.ee.

Sustainability report

The parent company If P&C Insurance Holding Ltd (publ), corporate reg. no. 556241-7559, whose headquarter is in Solna Sweden, has prepared a sustainability report called If Sustainability Report 2020. It covers the parent company and its subsidiaries and is available on the website if.se. If P&C Insurance AS has therefore chosen not to prepare its own sustainability report.

Personnel

In 2021, the number of full-time employees was 550 (547) at year-end and expenses for personnel totalled €25.1 million (€23.7 million in 2020), an increase by €1.4 million over the year.

Great employees and a good work environment are at the core of sustainable business performance. Subsequently, If invests heavily in culture building, talent acquisition and people engagement to build a work environment that supports great performance and employee well-being. Ensuring that great people want to join If, want to stay at If, and want to give their best to help the company reach its goals through a culture and a work environment where all this is made possible, is vitally important for company performance and value creation. A supportive and inspiring culture around employees who are proactive, competent and engaged is the best way of ensuring that we build a resilient organization where people put their hearts into it and where we continuously stay ahead.

Strengthening the One If culture

A sound work environment ensures physical safety, relating to issues such as ergonomics and well-functioning workspaces, as well as psychological safety, which concerns issues such as reasonable workload, good leadership, development opportunities and non-tolerance of discrimination and harassment. A basic building block of a sound work environment and culture clarifies our purpose, our values and our vision of becoming the most caring insurance company. An attractive culture is also vital for attracting and retaining the employees we want and need.

Building great leadership

Quality leadership has always been and remains an important foundation for If's continued success. Leaders play a significant role in the continuous improvement of the work environment and in building a strong culture. The leadership compass, launched in spring 2021, sets clear guiding principles for leaders in close alignment with If's culture and values.

Securing people and skills for the future

Because If's competitive advantage is its competent and engaged employees, high expectations are placed on all employees to strive towards being the best-skilled and most competent professionals in their field of expertise. In parallel with If's structured competence initiatives each employee is encouraged to take individual ownership for improving operational excellence within their area of responsibility and to ensure professional growth.

Operations

If offers a complete range of P&C insurance products to private individuals and corporate customers in the Baltic countries. If is currently the fourth largest P&C insurer in the Baltic region combined.

In 2021, the branding communication concept was changed in order to define a closer relation to the brand promise of being the most caring insurance company. That is why the new slogan „By your side“ has been established.

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. . Improvements in services are being made continuously, for instance by closing physical offices and adapting to a new pandemic reality, to ensure constant availability for the customers with 24/7 helpline and high-end digital services. In addition to digital channels and phone service, customers are also being supported by a strong network of brokers and partners.

Throughout these turbulent times, If has managed to maintain excellent service levels and according to the external research company Dive, If offers the best customer service among insurance companies. In excess of the number one position achieved in Estonia, If was among the top three in all other Baltic countries. Another achievement for If was the 2021 Confirmit ACE (Achievement in Customer Excellence) Award in the category "Voice of the Customer" which really confirms If's customer focus. In 2021, Lithuanian business magazine Verslo Žinios selected If in Lithuania among the financial sector Top 3 leaders for the previous year achievements. Finance sector, including banks and insurance companies operating in the same sector were benchmarked with each other, assessing various indicators, such as pre-tax profit, income, their annual change, pre-tax profitability, average salary, change in return of assets, etc.

During 2021 If has started new partnership cooperation with Viveo Health OÜ in Estonia and Latvia. Through this partnership, If can provide a new health insurance addition to the customers called „E-doctor“ which allows health insurance customers to receive telemedicine support via digital channels.

For years, If has been giving Christmas charity presents to people and activities that create more security to the society. This year, If in Estonia purchased the light reflectors to keep wild animals off the road as cars approach. In Latvia, If had the opportunity to support people who help in the search for missing persons and in Lithuania, a donation to ambulance medics was made.

Outlook

The macroeconomic outlook in the Baltic countries is favorable for 2022. The largest uncertainty about the pandemic is probably behind us because of the vaccination programs. Recent expansionary central bank policies are providing a significant support for the economic recovery going forward. Increasing confidence will result in positive momentum also for the Insurance industry supporting the expected continued strong business volume growth. As claims frequencies are expected to continue to normalize and inflation levels are expected to grow significantly, relatively high share of the expected growth is to come from necessary

premium rate increases.If's business in the Baltic region is expected to maintain a positive premium development in 2022 in line with the market growth. If remains prepared to secure business continuity and high customer service levels.

Annual Financial Statements

Statement of profit or loss and other comprehensive income

€000	Note	2021	2020
PREMIUMS EARNED, NET OF REINSURANCE			
Premiums earned, gross		160,426	150,306
Premiums ceded		-4,364	-3,205
TOTAL	3	**156,062**	**147,101**
OTHER INCOME			
Investment result	4	2,521	2,252
Reinsurance commissions and other income		372	302
TOTAL		**2,893**	**2,554**
TOTAL REVENUE		**158,955**	**149,655**
CLAIMS INCURRED, NET OF REINSURANCE			
Claims incurred, gross		-98,016	-91,746
Reinsurers' share of claims incurred		611	449
TOTAL	5	**-97,405**	**-91,297**
EXPENSES			
Insurance contract acquisition costs		-24,569	-23,421
Administrative expenses		-14,912	-13,975
TOTAL	6	**-39,481**	**-37,396**
TOTAL CLAIMS AND EXPENSES		**-136,886**	**-128,693**
NET RESULT BEFORE TAXES		**22,069**	**20,962**
INCOME TAX	15	-3,899	-4,360
NET PROFIT FOR THE FINANCIAL YEAR		**18,170**	**16,602**
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	4	-2,558	2,180
TOTAL		**-2,558**	**2,180**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**15,612**	**18,782**

The notes on pages 12 to 57 are an integral part of the financial statements.

Statement of financial positions

€000	Note	31 December 2021	31 December 2020
ASSETS			
Cash and cash equivalents		78,327	52,880
Financial investments	9	276,198	296,496
Receivables related to insurance activities	7	36,267	31,178
Accrued income and prepaid expenses	8	4,551	4,003
Reinsurance assets	14	6,260	5,786
Investment in subsidiary	16	88	88
Property, plant and equipment	10	3,641	3,160
TOTAL ASSETS		**405,332**	**393,591**
LIABILITIES AND EQUITY			
Liabilities related to insurance activities	11	7,705	7,644
Lease liabilities	12	3,471	2,779
Accrued expenses and deferred income	13	7,847	6,708
Deferred tax liability	15	40	75
Liabilities arising from insurance contracts	14	208,616	196,144
TOTAL LIABILITIES		**227,679**	**213,350**
Share capital		6,391	6,391
Share premium		3,679	3,679
Mandatory capital reserve		2,362	2,362
Fair value reserve		4,710	7,268
Retained earnings		142,341	143,939
Net profit for the year		18,170	16,602
TOTAL EQUITY	17	**177,653**	**180,241**
TOTAL LIABILITIES AND EQUITY		**405,332**	**393,591**

The notes on pages 12 to 57 are an integral part of the financial statements.

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 2020	**6,391**	**3,679**	**2,362**	**5,088**	**163,439**	**-**	**180,959**
Dividends paid (Note 17)	-	-	-	-	-19,500	-	**-19,500**
Other comprehensive income (Note 4)	-	-	-	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**
AT 1 JANUARY 2021	**6,391**	**3,679**	**2,362**	**7,268**	**160,541**	**-**	**180,241**
Dividends paid (Note 17)	-	-	-	-	-18,200	-	**-18,200**
Other comprehensive income (Note 4)	-	-	-	-2,558	-	-	**-2,558**
Net profit for the year	-	-	-	-	-	18,170	**18,170**
AT 31 DECEMBER 2021	**6,391**	**3,679**	**2,362**	**4,710**	**142,341**	**18,170**	**177,653**

The notes on pages 12 to 57 are an integral part of the financial statements.

Statement of cash flows

€000	Note	2021	2020
CASH FLOW FROM OPERATING ACTIVITIES			
Cash flow from insurance operations			
Premiums received	3, 7, 11	164,383	151,579
Premiums ceded	3, 11	-4,495	-2,571
Claims paid, incl. claims handling expenses	5, 6, 7	-94,239	-80,481
Cash flow from reinsurance		433	344
Employee-related and service-related expenses		-38,465	-35,626
TOTAL		**27,617**	**33,245**
Cash flow from asset management			
Investments in bonds and other interest-bearing securities	9	-18,907	-85,379
Proceeds from disposals of bonds and other interest-bearing securities		32,078	100,114
Investments in term deposits	9	-	-5,000
Proceeds from term deposits	9	5,000	15,000
Interest received		3,284	2,507
Interest paid		-8	-10
TOTAL		**21,447**	**27,232**
Income tax paid	15	-4,114	-4,508
NET CASH FLOW FROM OPERATING ACTIVITIES		**44,951**	**55,968**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		-59	-205
Proceeds from disposal of property, plant and equipment		-	1
NET CASH FLOW FROM INVESTING ACTIVITIES		**-59**	**-204**
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid	17	-18,200	-19,500
Repayment of lease liability	1, 12	-1,244	-1,353
NET CASH FLOW FROM FINANCING ACTIVITIES		**-19,444**	**-20,853**
CHANGE IN CASH FLOW		**25,447**	**34,912**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**52,880**	**17,968**
CASH AND CASH EQUIVALENTS AT END OF YEAR		**78,327**	**52,880**

The notes on pages 12 to 57 are an integral part of the financial statements.

Notes to the Annual Financial Statements

Note 1. Significant accounting policies and measurement bases

1. The company and its activities

If P&C Insurance AS is an insurance company (registry code: 10100168) which has the registered address at Lõõtsa 8a, Tallinn (Republic of Estonia) and comprises the Estonian company and its branches in Latvia and Lithuania (hereinafter the Company).

The main activity of If P&C Insurance AS is the provision of non-life insurance services. The Company's primary operations are described in the Management report.

The financial statements of the Company for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Management Board on 21 February 2022.

2. Basis of preparation

The 2021 financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union. The financial statements have been prepared on a historical cost basis, except for certain financial investments which have been measured at fair value.

The financial statements are presented in euros and all values are rounded to the nearest thousand (€000), unless otherwise indicated.

The Annual Report which is prepared by the Management Board and reviewed by the Supervisory Board and includes the financial statements, is approved by the General Shareholder's Meeting in accordance with the Commercial Code of the Republic of Estonia.

Though the Company forms a group together with its subsidiary Support Services AS, the Company has elected not to present consolidated financial statements and to present only separate financial statements in accordance with IFRS 10.

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) as adopted by the EU. The consolidated financial statements of the parent are available on the website www.sampo.com in the section Annual report.

The financial statements include the accounts of the insurance company in Estonia and the accounts of its branch offices in Latvia and Lithuania. Branches are business entities created to provide services on behalf of the Company. A branch is not an independent legal entity and the Company is responsible for the obligations arising from the activities of the branch. Branches use in all material respects the same accounting policies as the Company. All balances and transactions, unrealised gains and losses resulting from transactions between the Estonian entity, the branch in Latvia and the branch in Lithuania are eliminated in full.

The Company's cash flow statement has been prepared in accordance with the direct method, disclosing major classes of gross cash receipts and payments. The cash flows are classified by operating, investing and financing activities.

3. Changes in accounting policies and disclosures

The financial statements are prepared based on the principles of consistency and comparability, which means that the Company consistently applies the same accounting policies and presentation of information.

Changes in accounting policies and presentation of information take place only if they are required by new or revised IFRS standards and interpretations or if a new accounting policy and/or presentation of information gives a more objective overview of the financial position, financial performance and cash flows of the Company.

3.1. Adoption of new and/or changed International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases" - Interest Rate Benchmark Reform — Phase 2 adopted by the EU on 13 January 2021,
- Amendments to IFRS 16 "Leases" - Covid-19-Related Rent Concessions beyond 30 June 2021 adopted by the EU on 30 August 2021,
- Amendments to IFRS 4 Insurance Contracts "Extension of the Temporary Exemption from Applying IFRS 9" adopted by the EU on 16 December 2020 (the expiry date for the temporary exemption from IFRS 9 was extended from 1 January 2021 to annual periods beginning on or after 1 January 2023).

The adoption of amendments to the existing standards has not led to any material changes in the Company's financial statements.

3.2. New standards and interpretations issued but not yet effective

Issued, but not yet effective, international accounting standards or standards that the Company for some other reason does not apply, are currently assessed as not likely to have any significant impact on the financial statements when first applied, except IFRS 9 Financial Instruments and IFRS 17 Insurance Contracts.

IFRS 9 Financial Instruments took effect on January 1, 2018. In accordance with an EU-adopted amendment to IFRS 4 Insurance Contracts, the IASB has decided that under certain circumstances, insurance companies may delay their initial application of IFRS 9 so that the date coincides with the initial application of IFRS 17 Insurance Contracts (see below). The Company meets these requirements since it has not previously applied IFRS 9 and the carrying amount of the insurance-related liabilities accounts for more than 90% of the carrying amount of the total liabilities. In light of this, the Company has decided to delay the application of IFRS 9 until January 1, 2023, and continues to analyze and assess the expected impact of the standard. However, expanded disclosure requirements have been Introduced for financial instruments, which will facilitate comparisons with companies that have already implemented IFRS 9. For more information, refer to the section Financial investment assets at fair value of Note 9.

