If P&C Insurance AS

2017

Annual report

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 2017
End of financial year:	31 December 2017
Chairman of the Management Board:	Andris Morozovs
Auditor:	Ernst & Young Baltic 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 casulty insurance group "If P&C Insurance Holding Ltd". If P&C Insurance Holding Ltd is owned by the Finnish company "Sampo Plc", listed on the Helsinki Stock Exchange. Sampo Group is also the major shareholder of the Nordea banking group and Topdanmark, the second largest non-life insurer in Denmark. Further it is full owner of Mandatum Life (life insurance).

If has been offering property and casualty insurance in the Baltic markets since 1992, covering both private individuals and corporate customers. Across the Baltic countries, If has approximately 310,000 policyholders and is the market leader in Estonia. Products include property, liability, motor, marine & transport, as well as accident & health.

The Company is Estonian registered, operating in Latvia and Lithuania through branches. The current corporate structure enables efficient operations and claims handling across the Baltic region, with some business functions shared across all three countries. However each country has its own independent sales and customer service functions.

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	2017	2016	2015	2014	2013
Premiums written, gross	**138,750**	130,781	133,200	122,574	116,906
Premiums earned, net of reinsurance	**132,618**	130,729	126,545	118,647	112,877
Claims incurred, net of reinsurance	**84,406**	83,716	75,433	66,947	68,248
Operating expenses[1]	**34,023**	34,041	33,862	36,218	32,165
Technical result[2]	**14,190**	12,971	17,250	15,482	12,463
Net profit	**15,454**	13,589	19,926	17,016	13,241
Combined ratio[3]	**89.3%**	90.1%	86.4%	87.0%	89.0%
Expense ratio[4]	**25.6%**	26.1%	26.8%	30.5%	28.5%
Loss ratio[5]	**63.7%**	64.0%	59.6%	56.5%	60.5%
Financial investments	**271,960**	244,971	235,574	223,279	198,805
Return on investments[6]	**0.8%**	1.4%	1.1%	2.3%	0.5%
Total assets	**302,911**	275,508	265,144	245,166	225,376
Owner's equity	**147,382**	135,528	126,757	113,598	97,163

FORMULAS

[1]Operating expenses	Insurance contract acquisition costs and administrative expenses (+) reinsurance commissions and other income
[2]Technical result	Premiums earned, net of reinsurance (-) claims incurred, net of reinsurance (-) operating expenses
[3]Combined ratio	Expense ratio + loss ratio
[4] Expense ratio	$\frac{\text{Operating expenses}}{\text{Premiums earned, net of reinsurance}}$
[5]Loss ratio	$\frac{\text{Claims incurred, net of reinsurance}}{\text{Premiums earned, net of reinsurance}}$
[6]Return on investments	$\frac{\text{Investment income (-) investment expenses (+) changes in fair value recognized in other comprehensive income}}{\text{Weighted average volume of financial investments in the period}}$

Results from operations

RESULTS

The macroeconomic situation in the Baltic countries improved during the year. This reflected positively on If´s technical result, which increased from €13.0 million in 2016 to €14.2 million. The outcome was mainly attributed to increased premium rates in Motor lines, prevalent across the entire industry. Also a favorable claims trend of both large liabilities and the frequency, along with continued cost efficiency contributed positively to the performance improvements.

PREMIUMS WRITTEN

Gross premium income improved by €8.0 million from €130.8 million in 2016 to €138.8 million. Premium growth was positive across all geographic markets, especially in Lithuania. The development was mainly driven by premium rate increases in Motor lines, which also accounted for a substantial share of total market growth of Baltic non-life insurance. The past years´ relatively weak profitability in the motor insurance market in general, largely explains the premium rate adjustments across the industry.

CLAIMS AND OPERATING EXPENSES

Claims expenditure, inclusive of claims handling costs, increased slightly from €83.7 million in 2016 to €84.4 million in current year, whereas the loss ratio improved to 63.7% from the prior 64.0%, during the same period. Apart from premium growth, the outcome was supported by the aforementioned favorable claims trend, especially prevalent in Estonia and Lithuania. Mild weather during the winter months contributed positively to the overall claims result.

Continuous efficiency enhancements and tight cost control offset generally high cost inflation, which kept total operating expenses, exclusive of claims handling costs, stable at €34.0 million. This reflected positively on the expense ratio which decreased from 26.1% in 2016 to 25.6%.

Positive premium development, overall favorable claims conditions and continued cost efficiency, led to an improvement of the combined ratio from 90.1% in 2016 to 89.3%.

INVESTMENT RESULT

The value of financial investments stood at €271.9 million as of 31st of December 2017, which is €131.9 million higher than the obligated amount stipulated under insurance contracts net of reinsurance.

Applying the full market valuation, profit from asset management decreased to €1.96 million down from €3.36 million in 2016 with a return ratio of 0.8% compared to 1.4% previously. Net investment return amounted to €1.76 million as opposed to 2016's €1.28 million on the income statement, whilst €0.20 million was recorded under other comprehensive income down from €2.08 million in 2016. The average weighted credit rating for the holdings of the investment portfolio as of 31st of December 2017 was BBB+ using Standard & Poor's scale, down from A- as of 31st of December 2016, mainly due to the difficulty to find a high grade instruments with the positive yield. As a result of the reinvestments, the duration of the fixed income portfolio increased to 2.1 years as opposed to 1.6 years in 2016, however the running yield was flat at 0.9% reflecting the low yield environment.

The prevailing low interest rate environment is a serious challenge for the investment portfolio. The strong involvement of the European Central Bank in the fixed income markets has resulted in a downward spiral for European short and long term rates, which means that it is increasingly difficult to re-invest maturing instruments at attractive levels. However, our investment focus remains unchanged, in that we seek to find new opportunities in the European investment grade bond markets and plan to re-invest maturing bonds into medium term instruments.

The publication of the European Central Bank's December 2017 minutes saw Europe interest rates, with the exception of short rates, increase, yet these remain low on an absolute basis. Should the Eurozone economy continue to expand rates may gradually increase which would enable us to lock in high yields owed to the portfolio's cash balance and short duration.

NET PROFIT AND TAX

The overall net profit after tax stood at €15.5 million in 2017, up from €13.6 million in 2016. Current tax accounted for €0.50 million representing a reduction from €0.66 million in 2016.

Risk management

Risk is an essential and inherent element of the Company business activities and operating environment. A high quality Risk Management System is a prerequisite for running the business effectively and for assuring stable results.

The objective of the Risk Management System is to create value for the Company's stakeholders by securing its long-term solvency, minimizing the risk of unexpected financial loss and giving input to business decisions by taking into account the effects on risk and capital.

In 2017, the Company has compiled, published and circulated its first comprehensive Solvency and Financial Condition Report which is available to the public through the Company's website www.if.ee.

Personnel

If's success is entirely dependent on how well the Company is perceived during all of its interactions with its customers. As insurance represents a mature market, first class customer focus through dedicated employees with professional insurance competence is therefore the main determinant of success and source of sustainable competitive advantage.

The cornerstones of If's HR Strategy are: Competence Development & Innovation, Right Person in the Right Place, Leadership the If way and Employeeship & Performance Culture. Employeeship refers to each employee assuming individual responsibility for customer service levels, their performance and their career development. HR plays a key role in the attraction and retention of suitable employees and ensuring all employees work in harmony with the Company's ethos.

If places great importance on developing the correct analytical skills, customer orientation and marketing mix required to see its products prove competitive and ensure the business evolves in line with market demand. In order to achive these aims, If's recruitment strategy focuses on attracting and retaining those technically competent and suitably motivated towards helping the organization realise its goals. Employer branding initiatives aim to avoid losing key talent amidst competitive Baltic talent markets with demonstrable results.

Leadership must be multifaceted to enable If to achieve its goals. Strong skills in traditional management must be complemented by abilities to help highly skilled specialists reach their full potential through nurturing their own motivation. If continues to develop its leadership model to better reflect the increased importance of its leaders as drivers of intrinsic motivation.

To enable If's employees to shine, If's HR has implemented a modern, fully integrated HR system that facilitates harmonizing HR processes across country borders and offers better onboarding and learning management, facilitated feedback discussions, improved compliance work, and enhanced work force analytics.

By 31st of December 2017 the number of full time employees in the Company was 573 (572 in 2016).

The Company's expenses for personnel totaled €20.5 million in 2017, an increase of €1.2 million over the year.

Outlook

The macroeconomic situation in the Baltic countries improved during the year, profitability in the non-life insurance market is still relatively weak in general. This, combined with expectations of higher claims inflation, is likely to result in more premium rate increases across the industry.

The consolidation of the Baltic Insurance market has accelerated past years and competitive pressure is intense. The new competitive landscape is expected to lead to improved financial discipline for the industry as a whole.

Operations

If has been recognized as having the best compliance with Solvency II requirements in the Baltics creating a great pride in being the most financially stable insurance company.

If provides a complete range of P&C insurance products to private and corporate customers in the Baltics, working directly via sales points, telephone and the Internet. Furthermore, If utilizes a network of brokers and partners. Sales and customer service staff are located in central offices throughout the region and today If has the third largest insurance portfolio among all P&C insurance providers in the Baltic States.

If constantly considers the importance of safeguarding human rights, preventing corruption and other social and environmental aspects. In accordance, If has established policies and processes including, but not limited to, Ethics Policy, Code of Conduct, Baltic Guideline on Avoidance of Conflicts of Interest, Conflict of Interest Policy, Baltic Guideline for Fit and Proper Assessment and Competition Compliance Instruction and Environment Policy.

As a leading insurance company in the Baltics, If is aware of its social responsibility. Through sponsorships and funding, the Company is making consistent contributions to projects related to claims prevention. If is also raising awareness of insurance products in society, particularly in areas where insurance coverage is low.

2017 saw If engage in a range of innovative innitatives. During the first quarter new marketing communication concept “It’s easy to help” was launched in Latvia and Lithuania and in the third quarter in Estonia. The underlying message is that we are encourage the whole society to be more helpful and strengthen our image as a caring, human insurance company in all three countries.

In Estonia If initiated “Let´s Make Estonia Secure” award in association with local authorities to recognize caring behavior and helping acts. The latest market research results confirm that If in Estonia is consistently holding a good public image and is perceived as being aware of customer requirements. If continues to build and maintain brand awareness with research recognizing If as not only the most widely known insurance company in Estonia but also the company with the highest level of customer satisfaction. Further, If was listed among the 15 most reputable companies in Lithuania.

As part of consolidating and improving If’s customer satisfaction the organization also launched new initiatives to provide greater customer satisfaction. In April If rolled out If Plus, a unique bonus program targeted at loyal private customers in Estonia. The aim is to enable as many customers as possible to be part of If Plus’ bonuses while rewarding customer loyalty with discounts when purchasing multiple products. If also launched new produts for corporate customers in Estonia by offering health insurance for employees. While in Latvia If began offering pet insurance and in Lithuania smartphone insurance.

If pays continuous attention to development of digital solutions. E-bureau is functioning successfully in Estonia prompting our continued efforts to deploy the same solution in Latvia and Lithuania as well. Customers increasingly want to buy traditional insurance solutions via e-channels, and in this respect If Insurance wants to offer the best solution on the market not only in terms of sales but also in terms of enabling customers to report claims easily via e-channels.

In Lithuania, If is achieving efficiency and saving customers time by serving nearly 95% of customers remotely. While in Latvia, If continued to invest in the expansion of the new internet sales system and reorganized broker sales with the aim of improving both service quality and processing time. The long term effort that has been invested in Motor product development has resulted in positive sales trends during third quarter.

In the second quarter of 2017 a new travel insurance solution was launched in Latvia. Although this release still has limited use and functionality, it is an important milestone on our journey towards creating a modern digital experience for our customers, providing fast and simple user experience. We are looking forward to witnessing the acceleration of our efforts to deliver online products to our customers in Latvia and in Lithuania.

Applied accounting principles

The 2017 Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the EU.

The financial statements include the accounts of the Estonian company with its branches.

Heinar Olak
Member of the Management Board

Artur Praun
Member of the Management Board

FINANCIAL STATEMENTS

Statement of comprehensive income

€000	Note	2017	2016
PREMIUMS EARNED, NET OF REINSURANCE			
Premiums earned		135,292	133,298
Premiums ceded		-2,674	-2,569
TOTAL	3	**132,618**	**130,729**
OTHER INCOME			
Return on investments	4	1,761	1,282
Reinsurance commissions and other income		276	254
TOTAL		**2,037**	**1,536**
TOTAL REVENUE		**134,655**	**132,265**
CLAIMS INCURRED, NET OF REINSURANCE			
Claims incurred, gross	5	-87,104	-84,151
Reinsurer's share in claims paid	5	2,698	435
TOTAL		**-84,406**	**-83,716**
EXPENSES			
Insurance contract acquisition costs	6	-21,879	-22,480
Administrative expenses	6	-12,419	-11,816
TOTAL		**-34,298**	**-34,296**
TOTAL CLAIMS AND EXPENSES		**-118,704**	**-118,012**
NET RESULT BEFORE TAXES		**15,951**	**14,253**
INCOME TAX	14	-498	-664
NET PROFIT FOR THE FINANCIAL YEAR		**15,453**	**13,589**
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT AND LOSS IN SUBSEQUENT PERIODS:			
Change in the value of available-for-sale assets	4	201	2,082
TOTAL		**201**	**2,082**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**15,654**	**15,671**

The notes to the financial statements set out on pages 14 to 60 form an integral part to the financial statements.