IFRS 9 contains some optionality, and the Company's opinion is that there are significant cross-influences with respect to the published standard concerning insurance contracts that still need to be carefully assessed before a final decision can be made as to the classification of financial assets.

IFRS 17 Insurance Contracts was adopted by the EU in November 2021 and takes effect on January 1, 2023. IFRS 17 replaces IFRS 4 Insurance Contracts and, unlike its predecessor, contains a complete framework for the measurement and presentation of insurance contracts. Company will continue to assess the impacts of IFRS 17 during the financial year 2022 and complete the process development to meet the reporting requirements in the standard. Based on a preliminary assessment, the premium application approach will be applied for all insurance business, as well as a fully retrospective approach to the transition to the new standard. Implementation of IFRS 17 is expected to have a major impact on the presentation and disclosures of the financial statements.

4. Material judgments, estimates and assumptions

Preparation of financial statements requires the passing of resolutions on the basis of judgments and estimates. These judgments and estimates have an effect on the assets and liabilities recorded at the reporting date, and the income and expenses of the financial year. Although the judgments are based on the management's best knowledge as well as concrete facts, the actual results may differ from the estimates.

Valuation of liabilities from insurance contracts

Judgments are made both for establishing technical provisions for incurred and reported losses as at the reporting date and for accounting for the provisions for losses incurred but not reported.

The time period during which the final claims are incurred may be extensive. In all insurance categories, the provision for claims consists of incurred but not reported losses. Forecasts regarding provisions for future claims are based on the claims actually incurred in previous periods. At each reporting date, estimates on technical provisions for claims in previous periods are revaluated, with any changes reported in profit or loss. Provisions for claims are not changed explicitly to reflect fluctuations in the value of money over time.

More detailed information about insurance technical provisions is disclosed in Note 14 “Liabilities arising from insurance contracts and reinsurance assets”.

5. Main accounting policies

a) Accounting for the subsidiary in the company's financial statements

Investments in the subsidiary are recognised in the Company's financial statements at cost less impairment (if any). This means that the investment is initially recognised at acquisition cost, consisting of the fair value of the amount paid, and adjusted thereafter for the impairment losses arising from the drop in the value of the investment.

Impairment tests are conducted in order to determine whether or not the recoverable amount of the investment (the higher of the fair value less sales expenses, or value-in-use) has dropped below the carrying value, if there is any indication that the carrying amount may not be recoverable.

b) Transactions in foreign currency

The financial statements are presented in euros, which is the functional and presentation currency of the Company. Foreign currency transactions are translated into euros on the basis of the exchange rates of the European Central Bank.

c) Insurance contracts

IFRS 4 requires the classification of insurance contracts into insurance and investment contracts, depending on whether the contract involves transfer of significant insurance risk. An insurance contract is a contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. The Company concludes short-term insurance contracts with its customers. The main risks covered with these contracts are property damage and property destruction, personal liability, or short-term health damage.

All contracts concluded by the Company are classified as insurance contracts in the scope of IFRS 4.

d) Revenue recognition

<u>Premiums written</u>

The premium refers to the compensation that an insurance company receives from the policyholder in return for the transfer of risk. Premiums written are reported in the statement of profit or loss and other comprehensive income at the inception of risk coverage in line with the insurance contract. When the contracted premium for the insurance period is divided into several amounts, the entire premium amount is still recognised at the beginning of the period. Premiums paid in advance (before the commencement of the inception of risk coverage) are not recognised as written premiums but booked as a liability to the policyholder. Premiums receivable (receivables from policyholders) are recognised at the same moment when the written premium is recognised.

<u>Premiums earned</u>

Premiums earned are reported as the share of premiums written that is attributable to the accounting period. The share of premiums written from insurance contracts pertaining to periods after the closing date is allocated to the provision for unearned premiums in the statement of financial position. The provision posted in the provision for unearned premiums is calculated by distributing premiums written strictly on the basis of the underlying term of the insurance contract.

Reinsurance commissions

Reinsurance commission fees consist of the commission fees received from reinsurers under the reinsurance contract.

Interest and dividend income

Interest income is recorded on an accrual basis, based on the effective interest rate of the asset.
Dividend income is recognised when the right to receive payment is established.

e) Expenses

The Company's expenses are divided according to their function as follows:

- Insurance contract acquisition costs consist of direct and indirect expenses arising from the acquisition of insurance contracts, incl. direct expenses, such as commission fees to intermediaries and expenses on the preparation of insurance documents, as well as indirect expenses, such as advertising expenses and administrative expenses related to the processing of applications and issue of policies.
- Claims handling expenses consist of administrative expenses indirectly related to claims handling. Claims handling expenses include relevant expenses incurred by the insurer, incl. wages and salaries, social tax and administrative expenses related to claims handling.
- Administrative expenses consist of insurance-related expenses which do not constitute acquisition costs or claims handling expenses.

Claims handling expenses are recognised within claims incurred in the statement of profit or loss and other comprehensive income.

Insurance contract acquisition costs have been adjusted for the changes in the deferred acquisition costs, net of reinsurance.

f) Cash and cash equivalents

Cash and cash equivalents consists of cash held in the bank.

The cash flow statement is prepared based on the direct method.

g) Financial assets

Initial recognition and measurement

Company's financial assets are classified to the following categories upon their initial recognition:

- loans and receivables (deposits, accounts receivable and other receivables);
- available-for-sale financial assets (all other financial investments).

The Company did not classify any financial assets as financial assets measured at fair value through profit or loss or held-to-maturity investments in the reporting or comparative period. The Company had no derivative instruments.

Upon initial recognition, financial assets are measured at fair value plus directly attributable transaction costs.

The Company has classified term deposits to the category of loans and receivables.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Available-for-sale financial assets

Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to liquidity needs or in response to changes in the market conditions.

After initial measurement, available-for-sale financial assets are measured at fair value, with unrealised gains or losses recognised in other comprehensive income and in the fair value reserve (equity). The fair value of listed securities is based on the bid price of the security on the reporting date. Where the insurer holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis.Interest earned whilst holding available-for-sale investments is reported as interest income using the effective interest rate. When an asset is derecognised, the cumulative gain or loss is recognised in "Investment result" in the statement of profit or loss and other comprehensive income. When an asset is determined to be impaired, the cumulative loss is recognised in profit or loss and removed from the fair value reserve.

Loans and receivables

Loans and receivables comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the short term. Loans and receivables are initially recognised at cost which is the fair value of the consideration given for them, including transaction costs that are directly attributable to the acquisition of the asset.

Loans and receivables are subsequently measured at their amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition, as well as expenses directly related to the transaction, over the years to maturity.

Interest income on receivables and deposits is recorded in "Investment result" in the statement of profit or loss and other comprehensive income.

Receivables from customers, reinsurance receivables and other receivables are recognised at nominal value when incurred (on the transaction date), and, subsequent to initial recognition, at cost less any impairment losses. Provisions for doubtful receivables are normally accounted for on the basis of ageing analysis of individual receivables except for collective provision formed in the Lithuanian branch using statistical method based on historic information about receivables recoverability.

<u>Derecognition of financial assets</u>

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

– the rights to receive cash flows from the asset have expired;

or

– the Company retains the right to receive cash flows from the asset but has assumed an obligation to pay the cash flows in full and without material delay to a third party under a ‘pass-through’ arrangement;

and either:

– has transferred substantially all the risks and rewards of ownership of the asset;

or

– has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Company has neither transferred nor retained substantially all the risks and rewards of ownership of the transferred asset and retains control of the transferred asset, the transferred asset is recognised to the extent of the Company’s continuing involvement in the asset.

Continuing involvement that takes the form of guaranteeing the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Company could be required to repay.

In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

<u>Impairment of financial assets</u>

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset may be impaired. A financial asset is impaired and impairment losses are incurred, if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset, and if that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

There is objective evidence of impairment, for example, if an issuer or debtor encounters significant financial difficulties that will lead to insolvency and to the estimation that the issuer or debtor will probably not be able to meet the obligations to the Company.

When there is objective evidence of impairment of a financial asset carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The difference is recognised as an impairment loss in profit or loss. Assets are assessed for impairment on an individual basis.

The impairment loss on financial assets related to operating activities is recognised in "Administrative expenses" while the impairment loss on financial assets related to investing activities is recognised as a reduction of the "Investment result" in the statement of profit or loss and other comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be objectively related to an event occurring after the impairment was recognised (e.g. the default status is removed), the previously recognised impairment loss is reversed through profit or loss, in respect of interest-bearing securities, but not for shares.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

Available-for-sale financial investments

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as in the case of financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss.

Interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income is recorded within finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss.

In line with the specific impairement requirement in IAS 39, the Company has assessed whether there is any objective evidence that an asset is impaired. In this assessment, the Company has chosen to use, in respect of interesting-bearing securities, criteria related to issuer default as well as to make an individual assessment for interest-bearing securities with a fair value below 50% of nominal value. The carrying amount of such interest-bearing securities will be reduced to the current fair value. In the event of a subsequent recovery of a value decline, the recovery is presented as a reversed impairment loss in respect of interest¬ bearing securities but not in respect of shares.

h) Property, plant and equipment

Tangible items held for use in the supply of non-life insurance services or administrative purpose with a useful life of over one year are recorded as property, plant and equipment (PPE). Items of PPE are initially recorded at acquisition cost, consisting of the purchase price (incl. customs duties and other non–refundable taxes) and expenses directly related to the acquisition, incurred upon bringing the assets to their present condition and location.

Following initial recognition, an item of PPE is carried in the statement of financial position at its cost, less accumulated depreciation and any accumulated impairment losses. If the recoverable amount of the non-current asset item drops below its carrying amount, the asset is written down to its recoverable amount (the higher of fair value, less sales expenses, and value-in-use). Impairment tests will be conducted to determine whether the recoverable amount has dropped below the carrying amount, if there is any indication that the carrying amount may not be recoverable. Impairment losses are recognised in the statement of profit or loss and other comprehensive income in "Insurance contract acquisition costs", "Claims handling expenses", and "Administrative expenses" depending on their function.

At each reporting date, the Company assesses whether there is any indication that the previous impairment is no longer justified. If there is any such indication, the Company will assess the recoverable amount and, if necessary, reverse the previous write-down. The reversal of the write-down is recorded as a reduction of expenses in the period in which the reversal occurred.

Depreciation is calculated from the moment the asset can be used for the purposes established by the management, until the asset's classification to non-current assets held for sale or removal from use. If fully depreciated assets are still used, the acquisition cost and accumulated depreciation of the assets is recorded in the statement of financial position until the assets have been removed from use.

The depreciable amount of an item of PPE (i.e., the difference between the acquisition cost and residual value) is charged to expenses over the useful life of the item. Land and works of art are not depreciated.

Depreciation is calculated on a straight-line basis, in accordance with the useful life of the asset, as follows:

- Computer equipment 3 years;
- Vehicles 5 years;
- Machinery and equipment 5-6 years;
- Office furniture and equipment 5-6 years.

If an item of PPE consists of distinguishable components with different useful lives, the components are recognised as separate assets and assigned depreciation rates that correspond to their useful lives.

The Company applies the new standard IFRS 16 Leases as of 1 January 2019. This entails that the Company recognises right-of-use assets for material leases that are in the scope of the standard. The Company applies a company-specific materiality assessment that includes, but is not limited to, the two exemptions specified in the standard. The acquisition cost corresponds to an amount equivalent to lease liabilities, discounted using an incremental borrowing rate.

Subsequently, the right-of-use asset is depreciated using the straight-line method from the commencement date to the end of the estimated useful life which is set at the end of the expected lease term. The carrying amount of the right-of-use asset is adjusted for certain remeasurements of the lease liability.

If there is any indication on the reporting date that the carrying amount of an item held through a right of use is higher than its recoverable amount, a calculation is made of the asset's recoverable amount. Recoverable amount is the higher of the asset's net realisable value and its value in use. If the determined recoverable amount is less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount. If, subsequently, a higher recoverable amount can be set, a previous impairment may be reversed.

i) Financial liabilities

Financial liabilities are initially accounted for at their acquisition cost consisting of the fair value of the consideration given. Following initial recognition, financial liabilities are measured at their amortised cost by using the effective interest rate method. Transaction costs are taken into consideration upon calculating the effective interest rate, and charged to expenses over the term of the financial liability.

Any expenses related to the financial liability (incl. interest expenses) are charged to the expenses of the period on an accrual basis.

A financial liability is derecognised when the liability is settled, cancelled or expires.

j) Deferred acquisition costs

Insurance contract acquisition costs directly related to premiums that are carried over to the next period are recognised in the statement of financial position as deferred acquisition costs. Direct acquisition costs are deferred on the basis of the ratio of the provision for unearned premiums to premiums written.

Deferred acquisition costs include only direct insurance contract acquisition costs, such as commission fees to intermediaries.

k) Provision for unearned premiums

The provision for unearned premiums is set up for future losses and operating expenses that may arise during the term of the insurance contract.

The provision for unearned premiums is calculated separately for each contract, based on the share the unexpired term of a contract makes up of the total term of the contract.

In the event that premiums are deemed to be insufficient to cover anticipated claims costs and operating expenses, the provision for unearned premiums is required to be augmented by a provision for unexpired risks.

l) Provision for claims outstanding

The provision for claims outstanding is set up for claims incurred but not yet settled, including claims incurred but not yet reported (IBNR). In order to cover claims handling expenses of incurred unsettled claims, a provision for claims handling expenses is set up within the provision for claims outstanding.