Statement of financial position

€000	Note	31.12.2017	31.12.2016
ASSETS			
Cash and cash equivalents		8,011	12,178
Financial investments	9	271,960	244,971
Receivables related to insurance activities	7	13,055	11,097
Accrued income and prepaid expenses	8	4,035	3,734
Reinsurance assets	13	5,202	2,717
Deferred tax asset	14	118	128
Investment in subsidiary	15	88	88
Property, plant and equipment	10	442	595
TOTAL ASSETS		**302,911**	**275,508**
LIABILITIES AND OWNER'S EQUITY			
Liabilities related to insurance activities	11	5,463	4,878
Accrued expenses and deferred income	12	4,842	4,490
Liabilities arising from insurance contracts	13	145,224	130,612
TOTAL LIABILITIES		**155,529**	**139,980**
Share capital		6,391	6,391
Share premium		3,679	3,679
Mandatory reserve		2,362	2,362
Fair value reserve		3,704	3,503
Retained earnings		115,793	106,004
Net profit for the year		15,453	13,589
TOTAL OWNER'S EQUITY	16	**147,382**	**135,528**
TOTAL LIABILITIES AND OWNER'S EQUITY		**302,911**	**275,508**

The notes to the financial statements set out on pages 14 to 60 form an integral part to the financial statements.

Statement of changes in equity

€000	Share capital	Share premium	Mandatory reserve	Fair value reserve	Retained earnings	Net profit for the year	**Total equity**
EQUITY AT BEGINNING OF 2016	**6,391**	**3,679**	**2,362**	**1,421**	**112,904**	**-**	126,757
Paid dividends	-	-	-	-	-6,900	-	**-6,900**
Other comprehensive income	-	-	-	2,082	-	-	**2,082**
Net profit for the year	-	-	-	-	-	13,589	**13,589**
EQUITY AT END OF 2016	**6,391**	**3,679**	**2,362**	**3,503**	**106,004**	**13,589**	**135,528**
EQUITY AT BEGINNING OF 2017	**6,391**	**3,679**	**2,362**	**3,503**	**119,593**	-	**135,528**
Paid dividends	-	-	-	-	-3,800	-	**-3,800**
Other comprehensive income	-	-	-	201	-	-	**201**
Net profit for the year	-	-	-	-	-	15,453	**15,453**
EQUITY AT END OF 2017	**6,391**	**3,679**	**2,362**	**3,704**	**115,793**	**15,453**	**147,382**

The notes to the financial statements set out on pages 14 to 60 form an integral part to the financial statements.

Statement of cash flows

€000	Note	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES			
Premiums received	3, 7, 11	137,400	131,062
Premiums ceded	3, 11	-2,589	-2,912
Claims paid, incl. claims handling expenses	5, 6, 7	-76,234	-78,888
Cash flow from reinsurance		357	254
Employee-related and service-related expenses		-34,335	-33,896
Investments in bonds and other interest-bearing securities		-80,902	-47,839
Proceeds from disposals of bonds and other interest-bearing securities		54,228	37,376
Investments in term deposits		-30,400	-25,000
Proceeds from term deposits		30,000	27,500
Interest received		2,699	2,563
Income tax paid	14	-421	-1,053
CASH FLOW FROM OPERATING ACTIVITIES		**-197**	**9,167**
TOTAL CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		-174	-206
Proceeds from disposal of property, plant and equipment		4	2
CASH FLOW FROM INVESTING ACTIVITIES		**-170**	**-204**
CASH FROM FROM FINANCING ACTIVITIES			
Paid dividends	16	-3,800	-6,900
CASH FLOW FROM FINANCING ACTIVITIES		**-3,800**	**-6,900**
CHANGE IN CASH FLOW		**-4,167**	**2,063**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**12,178**	**10,115**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**8,011**	**12,178**

The notes to the financial statements set out on pages 14 to 60 form an integral part to the financial statements.

Note 1. Accounting principles and basis of estimations used in the preparation of the financial statements

1. THE COMPANY AND ITS ACTIVITIES

If P&C Insurance AS is an insurance company which has registered address at Lõõtsa 8a, Tallinn (Republic of Estonia) and includes 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 2017 were authorized for issue in accordance with a resolution of the Management Board on 22 February 2018.

2. BASIS OF PREPARATION

The 2017 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 endorsed 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 values are presented in euros and all values are rounded to the nearest thousand (€000), except when 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. Shareholders have the right not to approve the Annual Report prepared by the Management Board and reviewed by the Supervisory Board, and demand preparation of a new Annual Report.

Though the Company forms group together with its subsidiary Support Services AS, the Company has elected in accordance with IFRS 10 paragraph 4 not to present consolidated financial statements and to present only separate financial statements. The Company is a wholly–owned subsidiary of If P&C Insurance Holding Ltd (publ.) and the parent produces consolidated financial statements availablefor public use that comply with International Financial Reporting Standards (IFRS) as adopted by the EU. Consolidated financial statements of the parent are available at website www.sampo.com under section Annual Reports.

The financial statements include the accounts of the insurance company in Estonia and the accounts of its branch offices in Latvia and Lithuania. Branches use the same accounting principles in all material aspects applied for the Company as a whole. All in-house balances and transactions, unrealised gains and losses resulting from those transactions between the Estonian unit, the branch in Latvia and the branch in Lithuania are eliminated in full.

3. CHANGES IN ACCOUNTING POLICY, ESTIMATES AND DISCLOSURES

The financial statements are composed based on consistency and comparability principles, which means that the Company continually applies same accounting principles and presentation. Changes in accounting policies and presentation take place only if these are required by new or revised IFRS standards and interpretations or if new accounting policy and/or presentation give more objective overview of financial position, financial results 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 accounting policies and presentation adopted in preparation of the current financial statements are consistent with those of the previous financial year. The Company has not made use of the amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses and IAS 7: Disclosure Initiative. IASB has issued the Annual Improvements to IFRSs 2014-2016 Cycle. This improvement did not have an effect on the Company's financial statements.

3.2. New standards and interpretations issued but not yet effective

Issued, but not yet effective, international accounting standards 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, and to a certain extent, IFRS 16 Leases.

IFRS 9 has been adopted for use in the EU but in an adopted amendment to IFRS 4 Insurance Contracts, the IASB has decided that in certain circumstances insurance companies can delay their first application of IFRS 9. The Company fulfils these conditions since the Company has not previously applied IFRS 9 and the carrying amount of the liabilities connected to insurance is greater than 90% of the total carrying amount of the liabilities. The Company plans to implement the standard later than its ordinary effective date on January 1, 2018. The transition from IAS 39 to IFRS 9 is not expected to have any significant effects on If's accounts until 2021, although some expanded disclosures will be added in 2018. Since, among other considerations, the notion of business model will be important and the Financial Instruments standard includes some optionality, the Company believes that there will be significant cross-influences to the published, not yet adopted standard for Insurance Contracts that need to be carefully assessed.