The provision for claims outstanding is calculated using a case-by-case valuation method (larger reported claims) as well as statistical methods (small reported claims, IBNR provision). The provision for claims outstanding is not discounted, except motor third party liability annuities that are discounted to their net present value using a discount rate of 0.5% (2020: 0.5%).

m) Reinsurance

The main forms of reinsurance contracts are excess-of-loss reinsurance contracts and proportional reinsurance contracts. The contracts are, as a rule, concluded for a term of one year. Reinsurance coverage is purchased in the course of standard insurance in order to minimise the potential net loss by hedging the risks. All reinsurance contracts transfer a significant portion of insurance risk.

Reinsurance assets consist of reinsured insurance liabilities. The reinsurers' share of the provision for unearned premiums and the provision for claims outstanding has been recorded in accordance with the reinsurance contracts.

Any impairment losses on reinsurance assets are recorded in profit or loss.

n) Lease liabilities

Lease liabilities are initially measured at the present value of the fixed lease payments and certain variable lease payments to be made under the lease that are not paid at the commencement date, discounted using the incremental borrowing rate. The lease liabilities are subsequently measured at amortised cost using the effective interest method. They are remeasured to reflect any lease modifications or reassessments.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease term is determined as the expected lease term. This includes the non-cancellable period of the lease contracts, adjusted for any optional extension or termination periods that the Company is reasonably certain to exercise.

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over lease term.

In Cash Flow statement the Company has classified cash payments for the principal portion of lease payments as financing activities, cash payments for the interest portion as operating activities and payments for the lease contracts not recognized in the statement of financial position due to low value, short term or the entity specific materiality treshold as operating activities.

o) Corporate income tax

The Company's tax expense is calculated in accordance with IAS 12 Income taxes. This entails the calculation and recognition of both current and deferred tax.

Current taxes are calculated individually for every unit in accordance with the tax rules of the country of operation. The Company's foreign branch offices are taxed on their results in the country concerned. In Estonia the Company has to pay income tax at the rate of 20% (2020: 20%) only on the income that has not been taxed in the branches and only when profit is distributed into dividends or from incurred expenses such as non-business deemed as profit disribution.

From 2019, regular dividend distributions are subject to a lower, 14% tax rate (the amount of tax payable is calculated as 14/86 of the net distribution). Every calendar year the lower tax rate may be applied to dividend and other profit distributions to an extent that does not exceed the average amount of dividend and other profit and equity distributions for the preceding three years on which tax has been paid.

Corporate income tax payable on the distribution of dividends is recognised as income tax expense in the statement of profit or loss and other comprehensive income in the period in which the dividend is actually distributed.

In Latvia corporate income tax is calculated on distributed profits calculated 20/80 of the net amount payable to the shareholders, and certain expenses deemed as distributed profit, by applying a coefficient of 0.8.

Since the result of the Latvian branch has been transferred to Estonia before the reporting year-end, there are no temporary differences on company level that warrants any deferred tax liability recognition in accounts.

The maximum income tax liability which would arise if all of the available equity were distributed as dividends is disclosed in Note 17.

As at 31 December 2021, the Latvian branch has transferred its reporting year's profit to the Company in Estonia but loss of 2020 were not covered in full and due to that corporate income tax expense and liability have not been recognised in the Latvian branch in the same way as in 2020.

In Lithuania, both current and deferred tax is calculated and reported. Deferred tax attributable to temporary differences between the amounts recognised in books and the amounts actually paid are reported in the Company's financial statements. For income reported in the statement of profit or loss and other comprehensive income for the period but which is not taxed until a later period, a deferred tax cost is charged, which results in a corresponding liability item, a deferred tax liability. Similarly, costs that will not result in tax deductions until a later period give rise to deferred tax revenue and a corresponding deferred tax asset.

Detailed information on the deferred tax asset and liability of the Lithuanian branch is disclosed in Note 15. Deferred tax assets and liabilities are reported net in those cases where they pertain to the same tax authority and can be offset against each other. For the Lithuanian branch, the corporate income tax rate is 15% (2020: 15%).

p) Events after the reporting period

The financial statements reflect all significant events affecting the valuation of assets and liabilities that occurred between the reporting date (31 December 2021) and the date on which the financial statements were authorised for issue (22 February 2022) but are related to transactions that occurred in the reporting period or earlier periods.

Note 2. Risks and risk management

1. Risk management system

Risk is an essential and inherent element of the Company´s business activities and operating environment.

High-quality risk management is a prerequisite for running the business effectively and for assuring stable results. The objectives of the Risk Management System are to create value for the Company's stakeholders by securing its long-term solvency, minimising the risk of unexpected financial loss and giving input to business decisions by taking into account the effect on risk and capital. The Company's risk appetite framework defines the boundaries for what level of risk the Company is willing to accept in the pursuit of the objectives.

The Company's Risk Management System comprises strategies, processes and reporting procedures necessary to, on a continuous basis, identify, measure, monitor, manage and report risks. The Risk Management System is part of the larger Internal Control System and ensures that all risks are managed.

For effective implementation of the Risk Management System, the three lines of defence concept is used based on the COSO[1] framework (Figure 1).

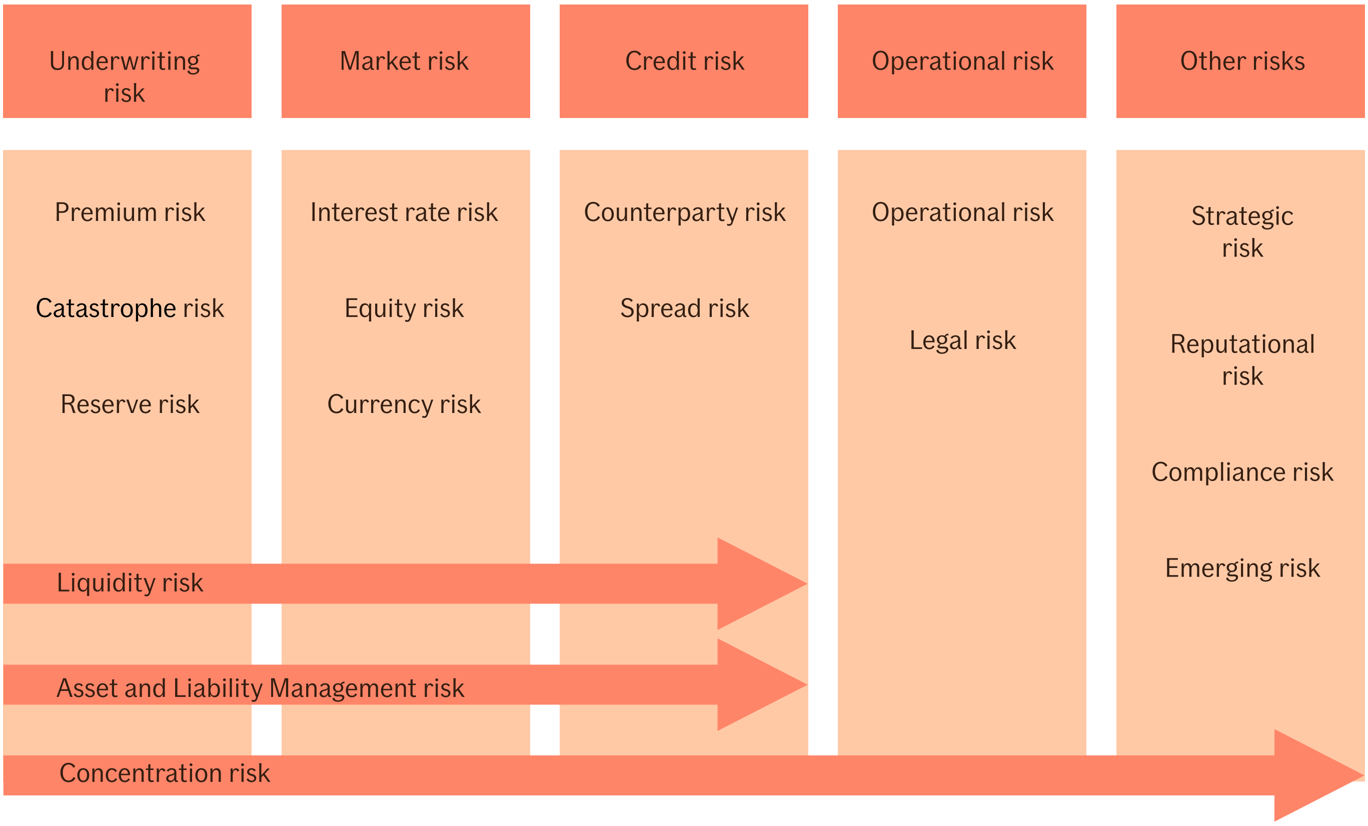
Figure 1. Three lines of defence concept

First line of defence Heads of Units	• own the risk, is accountable for assessing, controlling and mitigating the risks in their day to day operations; and • appoint the Business Risk Coordinators for each risk category to facilitate the risk management and reporting to the second line of defence
Second line of defence Risk Manager Compliance Officer	• assesses, analyses and monitors the Company level risks independently from the business • supports and gives advice to the business on the risk management matters; and • reports regularly on risk matters to the Management Board, Supervisory Board and to the Chief Risk Officer of If Group
Third line of defence Internal Auditor	• evaluate and test effectiveness of internal controls, risk management and governance in 1st and 2nd line of defence; and • reports regularly to the Supervisory Board

The main risk categories managed within the Risk Management System are: underwriting, market, credit, operational and other risks (Figure 2).

[1] The Committee of Sponsoring Organizations of the Treadway Commission.

Figure 2. Risks encompassed in the Risk Management System



Policies adopted by the Supervisory Board are in place for each risk area specifying restrictions and limits chosen to reflect and ensure that the risk level at all times complies with the Company's overall risk appetite and capital constraints.

Risk management strategy

The Company's Risk Management Strategy forms a part of the governing principles for the operations.
The purpose of the Risk Management Strategy is to:

- Ensure strong governance structure to optimise development and maintenance;
- Ensure a sound and well-established internal Control and risk culture;
- Ensure adequacy of capital in relation to risks and risk appetite;
- Limit fluctuation in the economic value;
- Ensure strong financial data management;
- Ensure that risks affecting the profit and loss account and the balance sheet are identified, assessed, managed, monitored and reported;
- Ensure that the riskiness of the insurance business is reflected in the pricing;
- Ensure adequate long-term investment returns within set risk levels;
- Ensure well working and efficient reporting processes compliant with external and internal requirements; and
- Safeguard If´s reputation and ensure that customers and other stakeholders have confidence in If

The Company's Risk Management Strategy is set by the Supervisory Board and is in line with the If Group Risk Strategy.

FIgure 3. Risk management process

The overall risk management process includes five main steps: risk identification; risk assessment and measuring; risk mitigation; risk monitoring and risk reporting. Additionally, forward looking own risk and solvency assessment (ORSA) is conducted at least annually and is implemented as a part of the Risk Management System. In ORSA the three-year business plan and corresponding risk profile and capitalisation are analysed under different scenarios and stress tests with the aim to secure continuous solvency of the Company and to ensure the operations correspond to the risk appetite adopted by the Supervisory Board.

Risk governance and reporting structure

The Supervisory Board

The Supervisory Board is the corporate body ensuring that the Company has an appropriate Risk Management System. The Supervisory Board sets the risk management strategy, company-level risk appetite and tolerances by adopting annually the Risk Management Policy. The Supervisory Board should be provided with regular quarterly risk reports and considers own risk and solvency assessment results (ORSA) in deciding the mid-term business plan.

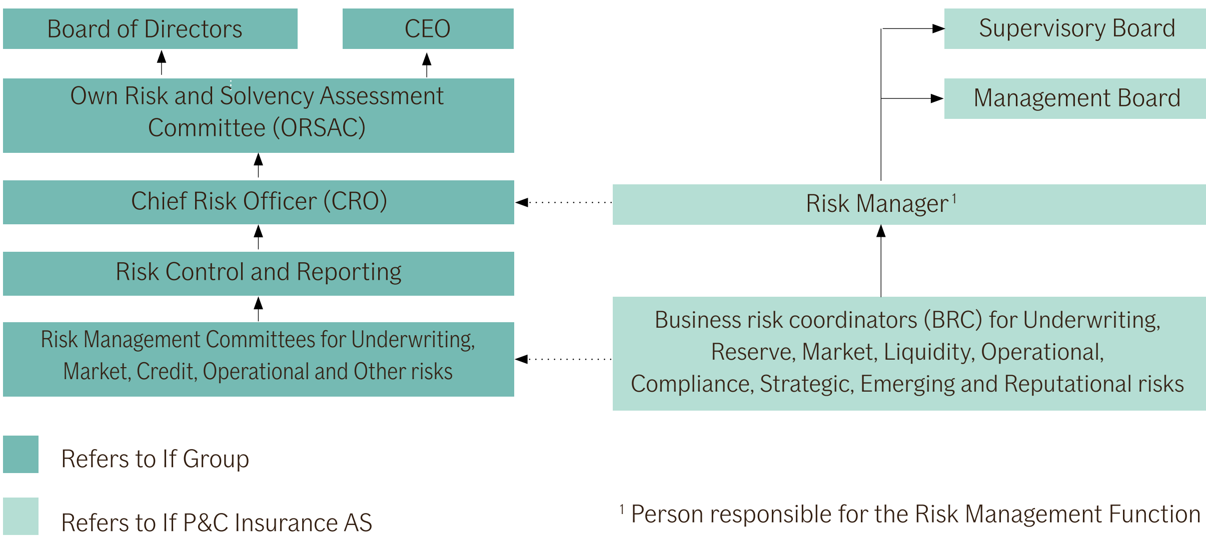
The Management Board

The Management Board has the ultimate responsibility for the effective implementation of the Risk Management System by ensuring appropriate risk management set-up and promoting a sound risk culture within the Company. The Management Board receives from the Risk Manager a risk report at least on a quarterly basis, takes active part in the forward-looking own risk and solvency assessment (ORSA) process and ensures that risk management and monitoring are effective.