IFRS 15 Revenue from Contracts with Customers has been adopted by the EU and took effect on January 1, 2018. The standard replaces existing standards and interpretations pertaining to revenue recognition, with the exception of the recognition of insurance contracts. For the Company, the standard applies to revenue in the insurance operations other than revenue involving a transfer of insurance risk. Such revenue is recognized as Other technical income in the income statement and comprises an insignificant share of the Company's overall operations and result. According to the Company's assessment, transitioning from revenue recognition in accordance with the existing IAS 18 standard to revenue recognition in accordance with IFRS 15 will not have any material impact on the Company's financial position or result.

IFRS 16 Leases has been adopted by the EU and will take effect on January 1, 2019, at which time the Company plans to apply the standard. The standard replaces the existing IAS 17. The current assessment is that the standard is expected to have a limited impact on the Company's financial position and result, although total assets will increase slightly since a portion of the Company's leases will be recognized in the balance sheet as fixed assets and interest-bearing liabilities, respectively. The Company's technical result may also improve slightly since current leasing costs, which are included in operating costs, are divided between depreciation/amortization and interest expense, respectively, which are included in the Investment result.

IFRS 17 Insurance Contracts was published in May 2017 and is expected to take effect on January 1, 2021. The standard has not yet been adopted by the EU. IFRS 17 replaces IFRS 4 Insurance Contracts and, unlike its predecessor, contains a complete framework for the measurement and presentation of insurance contracts. Based on an initial, preliminary assessment, the measurement rules in the standard are expected to have a limited effect on the Company's income statement and balance sheet, while the presentation rules may have a material impact.

4. MATERIAL JUDGMENTS, ESTIMATES AND RESOLUTIONS

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 balance sheet 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.

EVALUATION OF LIABILITIES FROM INSURANCE CONTRACTS

Judgments are made both for establishing technical provisions for the incurred and reported losses as of the balance sheet date, and for accounting for the provisions for not reported losses. The time period during which the final claims are incurred may be extensive. In all insurance categories, the provision for claims consist of incurred but not reported losses. Forecasts regarding provisions for future claims are based on the claims actually incurred in previous periods. Each balance sheet date, estimates on technical provisions for claims in previous periods are revaluated, with any changes reported in the statement of comprehensive income. The provisions for claims are not changed explicitly in accordance with fluctuations in the value of money over time.

As of the end of 2017, gross insurance technical provisions amounted to €145,224 thousand (2016: €130,612 thousand), of which the reinsurer's share amounted to €5,202 thousand (2016: €2,717 thousand).

5. MAIN ACCOUNTING PRINCIPLES

A) ACCOUNTING FOR THE SUBSIDIARY IN THE COMPANY'S FINANCIAL STATEMENTS

Investments in subsidiary are recognized in the Company's financial statements at cost less impairment (if any). This means that the investment is initially recognized at acquisition cost, consisting of the fair value of the payable amount, adjusted thereafter by 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 reporting currency of the Company. Foreign currency transactions are translated into euro on the basis of the exchange rates of the European Central Bank.

C) REVENUE RECOGNITION

Revenue is recognized at the fair value of the received or receivable income. Revenue from sales of services is recorded upon rendering of the service.

<u>Insurance premiums</u>
The collected insurance premiums are recorded upon entry into force of the insurance policy and adjusted with the changes in unearned premiums, calculated based on the pro rata method. Premiums written are premiums received and receivable under the insurance contracts or, in case of installment payments, those installment payments with the due date in the accounting period. If the due date of the first installment payment is later than the effective date of the contract, the recognition of insurance premiums will be based on the effective date of the contract. Insurance premiums and

Estonia comparing to Latvia and Lithuania. The majority of first installments of insurance premium in Estonia are recognized after the cash receipt from the client, but in Latvia and Lithuania first installment of insurance premium is recognized in gross written premium on an accrual basis. This difference has no material impact on the financial results of the Company because the lag between signing the policy and receiving the first installment from the policyholder is in period 1-15 days and significant part of the amount is deferred as unearned premium provision (UPR).

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 item. Dividend income is recognized when the respective right of claim arises.

D) EXPENSES

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

- Insurance contract acquisition costs – direct and indirect expenses arising from the acquisition of insurance contracts, incl. direct expenses, such as commission fees for mediators, expenses on preparation of insurance documents as well as indirect expenses, such as advertising expenses, 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 the respective expenses incurred by the insurer, incl. wages and salaries, social tax and administrative expenses related to claims handling.
- Administrative expenses include insurance-related expenses which do not constitute acquisition costs or claims handling expenses.

Claims handling expenses are included in claims paid in the statement of comprehensive income.

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

E) CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents consists of bank balances and overnight deposits.

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

F) FINANCIAL ASSETS

Initial recognition and measurement

Financial assets are classified in the following categories upon the initial recognition:

- financial assets measured at fair value through profit or loss (financial assets held for trading or designated upon initial recognition at fair value through profit or loss);
- loans and receivables (deposits, accounts receivable and other receivables);
- investments held-to- maturity (financial assets which are non-derivative instruments and have fixed or determinable payments and fixed terms of redemption, provided that the company is planning to and is capable of holding the assets to maturity);
- available–for-sale financial assets (all other financial assets that are designated as available for sale or not mentioned above into any other category).

In case of investments not at fair value through profit or loss are recognized initially at fair value plus directly attributable transaction costs.

Financial assets at fair value through profit or loss were assets held for trading except for certificates of deposits which were designated upon initial recognition at fair value through profit or loss.

The Company has classified term deposits as loans and receivables.

The Company has not classified any financial assets as "investments held to maturity" in the reporting or comparative period. The Company had no derivative instruments.

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:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are assets which are held for trading except for certificates of deposit which are designated upon initial recognition at fair value through profit or loss.

For investments designated as at fair value through profit or loss, the following criteria are met:

- the assets are part of a group of financial assets, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, they are remeasured at fair value on the balance sheet date. Gains and losses arising from changes in fair value, or realized on disposal, together with the related interest income, are recognized under "Return on investments" in the statement of comprehensive income.

The Company evaluates its financial assets at fair value through profit and loss (held for trading) whether the intent to sell them in the near term is still appropriate.

When the Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Company may elect not to classify newly purchased financial assets in the fair value through profit or loss category. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

The fair value of listed securities is based on the bid price of the security on the balance sheet date. If a market for a financial instrument is not active, or the instrument is not quoted, the fair value is established by using generally accepted valuation techniques.