The Risk Management Function

The responsible person for the Risk Management Function is the Risk Manager. The Risk Manager is responsible for coordinating the risk management activities on behalf of the Management Board. The Risk Management Function supports the implementation of the Risk Management System within the Company.

Figure 4. Risk Management Function set-up and reporting structure



[1] Person responsible for the Risk Management Function

2. Capital Management

The Company focuses on capital efficiency and sound risk management, keeping its capital resources at an appropriate level in relation to the risks taken over the business planning horizon. This means ensuring that available capital (eligible own funds) exceeds the internal and regulatory capital requirements.

Capital should be managed to maintain financial strength, absorb losses to withstand adverse economic conditions as well as allow for growth opportunities and meet other risk management and business objectives.

The Company's risk profile, required capital and available capital are measured, analysed and reported at least quarterly to the Management Board and to the Supervisory Board.

Capital position

The capital position is the relationship between available capital (eligible own funds) and required capital. To fulfil requirements from various stakeholders, different measures are used to describe the capital position: the external regulatory capital measures include the minimum capital requirement and the solvency capital requirement and the internal measure is economic capital. If does not have subordinated debt or similar own funds items for which the restrictions could be applied.

In 2021, the Company met the regulatory minimum capital requirement and solvency capital requirement set out in the Solvency II regulation. This safeguards sustainable services for customers and ensures that all obligations taken by the Company can be met. For more information see Note 17.

3. Risk Profile

Underwriting risk

Underwriting risk is the risk of loss or of adverse changes in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.

The underwriting risk consists of premium, catastrophe and reserve risks.

PREMIUM RISK AND CATASTROPHE RISK

Premium risk is the risk of loss or of adverse changes in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events which have not occurred at the reporting date.

Catastrophe risk is the risk of loss or of adverse changes in the value of insurance liabilities, resulting from significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events.

Risk management and control

For managing and mitigating the premium and catastrophe risks, the Company uses reinsurance, diversification, prudent underwriting and regular follow-ups linked to the strategy and business plan.

The Underwriting Policy sets general principles and restrictions for underwriting activities. The Underwriting Policy is supplemented with the Baltic and country based guidelines which outline in greater detail how to conduct underwriting within each line of business.

In the Reinsurance Policy, there are limitations regarding allowed reinsurers and their ratings, concentration risk and single reinsurance counterparty exposure. The Company has excess of loss reinsurance cover for all main lines of business with the retention of €3.5 million per risk and per catastrophic event. The retention level and the adequacy of reinsurance treaties are analysed regularly, taking into account developments in the insurance business, such as the insurance of a single major asset, launch of new lines of business and changes in insurance terms and conditions.

Risk exposure

Given the inherent uncertainty of property and casualty insurance, there is the risk that due to claims losses may be higher than expected. Events that may cause this include large fires, natural catastrophes such as severe storms, floods or unforeseen increases in the frequency or the average size of small and medium-sized claims.

Sensitivity analysis

A sensitivity analysis of how changes in the combined ratio, premium volume and claims level affect profit before tax is presented in Table 1.

Table 1. Sensitivity analysis of premium risk as at 31 December 2021

€000				
Parameter	**Current level, 2021**	**Change**	**Effect on profit before tax**	
			2021	**2020**
Combined ratio	87.5%	+/-2% points	+/-3,121	+/-2,942
Premium volume	156,062	+/-2%	+/-391	+/-374
Claims level	97,405	+/-2%	+/-1,948	+/-1,826

RESERVE RISK

Reserve risk is the risk of loss, or of adverse changes in the value of insurance liabilities, resulting from fluctuations in the timing and amount of claim settlements for events that have occurred at or prior to the reporting date.

Reserve risk includes revision risk, which is defined as the risk of loss or of adverse changes in the value of insurance and reinsurance liabilities, resulting from fluctuations in the level, trend or volatility of revision rates applied to annuities, due to changes in the legal environment or in the state of health of the person insured.

Technical provisions always include a certain degree of uncertainty since they are based on estimates of the size and the frequency of future claim payments.

The uncertainty of technical provisions is normally greater for new lines of business for which complete run-off statistics are not yet available, and for lines of business including claims that take a long time to settle. Motor third party liability (MTPL) and liability insurance are products of the Company with claims that take a long time to settle.

Risk management and control

The Management Board of the Company adopts The Baltic Reserving Guideline. The Company's Appointed Actuary is responsible for developing and presenting guidelines on how the technical provisions are to be calculated and for assessing whether the level of provisions is sufficient.

The actuarial estimates are based on historical claims data and exposures that are available at the closing date. Factors that are monitored include claims development trends, the level of unpaid claims, changes in legislation, case law, economic conditions and product cover specific changes. When setting technical provisions, the Chain Ladder and Bornhuetter-Fergusson methods are generally used, combined with loss ratio expectations.

The anticipated inflation trend is taken into account explicitly in the calculation of the annuities of MTPL as it is of high importance for claims settled over a long period of time. In other areas, inflation estimates are implicitly based on the trends inherent in statistics.

Risk exposure

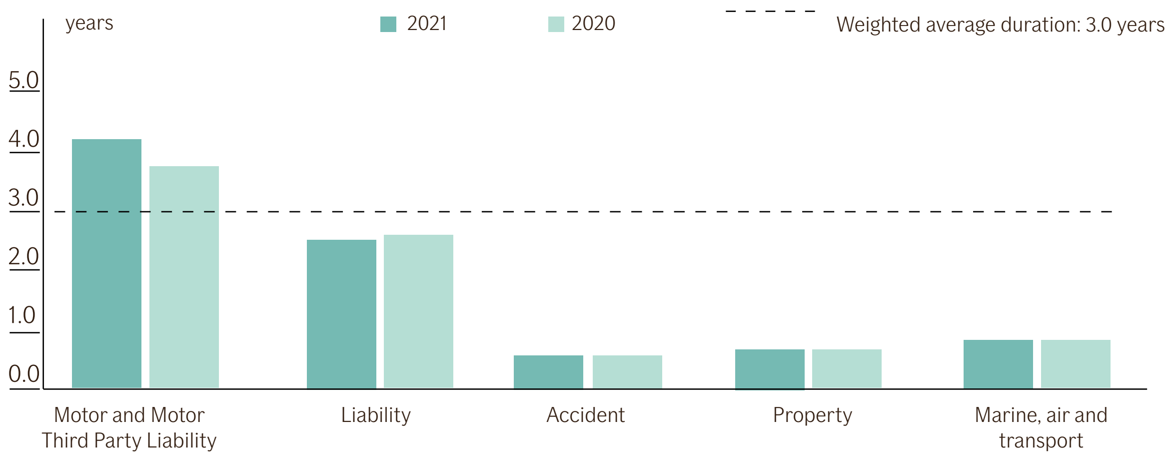
The amount of technical provisions broken down by line of business is shown in Table 2. The Company's technical provisions are dominated by short-tailed business. The contribution of the long-tail annuities related to the compulsory motor third party liability insurance have a relatively small impact.

Table 2. Technical provisions by line of business as at 31 December

€000						
Line of business	**Gross liabilities related to insurance contracts**		**Reinsurers' share of liabilities**		**Net liabilities**	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Compulsory MTPL	89,818	85,951	3,031	3,039	86,787	82,912
Motor Own Damage	34,341	29,398	-	-	34,341	29,398
Private Property	15,783	13,248	-	-	15,783	13,248
Corporate Property	25,646	22,724	721	554	24,925	22,170
Liability	29,392	29,373	2,420	2,122	26,972	27,251
Personal Accident	3,493	2,709	-	1	3,493	2,708
Health	4,659	4,014	-	-	4,659	4,014
Other	5,484	8,727	88	70	5,396	8,657
TOTAL	**208,616**	**196,144**	**6,260**	**5,786**	**202,356**	**190,358**

The durations of technical provisions for various lines of business are shown in Figure 5. The structure and duration of technical provisions are also sources of interest rate risk and inflation risk, which are described in greater detail under market risk.

Figure 5. Duration of technical provisions by lines of business as at 31 December



Sensitivity analysis

For several lines of business, technical provisions are sensitive to changes in inflation. A sensitivity analysis of reserve risk on 31 December is presented in Table 3.

Table 3. Sensitivity analysis of reserve risk as at 31 December

€000 Portfolio	Risk	Change in risk parameter	County	Effect on liabilities/ profit before tax 2021	2020
Nominal reserves	Increase in inflation rate	Increase by 1 percentage point	Estonia	2,810	1,744
			Latvia	812	451
			Lithuania	1,462	990
			TOTAL	**5,084**	**3,185**
Discounted reserves (annuities)	Decrease in discount rate	Decrease by 1 percentage point	Estonia	1,350	1,464
			Latvia	440	386
			Lithuania	166	76
			TOTAL	**1,956**	**1,926**

Market risk

Market risk is the risk of loss or of an adverse changes in the financial situation, resulting directly or indirectly, from fluctuations in the level or in the volatility of the market prices of assets, liabilities and financial instruments.

Risk management and control

The Investment Policy and the Baltic Investment Policy are the principal documents for managing the Company's market risks. They set out the guiding principles, for instance the prudent person principle, specific risk limits and the decision-making structure for investment activities.

The Company's overall risk appetite, risk tolerances, regulatory requirements and the nature of technical provisions are taken into account in deciding risk limits and setting return and liquidity targets. Market risk is monitored regularly and reported to the Management Board and to the Supervisory Board as part of the risk report, which is submitted at least quarterly.

Risk exposure

Market risk expresses the risks stemming from investment activities. The Company's investment strategy is conservative and the investment portfolio consists mainly of fixed income instruments.

The Company did not have any derivatives during the reporting period.

The Company's investment operations generated a return of 0.0% in 2021 (2020: 1.4%). The investment assets amounted as at the end of the reporting period to €276,198 thousand (2020: €296,496 thousand).

The main market risk is interest rate risk. The Company's exposure to equity and currency risks is not material. The exposure to market risk can be described through the allocation of investment assets and the sensitivity of values to changes in key risk factors.

Table 4. Allocation of investment assets

€000	31 Dec 2021	%	31 Dec 2020	%
Bonds and other interest-bearing securities	276,198	100%	291,490	98%
Loans and receivables (term deposits)	-	0%	5,006	2%
TOTAL	**276,198**	**100%**	**296,496**	**100%**

INTEREST RATE RISK

Interest rate risk refers to the sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates or in the volatility of interest rates.

Risk management and control

In accordance with the Company's Investment Policy and the Baltic Investment Policy, the interest rate risk and inflation risk of insurance commitments are to be taken into account in the structure of investment assets. Interest rate risk is managed by setting limits for instruments sensitive to interest rate changes.

The Company measures and monitors interest rate risk using the interest sensitive assets and liabilities difference method, while also applying different interest rate risk scenarios for the evaluation of possible losses arising from changes in interest rates. Interest rate risk is defined as potential loss arising from a parallel shift in the interest curve by 1%.

Sensitivity analysis

The table below reflects some of the key assumptions indicating the effect of potential changes when other factors remain constant. The analysis is based on the investment portfolio as at 31 December 2021 and as at 31 December 2020 and is calculated before taxes.

Table 5. Effect of an interest rate change on the investment portfolio

The Company's investment portfolio as at 31 December

€000	1% parallel shift in the interest curve 2021		2020	
	100 basis points up	100 basis points down	100 basis points up	100 basis points down
Effect on financial results	-7,985	8,293	-9,927	10,343

Risk exposure

Since technical provisions are predominantly stated at nominal value in the statement of financial position, the Company is mainly exposed to changes in future inflation rates. However, the economic value of technical provisions, meaning the present value of future claim payments, is exposed to changes in interest rates.

Furthermore, the technical provisions for annuities in Estonia, Lithuania and Latvia are discounted and potential changes in the discount rates affect, to some extent, the level of technical provisions in the Company's statement of financial position.

The duration of technical provisions and thus sensitivity to changes in interest rates are analysed in greater detail in the reserve risk section. The cash flows of financial assets and liabilities are presented in the liquidity risk section.

Variable interest rates on the investment assets are insignificant portion of the Companyś investment portfolio, more information is disclosed in Note 9.

The duration of bonds and other interest-bearing investments was 2.8 years at the end of 2021 (3.3 years at the end of 2020). The duration of those investments is shown in Table 6.

Table 6. Duration and breakdown of bonds and other interest-bearing investments per instrument type as at 31 December

	2021			2020		
€000	**Carrying amount**	**%**	**Duration in years**	**Carrying amount**	**%**	**Duration in years**
Euro credit (excl. Scandinavian)	146,608	53.1%	2.9	176,605	59.6%	3.3
Scandinavian credit	76,502	27.7%	2.7	67,254	22.7%	3.6
US credit	9,261	3.4%	3.0	31,190	10.5%	3.1
Short-term fixed income (incl. Scandinavian)	28,091	10.2%	0.0	5,006	1.7%	0.0
Global credit	13,679	5.0%	1.8	13,802	4.7%	2.8
EU government bonds	2,056	0.7%	4.4	2, 639	0.9%	5.2
TOTAL	**276,198**	**100%**	**2.8**	**296,496**	**100%**	**3.3**

EQUITY RISK

Equity risk refers to the sensitivity of the values of assets and financial instruments to changes in the level or in the volatility of the market prices of equities.

Risk exposure

The Company is not exposed to equity risk. According to the Investment Policy and Baltic Investment Policy, it is not allowed to invest in equity instruments. The only equity investment is an investment in a wholly-owned subsidiary (Support Services AS), which is not subject to the risk of movements in the market prices of equities.

CURRENCY RISK

Currency risk refers to the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates.

Risk exposure

Exposure to currency risk is insignificant. The majority of the Company's technical provisions and all financial investments of the Company are in euros.

Credit risk

Credit risk means the risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to whom the Company is exposed through counterparty default risk, spread risk or market risk concentrations.

Spread risk refers to the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure.

In general, credit risk refers to losses arising from occurred defaults of debtors or other counterparties or from increases in the assumed probability of defaults. In the case of default, the final loss depends on the value of the asset less any collateral and recoveries at the time of default.

CREDIT RISK IN INVESTMENT OPERATIONS

The Company's main credit risk stems from investments. In investment operations, credit risk can be measured as counterparty default risk and spread risk. In most cases part of credit risk is already reflected in a higher spread and thereby the asset has a lower market value, even in the case of no default. Therefore, the spread is in essence the market price of credit risk.

Additional risk, stemming either from lack of diversification in the asset portfolio or from a high concentration of the risk of default by (i) a single issuer of securities or (ii) a group of related issuers not captured by spread risk or counterparty default risk, is measured as concentration risk.

Risk management and control

Credit risk in investment operations is managed by specific limits set out in the Investment Policy and the Baltic Investment Policy. In these documents, limits are set for maximum exposures to single issuers, types of debt category and rating classes. Spread risk is further limited by sensitivity restrictions for instruments sensitive to spread changes.

Before investing, potential investments are analysed thoroughly. The creditworthiness and future outlook of the issuer are assessed together with any security or collateral as well as structural details of the potential investment. Internal risk indicators are critical factors in the assessment. However, the macroeconomic environment, current market trends and external opinions of analysts and credit ratings by rating agencies are also taken into account. In addition, portfolio performance and the counterparties' credit standings are monitored continuously.

The development of the portfolios with respect to credit risk is monitored at the Company level and reported to the Management Board and to the Supervisory Board as a part of the quarterly risk report. Credit risk exposures are reported by ratings, instruments and industry sectors.

Risk exposure

The Company's credit risk exposures arise from fixed income investments. A large part of the Company's fixed income investments is concentrated in financial institutions, whereof the majority are in the Nordic area.

The exposures are shown by sector, asset class and rating category in Table 7.

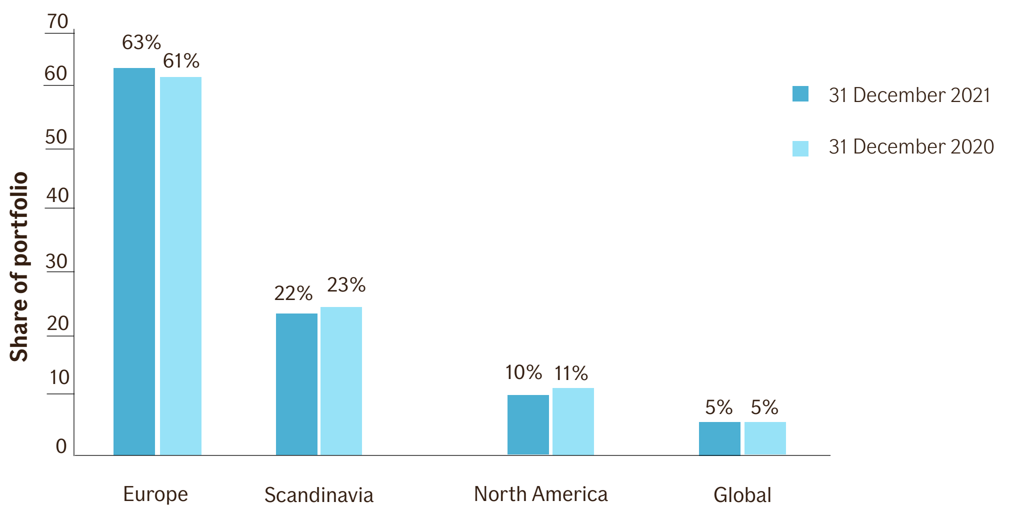
Table 7. Credit risk exposures by sectors, asset classes and ratings as at 31 December

2021 **€000**	**AAA**	**AA+- AA-**	**A+ - A-**	**BBB+- BBB-**	**BB+ - C**	**Non-rated**	**Fixed income total**
Basic Industry	-	-	-	3,163	-	6,147	**9,310**
Capital Goods	-	-	1,151	7,694	-	5,579	**14,424**
Consumer Products	-	1,052	9,749	11,668	944	-	**23,413**
Covered Bonds	6,083	-	-	-	-	-	**6,083**
Energy	-	-	-	-	-	14,112	**14,112**
Financial Institutions	-	20,328	38,778	46,356	-	-	**105,462**
Governments	-	2,571		-	-	-	**2,571**
Health Care	-	-	1,041	4,115	-	1,510	**6,666**
Insurance	-	-	4,027	4,006	-	-	**8,033**
Media	-	-	-	-	-	2,020	**2,020**
Others	-	-	-	-	-	2,516	**2,516**
Packaging	-	-	-	-	-	3,049	**3,049**
Real Estate	-	-	-	18,190	-	10,341	**28,531**
Services	-	-	-	8,997	-	8,979	**17,976**
Technology and Electronics	-	-	1,010	7,057	1,060	1,055	**10,182**
Telecommunications	-	-	2,054	10,070	-	-	**12,124**
Transportation	-	-	1,046	-	-	-	**1,046**
Utilities	-	-	1,522	4,104	3,054		**8,680**
TOTAL	**6,083**	**23,951**	**60,378**	**125,420**	**5,058**	**55,308**	**276,198**

2020 €000	AAA	AA+- AA-	A+ - A-	BBB+- BBB-	BB+ - C	Non- rated	Fixed income total
Basic Industry	-	-	-	3,210	-	7,685	**10,895**
Capital Goods	-	-	1,176	7,744	-	10,740	**19,660**
Consumer Products	-	1,076	7,335	21,494	945	-	**30,849**
Covered Bonds	6,144	-	-	-	-	-	**6,144**
Energy	-	-	-	-	-	11,003	**11,004**
Financial Institutions	-	20,516	30,149	67,606	2,000	-	**120,271**
Governments	-	2,639	-	-	-	-	**2,639**
Health Care	-	-	1,059	5,185	-	501	**6,745**
Insurance	-	-	3,956	-	-	-	**3,956**
Packaging	-	-	-	-	-	3,026	**3,026**
Real Estate	-	-	5,719	19,030	-	10,250	**34,999**
Services	-	-	-	3,570	152	4,083	**7,805**
Technology and Electronics	-	-	1,015	7,139	1,079	1,043	**10,276**
Telecommunications	-	-	2,098	10,934	-	-	**13,032**
Transportation	-	-	-	2,074	-	-	**2,074**
Utilities	-	-	1,535	4,166	2,893	-	**8,594**
Other	-	2,005	-	-	-	2,522	**4,527**
TOTAL	**6,144**	**26,236**	**54,042**	**152,152**	**7,069**	**50,853**	**296,496**

The distribution of bonds and other interest-bearing securities related to credit risks according to geographic region is presented in the Figure 6 below.

Figure 6. Division of interest bearing securities by geographical areas



CREDIT RISK IN INSURANCE OPERATIONS

In addition to the credit risk associated with investment assets, credit risk arises from insurance operations through ceded reinsurance. Credit risk related to reinsurers arises from reinsurance receivables and the reinsurers' share of technical provisions.

The Company's credit risk exposure to policyholders and intermediaries is very limited, because nonpayment of premiums generally results in the cancellation of insurance policies and the debt management process is systematically monitored.

Risk management and control

To limit and control credit risk associated with ceded reinsurance, the Company has a Reinsurance Policy that sets requirements for reinsurers' minimum credit ratings and the maximum exposure to individual reinsurers. Credit ratings from rating agencies are used to determine the creditworthiness of reinsurance companies.

Risk exposure

The main credit risk in insurance operations stems from reinsurance recoverables (reinsurance receivables and reinsurers' share of technical provisions). The distribution of reinsurance recoverables is presented in Table 8. Most of the exposures are to reinsurers with AA and A ratings and non-rated exposure is very limited mainly because historical claims were reinsured via a pool managed by the Estonian Motor Bureau.

Table 8. Reinsurance recoverables per credit rating category as at 31 December

€000 Rating (S&P)	2021	%	2020	%
AA	1,028	15.7%	747	12.6%
A	4,997	76.3%	4,781	80.4%
NR	526	8.0%	417	7.0%
TOTAL	**6,551**	**100%**	**5,945**	**100%**

Liquidity risk

Liquidity risk is the risk that the Company is unable to realise investments and other assets in order to settle its financial obligations when they fall due.

Risk management and control

In property and casualty insurance, premiums are collected in advance and large claims payments are usually known long before they fall due, thus limiting the liquidity risk. Additionally, the investment portfolio duration is kept short to support liquidity.

The main objective in liquidity management is to ensure the Company's ability to fulfil all its obligations arising from insurance contracts and insurance activities in a timely manner. To identify liquidity risk, expected cash flows from investment assets and technical provisions are analysed regularly, taking into account both normal and stressed market conditions. Liquidity risk is reduced by holding investments that are readily marketable in liquid markets. The accounting department manages liquidity risk on a day-to-day basis.

Risk exposure

The COVID-19 outbreak in 2021 has not had material effect on the Company liquidity risk.

The maturities of cash flows for technical provisions, financial assets and liabilities are presented in Table 9.

For financial assets and liabilities the exact contractual maturity profile is presented. In addition, the table shows expected cash flows for net technical provisions, which are inherently associated with a degree of uncertainty.

Table 9. Maturities of cash flows of financial assets, liabilities and net technical provisions

31 Dec 2021	Carrying amount		Cash flows							
€000	Carrying amount	Without maturity	With contractual maturity	2022	2023	2024	2025	2026	2027-2036	2037-
Financial assets	391,550	79,085	312,465	59,000	63,559	80,765	37,242	42,681	32,983	-
Financial liabilities	15,593	-	15,593	15,593	-	-	-	-	-	-
Lease liabilities	3,471	-	3,471	994	735	340	340	340	737	-
Net technical provisions	202,356	-	202,356	120,128	23,878	14,295	9,700	6,689	17,776	9,890

31 Dec 2020	Carrying amount		Cash flows							
€000	Carrying amount	Without maturity	With contractual maturity	2021	2022	2023	2024	2025	2026-2035	2036-
Financial assets	381,199	53,525	327,674	49,570	36,490	69,954	79,600	37,052	58,217	-
Financial liabilities	14,426	-	14,426	14,426	-	-	-	-	-	-
Lease liabilities	2,779	-	2,779	1,367	883	539	-	-	-	-
Net technical provisions	190,358	-	190,358	105,522	22,459	14,869	10,781	7,792	23,181	5,754

Concentration risk

Concentration risk is all risk concentrations to a single counterparty, industry sector or geographic region with a material loss potential that is not captured by any other risk type.

Risk management and control

The Company's Underwriting Policy, Investment Policy, Baltic Investment Policy and Reinsurance Policy set out limits for maximum exposures to single counterparties and rating classes.

Risk exposure

The Company provides insurance services across multiple lines of business in three Baltic countries with different legislation and competition environments. Therefore, the insurance portfolio and operations of the insurance business can be regarded diversified. Concentrations of risks in the Company's insurance portfolio may arise as a result of natural catastrophes such as storms and floods that affect the three Baltic countries simultaneously. The risk exposure and the management and control of this risk is described in more detail in the premium risk and catastrophe risk section above.

The main concentration risk exposure for the Company stems from investments. Investments are mainly concentrated in the financial sector. Concentrations are illustrated in Table 7 in the credit risk section. The largest market and credit risk concentrations related to individual counterparties are shown in the table below.

Table 10. Concentrations of market and credit risks by counterparties and asset classes as at 31 December

2021 €000	Term deposits	Other interest-bearing securities	**Total**
OP Yrityspankki Oyi	-	11,190	**11,190**
Tornator Oyi	-	8,285	**8,285**
Toronto DOM Bank	-	8,133	**8,133**
Swedbank STO	-	8,045	**8,045**
Neste Oil OYJ	-	7,665	**7,665**
Total top five exposures	**-**	**43,317**	43,317

2020 €000	Deposits	Other interest-bearing securities	**Total**
OP Yrityspankki Oyi	-	11,334	**11,334**
Swedbank AB	-	10,109	**10,109**
Danske Bank A/S, Copenhagen	-	9,259	**9,259**
Luminor Bank AS	5,006	3,855	**8,861**
Tornator Oyi	-	8,247	**8,247**
Total top five exposures	**5,006**	**42,804**	**47,810**

The five largest exposures amount to €43,317 thousand (2020: €42,804 thousand), representing 15.7% (2020: 16.1%) of the financial investments under active management.

Operational risk

Operational risk is the risk of loss arising from inadequate or failed processes or systems, from personnel, or from external events (expected or unexpected).