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 needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses recognised in other comprehensive income in the available-for-sale reserve (equity). Where the insurer holds more than one investment in the same security that 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 (EIR).When the asset is derecognised the cumulative gain or loss is recognised in return of investments, or determined to be impaired, or the cumulative loss is recognised in the statement of comprehensive income and removed from the available-for-sale 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 short term. Loans and receivables are initially recognized at cost which is the fair value of the consideration given, including transaction costs that are directly attributable to the acquisition of the asset. Loans and receivables are subsequently measured at their amortized cost by using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition, as well as expenses directly related to the transaction, over the year to maturity.

Interest income from loans, receivables and deposits is recorded under "Return on investments" in the statement of comprehensive income.

Receivables from customers, reinsurance receivables and other receivables are recognized at nominal value when incurred (on the transaction date), and, subsequent to initial recognition, at cost less applicable impairment. Receivables are measured on an individual basis.

Derecognition of financial assets

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 and has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through' arrangement;

  and either:

  - The Company has transferred substantially all the risks and rewards of the asset

  Or

  - The Company 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 transferred its right to receive cash flows from an asset or has entered into a passthrough arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration 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.

Impairment of financial assets

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset, other than those at fair value through profit and loss, 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, that can be reliably estimated, on the estimated future cash flows of the financial asset.

There is objective evidence of impairment, if an issuer or debtor e.g. encounters significant financial difficulties that will lead to insolvency and to estimation that the customer 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 amortized cost, the amount of the loss is measured as the difference between the receivable’s carrying amount and the present value of estimated future cash flows discounted at the receivable’s original effective interest rate. The difference is recognized as an impairment loss in profit or loss. The impairment is assessed individually.

Impairment loss of financial assets related to operating activities is charged to expenses in the statement of comprehensive income (under "Administrative expenses”) while the impairment loss of financial assets related to investing activities is recognized as a reduction of the "Return on investments" in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can objectively be related to an event occurring after the impairment was recognized (e.g. default status is removed), the previously recognized impairment loss shall be reversed through profit or loss.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Company first assesses individually 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, whether significant or not, 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 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 the statement of comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 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 in the income statement, the impairment loss is reversed through the statement of comprehensive income.

G) PROPERTY, PLANT AND EQUIPMENT

Assets with a useful life of over one year are recorded as property, plant and equipment (PPE). PPE are initially recorded at acquisition cost, consisting of 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 balance sheet 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 will be written down to its recoverable amount (the higher of the fair value, less sales expenses, or the 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 charged to expenses in the statement of comprehensive income, under "Insurance contract acquisition costs", "Claims handling expenses", and "Administrative expenses" in accordance with the functionality.

On each statement of financial position 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 the expenses during the period when the reversal occurred.

Depreciation is calculated from the moment the asset can be used for the purposes established by the management, until the assets' classification into non-current assets held for sale or removal from use. If fully amortized assets are still being used, the acquisition cost and the accumulated depreciation of the assets will be recorded in the balance sheet until the assets have been removed from use.

The depreciable amount of the PPE item (i.e. the difference between the acquisition cost and final 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 item, as follows:

- Buildings 50 years;
- Computer equipment 3 years;
- Transport vehicles 5 years;
- Machinery and equipment 5-6 years;
- Office furniture and equipment 5-6 years.

If the PPE item consists of distinguishable components with different useful lives, these components are separately recorded under assets, and the depreciation rates specified separately thereof in accordance with their useful lives.

H) 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 amortized 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 accrual basis.

The financial liability will be derecognized when the liability is paid, cancelled or expired.

I) INSURANCE CONTRACTS

IFRS 4 requires classification of insurance contracts into insurance and investment contracts, depending on whether the contract involves transfer of a significant insurance risk. An insurance contract is a contract under which one party 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.

J) DEFERRED ACQUISITION COSTS

Insurance contracts acquisition costs directly related to premiums that are carried over to the next period are recognized 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 mediators.

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 of the unexpired term of the contract of the total term of the contract.

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 under the provision for claims outstanding.

The provision for claims outstanding is calculated using 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 the motor third party liability annuities that are discounted to the net present value using discount rate which is 0.75%.

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 minimize the potential net loss by hedging the risks. All reinsurance contracts transfer a significant portion of the insurance risk.

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

Any impairment of reinsurance assets are recorded in the statement of comprehensive income.

N) ACCOUNTING FOR LEASE

Lease transactions, where all material risks and rewards from ownership of an asset are transferred to the lessee, are treated as finance lease. All other lease transactions are treated as operating lease. The Company as the lessee had only operating lease contracts in the reporting period.

Operating lease payments are recorded during the rental period as expenses based on the straight-line method.

The Company had no assets leased out under finance or operating lease in the reporting period or in the comparative period.

O) CORPORATE INCOME TAX

Pursuant to the Estonian Income Tax Act, Estonian companies are not subjected to pay income tax on the profit since 1 January 2000. Rather, they are subjected to income tax on the paid dividends. The established tax rate is 20/80 of the net dividend paid in 2017 (2016: 20/80 of the net dividend paid).

Corporate income tax on the payment of dividends is recorded under income tax expense in the statement of comprehensive income at the moment of announcing the dividends, irrespective of the period for which the dividends were announced or when the dividends are actually paid. The maximum possible income tax liability related to dividend payment is disclosed in Note 16.

The Company tax expense is calculated in accordance with IAS 12 Income taxes. This entails that current as well as deferred tax is calculated and reported. Current taxes are calculated for every unit in accordance with the tax rules in each country. Branch offices are taxed on their results in the country concerned. In Estonia the company is liable for taxation only on the income not taxed in branches and only when dividends will be paid out. For Latvian branch tax rate is 15% (2016: 15%) and for Lithuanian branch 15% (2016: 15%).

Deferred tax attributable to temporary differences between the amounts reported and the equivalent actual taxation is reported in the company’s accounts. For income reported in the income statement 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, deferred tax liabilities. Similarly, costs that will not result in tax deductions until a later period give rise to a deferred tax revenue and a corresponding deferred tax asset. Deferred tax assets and liabilities are not reported net on company level because they pertain to different countries tax authorities, but are reported net on country level.

Current and deferred tax disclosure is made in Note 14.

P) EVENTS AFTER THE BALANCE SHEET DATE

Material circumstances that have an effect on the valuation of assets and liabilities and became evident between the balance sheet date (31 December 2017) and the date of approving the financial statements (22 February 2018), but are related to transactions that took place in the reporting period or earlier periods, are recorded in the financial statements.