The definition includes legal risk that can be described as the risk of loss due to (i) disputes not related to insurance claims, (ii) breach of contract or entry into illegal contracts or (iii) breach of intellectual property rights.

Risk management and control

The Company identifies operational risks through different processes:

- Operational and Compliance Risk Assessment Process. Operational and Compliance Risk Assessment process is conducted by each unit as a self-assessment twice per year. Based on this assessment the second line of defence assesses operational risks from the Company's perspective. The risk levels are monitored on a continuous basis and reported regularly to the Management and Supervisory Boards of the Company.
- Incident reporting process. Operational incidents are reported via a web-based system. The incidents are analysed by the Risk Management Function to determine the areas needing improvements. Information on incident trends and severe impacts is included in the quarterly risk report.
- Business Continuity Management. Business Continuity Management is implemented to ensure the organisation's capability to manage business interruptions and crises situations effectively. Business continuity exercises are carried out regularly in each country. The test, actual crisis and business interruptions results are analysed and improved actions are included in the IT Disaster Recovery Plans and Business Continuity Plans. An overview of continuity management exercises and their results is presented to the Management and Supervisory Boards regularly.

The main internal guidelines to manage the operational risks are Baltic Risk Management Guideline, Operational Risk Policy, Security Policy, Baltic Business Continuity Management Guideline, Outsourcing Policy and Complaints Handling Policy.

Risk exposure

The Company's daily insurance operations are heavily dependent on the functioning of IT systems and infrastructure. Therefore, the most material operational risk exposure may arise from IT systems and software developments. As a result of extensive digitalisation, the company is exposured to cyber threats.

Other risks

COMPLIANCE RISK

Compliance risk is the risk of legal or regulatory sanctions, material financial losses or loss to reputation as a result of not complying with applicable rules and regulations.

Risk management and control

The Company aims to achieve an integrated compliance culture. The first line of defence owns and manages their compliance risks in the daily activities and reports to the second line of defence.

Practical compliance risks in the business are identified within the Operational and Compliance Risk Assessment process and incidents are reported through the incident reporting process similarly to operational risks and incidents. Additionally, compliance monitoring activities in particular fields of compliance topics are carried out when necessary.

Identified risks are assessed from a severity perspective, taking into account their likelihood and impact and reported quarterly to the Management Board and the Supervisory Board.

REPUTATIONAL RISK

A reputational risk is often a consequence of a materialised operational or compliance risk and is defined as potential damage to the Company through the deterioration of its reputation amongst customers and other stakeholders.

A good reputation is vital for an insurance company, which means that trust is an important factor in the Company's relationship with its customers, employees and other stakeholders. The Company's reputation is determined by how stakeholders perceive the Company and its activities.

Risk management and control

When assessing operational and compliance risks, the reputational consequence of a materialised risk is taken into account. Additionally, media incidents are reported by the Communication Managers in Estonia, Latvia and Lithuania at least twice per year to the Risk Manager. Reputational risk is analysed and reported at least twice per year to the Management Board and to the Supervisory Board along with the regular risk reporting.

Since operational and other risks may evolve into reputational risks if not handled correctly, the communication department continuously works to ensure that all employees are aware of the importance of maintaining a good reputation and understand how to deal with potential reputational risks. Information about the Company in the media, traditional as well as social, is followed closely as are possible customer complaints in order to act appropriately.

STRATEGIC RISK

Strategic risk is defined as the risk of losses due to changes in the competitive environment, changes in the overall economic climate or internal inflexibility.

Risk management and control

Strategic risks are evaluated quarterly in addition to the annual assessment during the yearly financial planning process. The development of the identified material strategic risks are reported quarterly to the Management Board and the Supervisory Board. The strategic risks and their mitigation are regularly followed up.

The main techniques used to mitigate strategic risks include the implementation of management actions based on the risk development.

EMERGING RISK

Emerging risks are newly developing or changing risks that are difficult to quantify and which may have a major impact on the Company.

Risk management and control

Emerging risks are identified and assessed on the basis of their likelihood and impact at least twice per year. The monitoring of the development of emerging risks is a continuous process. The risks assessed as the most serious are reported twice a year as a part of the regular risk report.

Risk exposure

The risks that are under extra observation are cyber risks, nanotechnology, lack of adaption to climate change, Internet of Things (IoT), self-driving vehicles, critical infrastructure blackouts and supply chain disruption.

4. Solvency II

Detailed information about the Company's risks based on the Solvency II regulation is provided in the Solvency and Financial Condition Report, which is available on the Company's website.

Note 3. Premiums earned, net of reinsurance

€000	2021	2020
Premiums written, gross	168,756	152,242
Change in the provision for unearned premiums	-8,330	-1,936
Premiums earned, gross	**160,426**	**150,306**
Reinsurance premiums	-4,513	-3,509
Change in the provision for unearned premiums	149	304
Premiums ceded	**-4,364**	**-3,205**
TOTAL	**156,062**	**147,101**

Note 4. Investment result

€000	2021	2020
INTEREST INCOME/EXPENSE ON:		
Available-for-sale financial assets		
Bonds and other interest-bearing securities	2,974	2,988
Loans and receivables		
Term deposits	-	7
Cash and cash equivalents	1	1
Lease liabilities	-8	-10
TOTAL	**2,967**	**2,986**

GAIN FROM THE DISPOSAL OF:		
Available -for-sale financial assets		
Bonds and other interest-bearing securities	506	263
TOTAL	**506**	**263**

€000	2021	2020
GAIN/LOSS FROM THE CHANGE IN THE FAIR VALUE OF:		
Exchange rate changes	-67	-50
TOTAL	**-67**	**-50**
Investment expenses	-884	-947
TOTAL INVESTMENT RESULT	**2,521**	**2,252**

Reconciliation of the fair value reserve of available-for-sale financial assets		
Opening balance, available-for-sale financial assets	**7,268**	**5,088**
Changes in fair value during the year, recognised in other comprehensive income	-2,052	2,443
Realised gain recognised in profit or loss as a reclassification adjustment	-506	-263
Closing balance, available-for-sale financial assets	**4,710**	**7,268**
Change in the fair value reserve of available-for-sale financial assets during the year	-2,558	2,180

Note 5. Claims incurred, net of reinsurance

€000	2021	2020
Gross		
Claims paid related to the reporting period	-77,063	-64,252
Claims paid related to previous periods	-22,030	-20,653
Amounts recovered from salvage and subrogation	9,900	8,550
Change in the provision for claims outstanding	-4,142	-10,915
Claims handling expenses (Note 6)	-4,681	-4,476
TOTAL	**-98,016**	**-91,746**
Reinsurers' share		
Claims paid related to the reporting period	104	67
Claims paid related to previous periods	181	25
Change in the provision for claims outstanding	326	357
TOTAL	**611**	**449**
Net		
Claims paid related to the reporting period	-76,959	-64,185
Claims paid related to previous periods	-21,849	-20,628
Amounts recovered from salvage and subrogation	9,900	8,550
Change in the provision for claims outstanding	-3,816	-10,558
Claims handling expenses (Note 6)	-4,681	-4,476
TOTAL	**-97,405**	**-91,297**

Note 6. Expenses

€000	2021	2020
Salaries and remuneration	-19,496	-18,454
Social security costs	-4,073	-3,939
Other personnel expenses	-1,522	-1,279
Total personnel expenses	**-25,091**	**-23,672**
Commissions to intermediaries	-9,301	-9,089
Data processing	-2,999	-2,731
Expenses on premises	-1,976	-2,159
Office expenses (incl. communication expenses)	-671	-692
Other operating expenses	-4,124	-3,529
TOTAL	**-44,162**	**-41,872**
Division of costs on the basis of function		
Insurance contract acquisition costs	-24,569	-23,421
Administrative expenses	-14,912	-13,975
Claims handling expenses (Note 5)	-4,681	-4,476
TOTAL	**-44,162**	**-41,872**

Note 7. Receivables related to insurance activities and bad debts

€000	31 Dec 2021	31 Dec 2020
Receivables related to direct insurance activities, incl.	35,849	30,947
- policyholders	30,658	26,846
- intermediaries	2,776	2,263
- subrogation with significant recoverability	1,680	1,362
- salvages	331	279
- other	404	197
Receivables related to reinsurance	291	159
- incl. from related parties (Note 18)	29	-
Other receivables	127	72
TOTAL	**36,267**	**31,178**

€000	31 Dec 2021	31 Dec 2020
Maturity analysis of receivables		
Neither past-due nor impaired:		
- not due yet (due within 1 year)	34,889	30,082
Past due but not impaired:		
- past due for 0-3 months	1,113	983
- past due for 3-6 months	123	42
- past due for 6-12 months	34	34
- past due for over 1 year	108	37
TOTAL	**36,267**	**31,178**

CHANGE IN BAD DEBT PROVISION

€000	Individually impaired	Collectively impaired	Total
At 1 January 2020	**-175**	**-72**	**-247**
Realised losses during the year	24	-	24
Unused amounts reversed during the year	273	-	273
Additions	-273	-	-273
Change in general provisions	-	26	26
At 31 December 2020	**-151**	**-46**	**-197**
Realised losses during the year	128	-	128
Unused amounts reversed during the year	277	-	277
Additions	-302	-	-302
Change in general provisions	-	2	2
At 31 December 2021	**-48**	**-44**	**-92**

Note 8. Accrued income and prepaid expenses

€000	31 Dec 2021	31 Dec 2020
Deferred acquisition costs (including reinsurers' share)	3,794	3,358
Prepaid expenses	709	645
Corporate income tax (Note 15)	48	-
TOTAL	**4,551**	**4,003**

DEFERRED ACQUISITION COSTS		**2021**	
€000	**Deferred acquisition costs (gross)**	**Reinsurers' share of acquisition costs**	**Deferred acquisition costs (net)**
Balance as at January 1	**3,422**	**-64**	**3,358**
Acquisition costs deferred during the year	9,534	-279	9,254
Amortisation of previously deferred acquisition costs	-9,069	250	-8,818
Balance as at December 31	**3,887**	**-93**	**3,794**

DEFERRED ACQUISITION COSTS		**2020**	
€000	**Deferred acquisition costs (gross)**	**Reinsurers' share of acquisition costs**	**Deferred acquisition costs (net)**
Balance as at January 1	**3,385**	**-62**	**3,323**
Acquisition costs deferred during the year	8,825	-201	8,624
Amortisation of previously deferred acquisition costs	-8,788	199	-8,589
Balance as at December 31	**3,422**	**-64**	**3,358**

Note 9. Financial investments

€000	31 Dec 2021	31 Dec 2020
Available-for-sale financial assets		
Bonds and other interest-bearing securities		
- listed	267,599	280,211
- unlisted	8,599	11,279
Incl. with a floating interest rate	8,224	4,226
Incl. with a fixed interest rate (0.0-3.75%)	267,974	287,264
TOTAL	**276,198**	**291,490**
Loans and receivables		
Term deposits	-	5,006
TOTAL FINANCIAL INVESTMENTS	**276,198**	**296,496**

AVAILABLE-FOR-SALE FINANCIAL ASSETS

€000	2021	2020
Balance at 1 January	**291,490**	**303,418**
Bonds and other interest-bearing securities		
Purchase	18,907	85,379
Sale	-31,572	-99,850
Change in fair value recognised in other comprehensive income	-2,558	2,180
Change in accrued interest	-69	363
Balance at 31 December	**276,198**	**291,490**

LOANS AND RECEIVABLES

€000	2021	2020
Balance at 1 January	**5,006**	**15,018**
Term deposits		
Purchase	-	5,000
Maturity	-5,000	-15,000
Change in accrued interest	-6	-12
Balance at 31 December	**-**	**5,006**

BONDS AND OTHER INTEREST-BEARING SECURITIES BY MATURITY TERMS

€000	31 Dec 2021	31 Dec 2020
Up to 1 year	20,184	10,530
1-2 years	62,109	34,251
2-5 years	160,957	187,426
5-10 years	32,948	59,283
TOTAL	**276,198**	**291,490**

DEPOSITS BY MATURITY TERMS

€000	31 Dec 2021	31 Dec 2020
Up to 6 months	-	5,006
6-12 months	-	-
TOTAL	**-**	**5,006**

BONDS WITH A FIXED INTEREST RATE, BY INTEREST RATES

€000	31 Dec 2021	31 Dec 2020
Interest rate: 0.0-0.9%	121,538	130,472
Interest rate: 1.0-1.9%	127,069	134,354
Interest rate: 2.0-2.9%	18,423	21,493
Interest rate: 3.0-3.9%	944	945
TOTAL	**267,974**	**287,264**

THE CLASSIFICATION OF FINANCIAL INVESTMENTS IN ACCORDANCE WITH IAS 39

€000	31 Dec 2021 Fair value	31 Dec 2021 Acquisition cost	31 Dec 2020 Fair value	31 Dec 2020 Acquisition cost
Available-for-sale financial assets				
Bonds and other interest-bearing securities	276,198	269,533	291,490	282,198
Loans and receivables				
Term deposits	-	-	5,006	5,000
TOTAL FINANCIAL ASSETS	**276,198**	**269,533**	**296,496**	**287,198**

FINANCIAL INVESTMENT ASSETS AT FAIR VALUE

A careful process is followed and controls are performed in order to ensure correct fair values of financial assets and liabilities. For example, controls are carried out by several different external sources and assessments of abnormal price changes are performed when necessary.

Different valuation methods are used to determine fair value depending on the type of financial instruments and to what extent they are traded on active markets. The valuation of bonds is usually based on prices from Bloomberg. For a limited portion of assets, value is determined using other techniques. The fair value of unlisted financial assets is determined on the basis of similar market transactions or, if no such transactions have been made, on the basis of the value determined by using generally accepted valuation techniques.

Financial instruments measured at fair value have been categorised to three hierarchy levels depending on their liquidity and valuation methods. Hierarchy levels are checked quarterly and if circumstances have changed, the instrument in question is transferred to the correct hierarchy level. The categorisation of the fair values of financial assets is shown in Table 11.

Table 11. Determination of the hierarchy of fair value

€000 At 31 December 2021	Level 1	Level 2	Total fair value
Available-for-sale financial assets			
Debt securities	263,089	13,109	276,198

At 31 December 2020	Level 1	Level 2	Total fair value
Available-for-sale financial assets			
Debt securities	277,645	13,845	291,490

Level 1 – Financial assets and liabilities with values based on quoted prices in active markets for identical assets or liabilities.

Quoted prices in active markets are considered the best estimate of an asset's fair value. An active market is typically characterised by quoted prices that are easily and regularly available and that represent actual and regularly occurring arm's length transactions. In order to evaluate the activity in a market with respect to frequency and volume, the Company uses information compiled and published by Bloomberg.

Assets in the category include interest-bearing assets (including government guaranteed bonds) that have a quoted price in an active market at the time of valuation.

Level 2 - Financial assets and liabilities with values based on quoted prices or other directly or indirectly observable market data.

In level 2 of the hierarchy all essential inputs are observable either directly or indirectly. The large majority of the instruments in level 2 are traded in a market with daily quoted prices and regularly occurring market transactions but where the market is not considered to be active enough regarding frequency and volume.

A very limited part of the instruments are model valued with the help of market data that is indirectly observable, meaning that prices can be derived from observable markets where market interest rates and underlying rates normally are updated daily or, in exceptional cases, at least on a monthly basis.

Instruments which are categorised to level 2 include interest-bearing assets where the market is not active nough such as corporate bonds and certificates of deposit.

Level 3 - Financial assets and liabilities which are traded on an illiquid market, with non-observable market data or indications of trading levels without any actual trade.

When neither quoted prices in active markets nor observable market data are available, the fair value of financial instruments is based on valuation techniques which are based on non-observable market data.

Level 3 comprises unquoted instruments and distressed assets.

There were no level 3 financial instruments measured at fair value in the portfolio as at 31 December 2021 and 2020.

The classification of financial investments in accordance with IFRS 9

In accordance with the requirements of IFRS 4, insurance companies that have decided to delay the implementation of IFRS 9 until 2023 must provide certain disclosures regarding fair value and changes in fair values. These disclosures have to be made separately for two groups of financial assets.

Since such a grouping presupposes an assessment of the Company's future business model for the administration of financial assets, the Company has chosen to assume that the business model will be such that nearly all assets are measured at fair value through profit or loss. This does not rule out the possibility that another assessment may be made upon the initial application of IFRS 9.

The following presents the year-end fair value and change in the fair value during the year of financial assets, which according to IFRS 9 are expected to be classified to one of the following categories: financial assets measured at fair value through profit or loss and financial assets measured at amortised cost.

	Fair value		
€000	**31 Dec 2021**	**31 Dec 2020**	**Change in fair value**
Available-for-sale financial assets			
Bonds and other fixed income securities	276,198	291,490	-15,292
Financial assets at amortised cost			
Term deposits	-	5,006	-5,006
FINANCIAL ASSETS TOTAL	**276,198**	**296,496**	**-20,298**

Note 10. Property, plant and equipment

€000	Right-of-use: Buildings	Other PPE	Total
Net book value as at 31 December 2019	**3,915**	**650**	**4,565**
Acquisition	209	205	414
Write-off	-	-851	-851
Disposal	-	-35	-35
Acquisition cost as at 31 December 2020	5,389	1,578	6,967
- incl. fully depreciated items	-	873	873
Depreciation charge for the year	-1,356	-319	-1,675
Depreciation charge of sales and disposals	-	741	741
Accumulated depreciation as at 31 December 2020	-2,621	-1,186	-3,807
Net book value as at 31 December 2020	**2,768**	**392**	**3,160**
Acquisition	1,936	60	1,996
Write-off		-365	-365
Disposal		-12	-12
Acquisition cost as at 31 December 2021	7,325	1,262	8,587
- incl. fully depreciated items		947	947
Depreciation charge for the year	-1,227	-151	-1,378
Depreciation charge of sales and disposals		240	240
Accumulated depreciation as at 31 December 2021	-3,848	-1,098	-4,946
Net book value as at 31 December 2021	**3,477**	**164**	**3,641**

Property, plant and equipment includes right-of-use assets related to leased properties that do not meet the definition of investment property.

Lease contracts where the Company acts as lessee mainly pertain to premises, vehicles and office equipment. Right of use assets relate to lease contracts for large office premises.

The Company leases premises for its own use. The expected lease term varies from 1 to 7 years. Some contracts include an option to extend the contract at the end of the term for up to 3 or 5 years.

Variable lease payments are linked to consumer price indexes.

Expenses relating to lease contracts not recognized in the statement of financial position amount to €360 thousand in 2021 (€400 thousand in 2020).

For more information on leases, please refer to Note 1 “Significant accounting policies and measurement bases” and Note 12 “Lease liabilities”.

Note 11. Liabilities related to insurance activities

€000	31 Dec 2021	31 Dec 2020
Liabilities related to direct insurance activities, incl.	**5,653**	**5,620**
- policyholders	3,845	3,788
- intermediaries	1,670	1,712
- others	138	120
Liabilities related to reinsurance	1,917	1,895
- incl. from related parties (Note 18)	913	1,222
Other liabilities	135	129
- incl. from related parties (Note 18)	68	75
TOTAL	**7,705**	**7,644**
Terms of liabilities related to insurance activities		
Up to 12 months	7,705	7,644

Note 12. Lease liabilities

Reconciliation of movements in lease liabilities to cash flows arising from financing activities

€000	2021	2020
Opening balance	**2,779**	**3,922**
Cash flows - Repayment of lease liabilities	-1,244	-1,353
Cash flows - Interest paid on lease liabilities	-8	-10
Non-cash changes - modifications to existing lease contracts	1,936	209
Non-cash changes - Interest expense	8	10
Closing balance [1]	**3,471**	**2,779**

[1] of which €989 thousand (€1,017 thousand in 2020) matures within 12 months and €2,482 thousand (€1,417 thousand in 2020) matures later than 12 months after the reporting date.

The total cash outflow for leases amounted to €1,611 thousand (€1,762 thousand in 2020), including payments for lease contracts not recognised in the statement of financial position, see Note 10.

For more information on leases, please refer to Note 1 “Significant accounting policies and measurement bases” and Note 10 “Property, plant and equipment”.

Note 13. Accrued expenses and deferred income

€000	**31 Dec 2021**	**31 Dec 2020**
Variable compensation reserve (incl. taxes)	3,198	2,658
Unused vacation pay liability (incl. taxes)	1,284	1,263
Employee-related liabilities	770	716
Taxes payable	529	586
- incl. corporate income tax	-	132
Other accrued expenses	2,066	1,485
- incl. from related parties (Note 18)	68	169
TOTAL	**7,847**	**6,708**

Terms of accrued expenses and deferred income		
Up to 12 months	7,847	6,708

Note 14. Liabilities arising from insurance contracts and reinsurance assets

€000	31 Dec 2021	31 Dec 2020
Gross		
Provision for incurred and reported claims and claims handling expenses	107,640	96,616
Provision for incurred but not reported claims	28,089	34,971
Provision for unearned premiums	72,887	64,557
TOTAL	**208,616**	**196,144**
Reinsurers' share		
Provision for incurred and reported claims and claims handling expenses	4,889	4,599
Provision for incurred but not reported claims	270	235
Provision for unearned premiums	1,101	952
TOTAL	**6,260**	**5,786**
Net		
Provision for incurred and reported claims and claims handling expenses	102,751	92,017
Provision for incurred but not reported claims	27,819	34,736
Provision for unearned premiums	71,786	63,605
TOTAL	**202,356**	**190,358**

€000		**2021**	
Provision for claims incurred and reported, claims incurred but not yet reported (IBNR) and claims handling expenses	**Liabilities arising from insurance contracts**	**Reinsurers' share of liabilities**	**Net**
Balance as at January 1	**131,587**	**-4,834**	**126,753**
Change in the provision for claims outstanding for claims incurred but not yet settled, related to current year	35,540	-452	35,088
Change in the provision for claims outstanding for claims incurred but not yet settled, related to previous years	-23,648	162	-23,486
Change in the provision for claims incurred but not reported, related to current year	8,439	-53	8,386
Change in the provision for claims incurred but not reported, related to previous years	-16,365	18	-16,347
Change in the provision for claims handling expenses	176	-	176
Balance as at December 31	**135,729**	**-5,159**	**130,570**

€000		2020	
Provision for claims incurred and reported, claims incurred but not yet reported (IBNR) and claims handling expenses	**Liabilities arising from insurance contracts**	**Reinsurers' share of liabilities**	**Net**
Balance as at January 1	**120,672**	**-4,467**	**116,205**
Change in the provision for claims outstanding for claims incurred but not yet settled, related to current year	25,121	-338	24,783
Change in the provision for claims outstanding for claims incurred but not yet settled, related to previous years	-14,460	-15	-14,475
Change in the provision for claims incurred but not reported, related to current year	9,795	-46	9,749
Change in the provision for claims incurred but not reported, related to previous years	-9,670	42	-9,628
Change in the provision for claims handling expenses	129	-	129
Translation difference	-	-10	-10
Balance as at December 31	**131,587**	**-4,834**	**126,753**

€000		2021	
Provision for unearned premiums	**Liabilities arising from insurance contracts**	**Reinsurers' share of liabilities**	**Net**
Balance as at January 1	**64,557**	**-952**	**63,605**
Premiums written during the year	168,756	-4,513	164,243
Premiums earned during the year	-160,426	4,364	-156,062
Balance as at December 31	**72,887**	**-1,101**	**71,786**

€000		2020	
Provision for unearned premiums	**Liabilities arising from insurance contracts**	**Reinsurers' share of liabilities**	**Net**
Balance as at January 1	**62,620**	**-647**	**61,973**
Premiums written during the year	152,243	-3,510	148,733
Premiums earned during the year	-150,306	3,205	-147,101
Balance as at December 31	**64,557**	**-952**	**63,605**

The development of claims: 2012 - 2021

The overview of claims 2012-2021 has been provided in the below tables. The claims have been presented separately for each year. The tables provides an overview of the accumulated estimates of claims development (claims paid, incl. recourses and salvages, provision for incurred and reported loss, and IBNR provision) on the gross basis. The information on the claims paid is presented in the last table of claims development disclosure. The tables do not include information on actual claims handling expenses and the provision for claims handling expenses.

At 31 December 2021, the gross provision for claims outstanding for earlier accident years amounted to €7,338 thousand (at 31 December 2020 €7,220 thousand).

Various factors affect claims estimates changing over time, and it more often happens for lines with longer tail. While the information in the table discloses historical perspective of the adequacy of claims outstanding estimates, it alone would not be sufficient basis to conclude on the adequacy of estimates of claims outstanding as at the end of 2021. The Company believes that the estimate of provision for outstanding claims as at the end of 2021 is adequate to cover claims incurred till the 31.12.2021 (irrespective of whether these claims have been reported or not). It is clear, however, that final amounts paid by the Company will differ from the estimates due to inherent uncertainty, though company targets having those differences as little as possible.

Development of claims, gross

€000	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
At 31 December										
Accident year	68,357	70,894	69,821	76,735	87,509	81,838	90,703	86,608	93,406	107,839
1 year later	68,659	73,242	70,326	77,744	90,643	81,990	93,017	85,349	93,204	
2 year later	68,434	73,562	71,256	78,427	87,020	81,160	93,522	84,890		
3 year later	66,927	72,272	71,629	78,548	86,495	80,135	91,445			
4 year later	63,858	72,579	70,588	78,575	85,310	78,206				
5 year later	62,648	73,131	69,099	77,172	83,709					
6 year later	61,706	72,781	70,004	75,334						
7 year later	62,801	72,963	69,078							
8 year later	62,774	70,051								
9 year later	62,345									
Provision for outstanding claims (incl IBNR) as at 31 December 2021	4,119	7,437	6,565	6,118	5,051	7,669	19,113	11,630	19,663	37,202

Claims paid, subrogation and salvages (cumulatively), gross

€000	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
At 31 December										
Accident year	43,432	46,648	46,600	53,052	60,231	53,199	55,821	57,352	58,489	70,637
1 year later	54,967	59,474	59,494	66,451	75,190	67,702	69,930	71,503	73,541	
2 year later	56,077	60,675	60,633	67,693	77,037	69,610	71,563	73,260		
3 year later	56,727	61,269	61,592	68,329	77,637	70,373	72,333			
4 year later	56,983	61,679	61,898	68,903	77,820	70,537				
5 year later	57,309	62,316	61,968	69,041	78,658					
6 year later	57,793	62,407	62,474	69,216						
7 year later	58,050	62,542	62,512							
8 year later	58,193	62,599								
9 year later	58,199									

Note 15. Corporate income tax

(A) INCOME TAX EXPENSE

€000	2021	2020
Current tax	-3,934	-4,368
Deferred tax	35	8
TOTAL INCOME TAX EXPENSE	**-3,899**	**-4,360**
Specification of income tax expense		
Estonia [1]	-3,635	-4,000
Latvia	-24	-20
Lithuania	-240	-340
TOTAL	**-3,899**	**-4,360**

[1] The Company paid dividend from earnings derived from Estonia which resulted in the current tax expense.