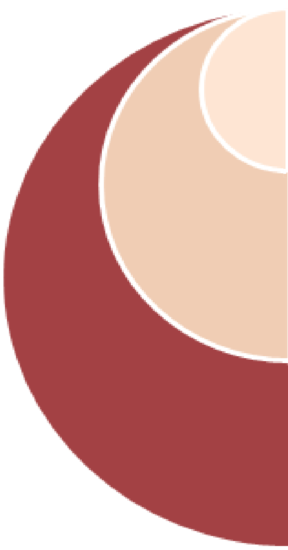
Note 2. Risks and risk management

1. RISK MANAGEMENT SYSTEM

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

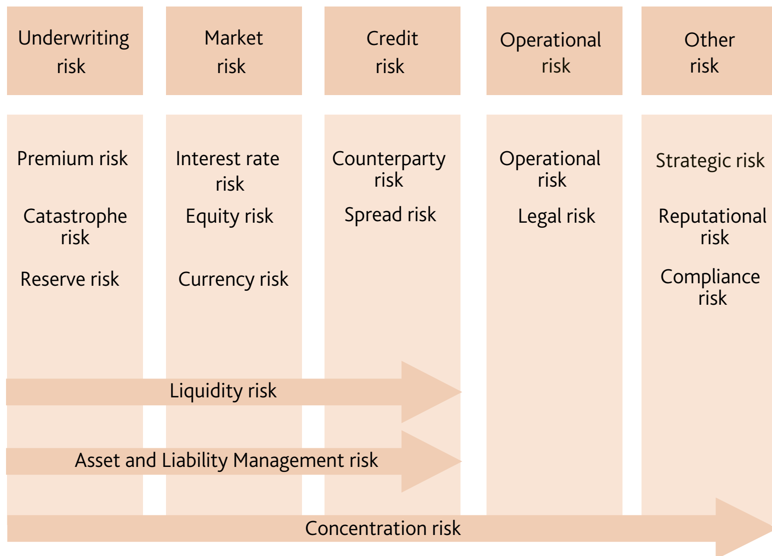


First line of defence **The Heads of Units**	• own the risk, is accountable for asessing, controlling and mitigating the risks in their day to day operations; and • appoint the Business Risk Coordinators for each risk category to facilitate the risk management and reporting to the second line of defence.
Second line of defence **The Risk Manager** **The 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 **The 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.

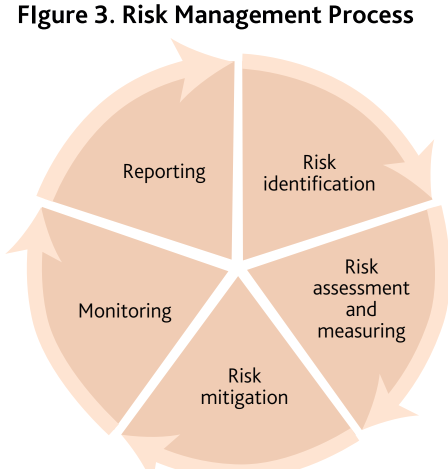
Risk Strategy

Company's risk strategy forms part of the governing principles for the operations.
The risk management strategy is to:

- Ensure a sound and well-established risk culture in the Company;
- 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 that risk buffers, in the form of capital and foreseeable profitability, are adequate in relation to the current risks inherent in business activities and existing market environment;
- Limit fluctuations in the economic values; and
- Ensure the overall efficiency, security and continuity of operations.

The Company's Risk 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 years business plan and corresponding risk profile and capitalisation is analysed under different scenarios and stress test 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.

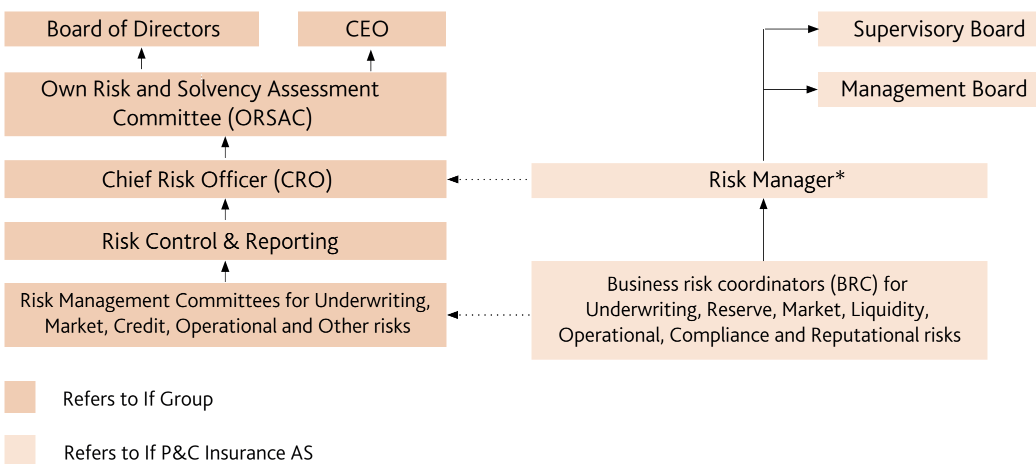
Risk Governance and Reporting Structure

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 strategy, company level risk appetite and tolerances by adopting annually 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 the sound risk culture within the Company. The Management Board receives risk reports from the Risk Manager, takes active part in the forward-looking own risk and solvency assessment (ORSA) process and ensures that the management and follow-up of risks are satisfactory and 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. Risk Management function supports the implementation of the Risk Management System within the Company.

Figure 4. Risk management function set-up and reporting structure



*Person responsible for the Risk Management Function

2. CAPITAL MANAGEMENT

The Company focuses on capital efficiency and sound risk management by 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 (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 and required capital. To fulfill requirements from various stakeholders, different measures are used to describe the capital position: regulatory capital measures and internal economic measures.

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 consist of premium, catastrophe and reserve risks.

PREMIUM RISK AND CATASTROPHE RISK
Premium risk is the risk of loss or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events which have not occurred at the balance date.

Catastrophe risk is the risk of loss or of adverse change 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 follow-ups on regular basis linked to strategy and financial planning process. The Underwriting Policy sets general principles, restrictions and directions for the underwriting activities. The Underwriting Policy is supplemented with the Baltic and country based guidelines outlining 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 for each line of business, as well as limits relating to concentration risk, single reinsurance counterparty exposure, counterparty exposure within a program. The Company has mainly excess of loss reinsurance cover per risk and catastrophic events for all lines of business underwritten with the retention of €3.5 million per risk and €3.5 million per event. The retention level and the maximum limits of reinsurance treaties are analysed regularly along with changes and developments made in the insurance business, such as new lines of business, single insured accounts and improvements made in insurance terms and conditions.

Risk exposure
There is a risk, given the inherent uncertainty of property and casualty insurance, that losses due to claims may be higher than expected. Examples of such events 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 the results before tax is presented in Table 1.

Table 1. Sensitivity analysis of premium risk, December 31, 2017

€000

Parameter	Current level, 2017	Change	Effect on pretax profit	
			2017	2016
Combined ratio	89.3%	+/-2% points	+/-2,652	+/-2,615
Premium volume	132,618	+/-2%	+/-284	+/-259
Claims level	84,406	+/-2%	+/-1,688	+/-1,674

RESERVE RISK

Reserve risk is the risk of loss, or of adverse change 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 balance date.

Reserve risk includes revision risk, which is defined as the risk of loss, or of adverse change 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 the technical provisions are based on estimates of the size and the frequency of future claim payments.