(B) RECONCILIATION OF LATVIAN [2] AND LITHUANIAN BRANCHES TAX CHARGE

€000	2021	2020
Profit of the branches	**2,568**	**2,144**
Tax at 15%/20%	**-436**	**-322**
Permanent differences	-31	-40
Temporary differences	-	1
Prior year tax adjustment	-1	1
Tax cost decrease due to previous year loss in LV branch	204	-
TOTAL TAX CHARGE FOR THE YEAR	**-264**	**-360**

[2] In 2020 Latvian branch has resulted in loss and profit earned in 2021 was not sufficient to cover the loss. >>The tax charge is only related to the non-deductable expenses deemed as profit distribution according to corporate income law.
See more information in Note 1 section o) Corporate income tax.

(C) DEFERRED TAX

€000	31 Dec 2021	31 Dec 2020
Deferred tax liability		
Provision for amounts recoverable by subrogation	-103	-110
TOTAL DEFERRED TAX LIABILITY	-103	-110
Deferred tax asset		
Vacation pay reserve and other accruals	60	32
Doubtful debts	3	4
Impairment allowance for doubtful receivables	-	-1
TOTAL DEFERRED TAX ASSET	**63**	**35**
NET DEFERRED TAX ASSET/LIABILITY (-)	**-40**	**-75**

SPECIFICATION OF LITHUANIAN BRANCH DEFERRED TAXES

€000	31 Dec 2021	31 Dec 2020
Deferred tax liability	-103	-110
Deferred tax asset	63	35
Net deferred tax asset/liability (-)	**-40**	**-75**

(D) CURRENT CORPORATE INCOME TAX LIABILITY (-)/RECEIVABLE

€000	2021	2020
At 1 January	**-132**	**-272**
Calculated	-3,934	-4,368
Paid	4,114	4,508
At 31 December	**48**	**-132**

Note 16. Investment in the subsidiary

Support Services AS provides insurance policy handling services to If P&C Insurance AS partner Luminor Bank AS.
Legal address: Lõõtsa 8a, Tallinn 11415

€000	31 Dec 2021	31 Dec 2020
Acquisition cost of shares	**88**	**88**
Number of shares	25,000	25,000
Ownership interest	**100%**	**100%**
Total equity	**1,399**	**1,392**
Share capital	25	25
Share premium	63	63
Mandatory capital reserve	3	3
Retained earnings	1,301	1,282
Profit for the period	7	19
Investment in the parent company's statement of financial position	**88**	**88**

Note 17. Equity

Share capital

As at 31 December 2021 the number of issued shares was 6,391,165 with the nominal value of 1 EUR.

Share premium

Share premium is the difference between the nominal value and the issue price of a share. Share premium may be used for covering accumulated losses if those cannot be covered by retained earnings, mandatory capital reserve or other reserves set out in the Articles of Association, as well as for increasing share capital via a bonus issue.

As at 31 December 2021, share premium amounted to €3,679 thousand (31 December 2020: €3,679 thousand).

Mandatory capital reserve

The mandatory capital reserve has been recognised in accordance with the Commercial Code of Estonia.
The mandatory capital reserve must amount to no less than 1/10 of share capital.

As at 31 December 2021, the mandatory capital reserve amounted to €2,362 thousand (31 December 2020: €2,362 thousand).

Retained earnings

In the reporting period the sole shareholder resolved that the Company should pay out a dividend of €18,200 thousand and the carry forward earnings after the dividend payments of €142,341 thousand.

Dividends paid and proposed

€000	2021	2020
Dividend declared and paid	18,200	19,500
Final equity dividend per ordinary share	€2.8477	€3.0511

Contingent income tax liability

As at 31 December 2021 the Company's retained earnings amounted to €160,511 thousand (2020: €160,541 thousand). Undistributed profit from Estonian activities amounts to €159,170 thousand (2020: €158,708 thousand).

The maximum possible income tax liability in Estonia related to the distribution of the Company's retained earnings, including Latvian branch's year to date loss and excluding the retained earnings of Lithuanian branch as dividends is €31,081 thousand (2020: €31,370 thousand). The Company could thus pay a total of €129,430 thousand (2020: €129,171 thousand) as a net dividend including the profit of the Lithuanian branch of €1,341 thousand (2020: €1,833 thousand) which have already been taxed in Lithuania.

The maximum possible income tax liability has been calculated based on the assumption that the net dividends to be paid and the related total income tax expense to be recorded in the statement of profit or loss and other comprehensive income in 2021 may not exceed retained earnings as at 31 December 2021.

The profit available for distribution may be further limited by regulatory capital requirements.

Note 18. Related party transactions

1. Information about related companies

Subsidiary

The subsidiary Support Services AS, located in Tallinn, Estonia, has been providing insurance policy handling services to If P&C Insurance AS partner Luminor Bank AS.

Parent company and other group companies

If P&C Insurance Holding Ltd is located in Stockholm, Sweden and is the parent company of If Group. It is a holding company and owns and administers the shares of If Group companies. The holding company owns the Swedish If P&C Insurance Ltd (publ) and life insurance provider If Livförsäkring AB and the Estonian company If P&C Insurance AS. If's operations in Denmark, Norway, Latvia, Estonia and Finland are conducted via branches. In addition to the Nordic branches, If P&C Insurance Ltd (publ) has established branches in Germany, France, the Netherlands and the United Kingdom.

The holding company also owns If IT Services A/S, which is located in Copenhagen, Denmark, and is involved in the purchase of IT services for If Group companies in the Nordic and Baltic area.

If P&C Insurance Holding Ltd is a wholly-owned subsidiary of Sampo plc, a Finnish listed company.

Relations with Sampo

Sampo plc is located in Helsinki, Finland. Its field of activity is to own and administer shares, other securities and real estate, trade in securities, and carry out other investment activities. Sampo plc manages the Company's investments assets up to end of August 2021. Compensation for these services is based on a fixed commission calculated in accordance with the market value of the managed investments assets.

The Company has concluded an agreement with Sampo plc's subsidiary Mandatum Life Insurance Baltic SE regarding the marketing and sales of products. The compensation takes the form of commission.

Relations with Nordea

Nordea is a company associated with Sampo. Thus, it is a company related to If.

Other related parties

Related parties also include the Company's shareholders, staff, Management Board and Supervisory Board members, their close family members and other persons that are under the significant influence of the above persons.

2. Transactions with members of the management board and members of the Supervisory Board

The Management Board members received a total of €1,335 thousand in remuneration in 2021, including social tax (2020: €1,005 thousand). During the reporting period, no termination benefit was paid to members of the Management Board (2020:73 thousand). According to the conditions of the contracts concluded with the members of the Management Board, severance payments may be paid for up to 12 months on the termination of the contract. No remuneration was paid to members of the Supervisory Board in 2021 and 2020. Insurance contracts of €9 thousand were concluded with the Management Board members in the reporting period (2020: €9 thousand).

In the reporting period, the remuneration of the Chairman and other members of the Management Board consisted of fixed remuneration, variable compensation, and participation in a long-term incentive program. The proportion of variable compensation does not exceed 30% of fixed remuneration. Annual variable compensation is based on the performance of the Company and If Group and the achievement of personal work goals. The outcome of the long-term incentive schemes is based on the development of Sampo plc's share price, on the If Group's insurance margin and on Sampo Group's return on risk adjusted capital (RORAC). A substantial part of payments from the variable compensation program is deferred for at least three years.

3. Transactions with other group or related companies

3.1. The Company has concluded reinsurance contracts with If P&C Insurance Ltd (publ).

€000	Calculated reinsurance premiums		Indemnifications and commissions received	
	2021	2020	2021	2020
If P&C Insurance Ltd (publ)	2,307	1,994	43	13

Receivables and payables related to the above transactions:

€000	31 Dec 2021	31 Dec 2020
Receivables		
If P&C Insurance Ltd (publ) (Note 7)	29	-
Payables		
If P&C Insurance Ltd (publ) (Note 11)	913	1,222

3.2. The Company rendered services to and purchased services from the following group and related companies:

€000	Services purchased		Services rendered	
	2021	2020	2021	2020
Mandatum Life Insurance Baltic SE	-	-	12	9
Nordea Bank AB	96	54	-	-
If P&C Insurance Ltd (publ)	86	11	232	243
Sampo plc	436	667	-	-
If IT Services A/S	497	531	-	-
Total	**1,115**	**1,263**	**244**	**252**

There are only payables related to the above transactions (Notes 11 and 13):

€000	31 Dec 2021	31 Dec 2020
Payables		
Mandatum Life Insurance Baltic SE	-	1
Sampo plc	-	169
If P&C Insurance Ltd (publ)	68	11
If IT Services A/S	57	63
Total	**125**	**244**

3.3. The Company acquired financial assets and earned investment income from the following related company:

€000	31 Dec 2021	31 Dec 2020
Financial assets		
Nordea Bank AB	5,100	5,160

€000	2021	2020
Investment income		
Nordea Bank AB	45	45

Signatures to Annual Report 2021

The Management Board of If P&C Insurance AS has prepared the management report and financial statements for 2021.

Signatures:

Heinar Olak	Member of the Management Board		22.02 2022
Tiit Kolde	Member of the Management Board		22.02 2022

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[Translation from Estonian original]

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of If P&C Insurance AS:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of If P&C Insurance AS (hereinafter also „the Entity"), which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements presented fairly, in all material respects, the financial position of the Entity as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia) (ISAs (EE)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code, Estonia), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of the provision for claims outstanding	
As at 31 December 2021 the Entity has recognized liabilities arising from insurance contracts in the amount of EUR 208,616 thousand, which as described in the Note 14 "*Liabilities arising from insurance contracts and reinsurance assets*" to the financial statements, includes among others (a) provision for incurred and reported claims in the amount of EUR 107,640 thousand, and (b) provision for incurred but not reported claims in the amount of EUR 28,089 thousand (hereinafter collectively also referred to as "the provision for claims outstanding").	Our audit procedures included, among others: We have walked through the provisioning process of claims outstanding and analyzed the actuarial reporting focusing on applied assumptions and models its consistency with financial reporting framework.

As described in the Note 1 *"Significant accounting policies and measurement basis" and in the* Note 2 *"Risks and risk management"* to the financial statements, recognition and measurement of the provision for claims outstanding involves among others significant judgment over the uncertainty in the timing, the frequency and the amount of future claim payments, and specific knowledge is required over actuarial modelling methods, as well as analysis of mass data used in the calculation. We identified valuation of the provision for claims outstanding as a key audit matter due to the significance of the balance to the financial statements as a whole, combined with the complex models and high level of judgment associated with determining their value.	With the assistance of our actuarial specialists, we: • evaluated assumptions and models used in order to conclude on the appropriateness of methodology used by the management, • tested the underlying source information and the mathematical accuracy of the calculations, • developed a range of independent estimates of the provision for claims outstanding for selected sample of lines of business in selected locations and compared our estimates to the management's estimates, • analyzed prior year estimate (run-off statistics) based on results from actuarial reporting of the provision for claims outstanding considering actual results. With the assistance of our IT specialists, we identified the most relevant information systems involved to process and record data used for calculations of the provision for claims outstanding and tested the general IT controls over each of these systems, including testing of user access controls, change management controls, and IT operations controls. We have verified whether the accounting polices reflected in the comparative information are consistent with those applied in the current period, and whether the provision for claims outstanding properly accounted for, adequately presented and disclosed at the financial statements according to applied financial reporting framework.

Other Information

The Management is responsible for the other information. The other information comprises the Management Report included in the Entity's annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. It is also our responsibility to note whether information presented in the management report is in accordance with applicable legal requirements.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard and we note that information presented in the management report is in material respects in accordance with the financial statements and with applicable legal requirements.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards as adopted by the European Commission and for such internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (EE) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (EE), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Those Charged with Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including significant deficiencies in internal control, if any, that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Other reporting obligations as required by Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public interest entities

Appointment of the Auditor

We were appointed as the statutory auditor by the Entity's Shareholder's General Meeting on 18 March 2021 for one year. The length of our total uninterrupted engagement as the statutory auditor is one year.

Consistency with the Additional Report to the Audit Committee

Our audit opinion expressed herein is consistent with the additional report prepared for the Audit Committee, which we issued on 17 February 2022.

Independence

We declare that during the audit we have remained independent of the Entity in accordance with the provisions of Regulation No 537/2014 of the European Parliament and of the Council and the ethical requirements set out in Auditing Act.

We declare that, to the best of our knowledge and belief, no prohibited non-audit services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided on specific requirements regarding the statutory audit of public-interest entities. Other than statutory audit services and services disclosed in the management report or financial statements, we provided no other services to the Entity.

22 February 2022

M. Akkermann

Mariel Akkermann
Certified Auditor No. 574
AS Deloitte Audit Eesti
Licence No. 27

Proposal for the Distribution of Profit

Profit available for distribution according to the statement of financial position:

Profit carried forward	€142,340,787
Net profit for 2021	€18,169,985
Total profit available for distribution as at 31 December 2021:	**€160,510,772**

The Management Board proposes:

To make a dividend distribution to the sole shareholder	€18,100,000
To recognise as retained earnings	€142,410,772

Heinar Olak
Member of the Management Board

Tiit Kolde
Member of the Management Board