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

Risk Management and Control

The Management Board of the Company decides on The Baltic Reserving Guidelines. 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 the total 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 projections of number of claims and average claim costs.

The anticipated inflation trend is taken into account explicitly in calculation of 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

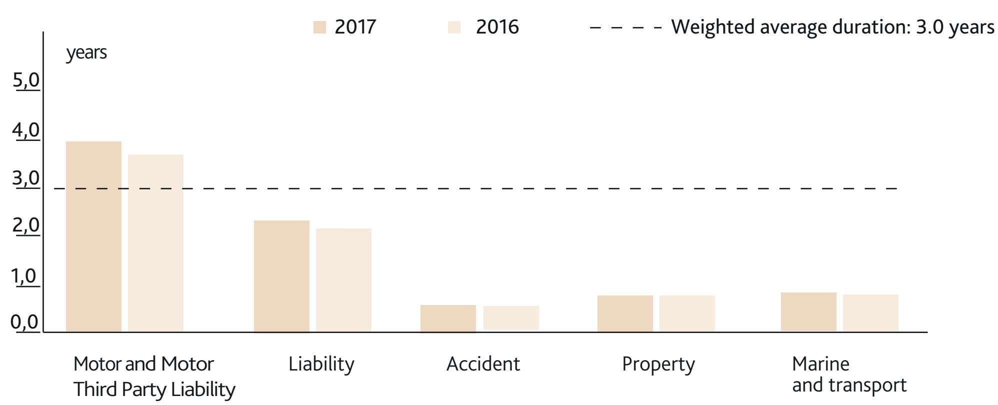
The amount of technical provisions broken down by line of business is shown in Table 2. The Company's technical provisions are dominated by short tailed business and contribution of the long-tail annuities related to the compulsory Motor third party liability insurance have a relatively small impact.

Table 2. Technical provisions by line of business, 31 December

€000 Line of business	Gross liabilities related to insurance contracts		Reinsurers' share of liabilities		Net liabilities	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Compulsory Motor TPL	65,418	57,713	380	357	65,038	57,356
Motor Own Damage	21,525	19,442	-	-	21,525	19,442
Private Property	8,945	8,853	-	-	8,945	8,853
Corporate Property	14,629	13,722	282	203	14,347	13,519
Liability	24,251	20,440	3,741	1,960	20,510	18,480
Personal Accident	2,065	1,894	-	-	2,065	1,894
Health	3,634	3,618	-	-	3,634	3,618
Other	4,757	4,930	799	197	3,958	4,733
TOTAL	**145,224**	**130,612**	**5,202**	**2,717**	**140,022**	**127,895**

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, for example, interest rate risk and inflation risk, which are described in greater detail under market risk.

Figure 5. Duration of technical provisions by line of business, 31 December



Sensitivity analysis

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

Table 3. Sensitivity analysis of reserve risk, 31 December

€000				Effect on liabilities/pretax profit	
Portfolio	**Risk**	**Change in risk parameter**	**Country**	**2017**	**2016**
Nominal reserves	Inflation increase	Increase by 1%-point	Estonia	1,362	1,202
			Latvia	197	178
			Lithuania	435	415
			TOTAL	**1,994**	**1,795**
Discounted reserves (annuities)	Decrease in discount rate	Decrease by 1%-point	Estonia	1,458	1,226
			Latvia	306	182
			Lithuania	95	105
			TOTAL	**1,859**	**1,513**
Annuities	Decrease in mortality	Mortality rates decrease by 20%	Estonia	165	118
			Latvia	19	15
			Lithuania	4	4
			TOTAL	**187**	**137**

Market risk

Market risk is the risk of loss, or of an adverse change in financial situation, resulting directly or indirectly, from fluctuations in the level or in the volatility of market prices of assets 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. It sets guiding principles, for instance prudent person principle, specific risk restrictions and decision making structure for the investment activities.

The Company's overall risk appetite, risk tolerances, regulatory requirements and the nature of technical provisions are taken into account when deciding limits, when setting return and liquidity targets. The market risk is monitored and reported to the Management Board and to the Supervisory Board as part of the quarterly risk reports

Risk exposure

Market risk expresses the risks stemming from the investment activities. The Company investment activities have been conservative and the investment portfolio consists only of fixed income instruments. No derivatives are used during the reporting period.

The Company's investments operations generated a return of 0.8% in 2017 (2016: 1.4%). The investment assets amounted as at the end of the reporting period to €271,960 thousand (2016: €244,971 thousand).

The major market risk comprises interest rate risk. The Company's exposure to equity and currency risks is not material. The exposure towards 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	31.12.2017	%	31.12.2016	%
Bonds and other interest-bearing securities	249,560	92%	222,969	91%
Loans and receivables (term deposits)	22,400	8%	22,002	9%
TOTAL	**271,960**	**100%**	**244,971**	**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 nature of the insurance commitments with respect to interest rate risk and inflation risk, is taken into account in the composition of investment assets. The interest rate risk is managed by sensitivity limits for instruments sensitive to interest rate changes.

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

Sensitivity analysis

The below table brings out some of the key assumptions indicating the effect of potential changes, other factors remaining constant. The analysis is based on the investment portfolio as of 31.12.2017 with comparative as of 31.12.2016 and is calculated before taxes.

Table 5. Sensitivity analysis of the fair value of financial assets

Company's investment portfolio on 31 December 2017

€000	1 % Parallel shift in the interest curve	
Market risk sensitivity analysis	Up	Down
Effect on financial results	-5,687	5,996

Company's investment portfolio on 31 December 2016

€000	1 % Parallel shift in the interest curve	
Market risk sensitivity analysis	Up	Down
Effect on financial results	-3,851	4,035

Risk exposure

Since the technical provisions are predominantly stated in nominal terms in the balance sheet, the Company is mainly exposed to changes in future inflation. However, the economic value of the technical provisions, meaning the present value of future claims 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 will in some extent affect the level of technical provisions in the Company's balance sheet.

The discount rates vary between countries mainly due to legislative differences.

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.

The duration of bonds and other interest-bearing investments was 2.2 years at year end 2017 (1.6 years in 2016). 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, 31 December

	2017			2016		
€000	Carrying amount	%	Duration years	Carrying amount	%	Duration years
Euro credit (excl. Scandinavian)	130,739	48.1%	2.6	90,619	37.0%	2.4
Scandinavian credit	49,877	18.3%	2.5	70,856	28.9%	1.1
US credit	58,352	21.5%	1.4	50,915	20.8%	1.3
Short-term fixed income (incl. Scandinavian short)	22,400	8.2%	0.9	22,002	9.0%	0.8
Global credit	8,095	3.0%	0.2	8,073	3.3%	0.2
Euro governments	2,497	0.9%	8.1	2,505	1.0%	9.0
TOTAL	**271,960**	**100%**	**2.2**	**244,971**	**100%**	**1.6**

EQUITY RISK

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

Risk exposure

The Company is not exposured to equity risk. According to the Investment Policy and Baltic Investment Policy, it is not allowed to invest in equity instruments. The only Equity risk exposure relates to fully owned subsidiary (Support Services AS) and this is not subject to market movements in equity prices.

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 not material. The majority of the insurance liabilities and all financial investments of the Company are in euro.

Credit risk

Credit risk means the risk of loss or of adverse change in financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which insurance undertakings are exposed in the form of 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 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 INVESTMENTS OPERATIONS

The main credit risk for the Company is stemming from the investments. Credit risk in the investment operations can be measured as counterparty default risk and spread risk. In most cases part of the credit risk is already reflected by 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.

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

Risk Management and Control

Credit risk in the investment operation is managed by specific limits stipulated in the Investment Policy and in the Baltic Investment Policy. In these documents, limits are set for maximum exposures towards single issuers, type of debt category and per rating class. The spread risk is further limited by sensitivity restrictions for instruments sensitive to spread changes.

Before investing, potential investments are analyzed 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, 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 exposures are reported by ratings, instruments and the industry sectors.

Risk exposure

The Company credit risk exposures arise from fixed income investments. A large part of the Company's fixed income investments are concentrated to financial institutions. The exposures are shown by sector, asset class and rating category in Table 7.

Table 7. Exposures by sectors, asset classes and rating, 31 December

2017

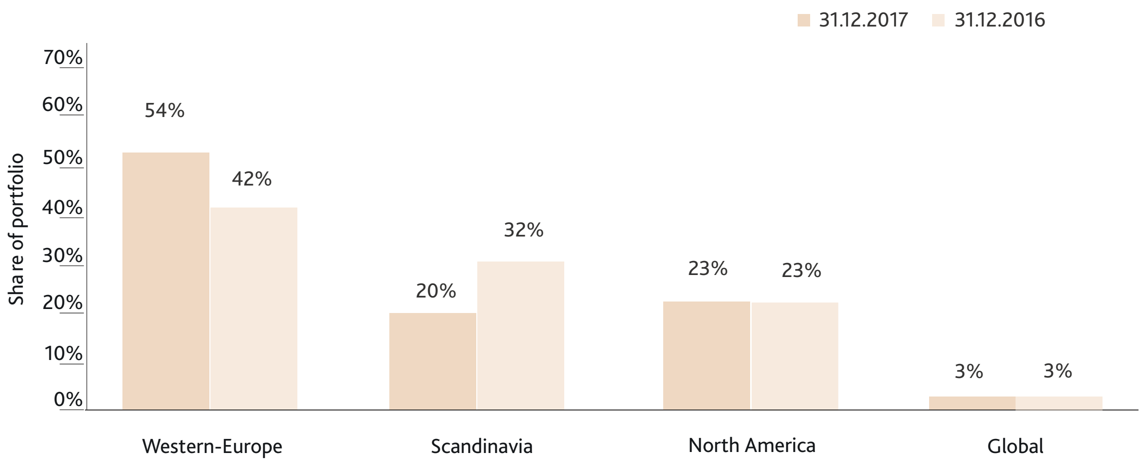
€000	AAA	AA+- AA-	A+ - A-	BBB+- BBB-	BB+ - C	Non-rated	Fixed income total
Basic industry	-	-	5,028	-	1,109	9,831	**15,968**
Capital goods	-	-	15,172	6,567	-	9,821	**31,560**
Consumer products	-	3,015	10,547	8,186	-	-	**21,748**
Covered bonds	5,083	-	-	-	-	-	**5,083**
Energy	-	-	-	-	-	4,589	**4,589**
Financial institutions	-	61,563	46,774	14,678	-	-	**123,015**
Governments	-	2,497	-	-	-	-	**2,497**
Health care	-	-	-	5,641	-	5,251	**10,892**
Real estate	-	-	5,549	5,845	-	-	**11,394**
Services	-	-	-	9,025	1,036	4,139	**14,200**
Telecommunications	-	-	-	5,646	-	2,171	**7,817**
Transportation	-	-	2,659	2,531	-	1,010	**6,200**
Utilities	-	-	-	14,982	-	-	**14,982**
Other	-	2,014	-	-	-	-	**2,014**
TOTAL	**5,083**	**69,089**	**85,729**	**73,101**	**2,145**	**36,812**	**271,960**

2016

€000	AAA	AA+- AA-	A+ - A-	BBB+- BBB-	BB+ - C	Non-rated	Fixed income total
Basic industry	-	-	5,009	-	1,152	2,045	**8,206**
Capital goods	-	10,019	5,138	6,336	-	-	**21,493**
Consumer products	-	6,010	8,571	10,637	-	-	**25,218**
Covered bonds	10,313	-	-	-	-	-	**10,313**
Financial institutions	-	69,685	43,620	5,576	-	-	**118,881**
Governments	-	2,505	-	-	-	-	**2,505**
Health care	-	-	-	4,598	-	5,360	**9,958**
Real estate	-	-	-	-	-	1,005	**1,005**
Services	-	-	-	12,639	-	4,146	**16,785**
Telecommunications	-	-	5,207	2,661	-	2,181	**10,049**
Transportation	-	-	2,681	2,535	-	-	**5,216**
Utilities	-	-	-	15,342	-	-	**15,342**
TOTAL	**10,313**	**88,219**	**70,226**	**60,324**	**1,152**	**14,737**	**244,971**

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 fixed income 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 through reinsurance receivables and through the reinsurers' share in technical provisions.
The Company's credit risk exposure towards policyholders and mediators is very limited, because non-payment 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 the 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 is stemming from the reinsurance recoverables (reinsurance receivables and reinsurers' share in technical provisions). The distribution of reinsurance recoverables is presented in Table 8. The most of the exposures are towards AA and A rating and non rated exposure is very limited mainly related to historical claims reinsured via pool managed by Estonian Motor Bureau.

Table 8. Reinsurance recoverables per credit rating category, 31 December

€000 **Rating (S&P)**	**2017**	**%**	**2016**	**%**
AA	3,474	65.1%	1,481	51.4%
A	1,469	27.5%	1,022	35.5%
NR	396	7.4%	379	13.1%
Total	**5,339**	**100%**	**2,882**	**100%**

Liquidity risk

Liquidity risk is the risk that an insurance undertaking is unable to realize investments and other assets in order to settle its financial obligations when they fall due.

Risk Management and Control
In property and casualty insurance, the 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 the 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 analyzed regularly, taking both normal market conditions and stressed conditions into consideration. Liquidity risk is reduced by having investments that are readily marketable in liquid markets. liquidity risk is reduced by having investments that are readily marketable in liquid markets. The Accounting Department manages the liquidity risk on a day-to-day basis.

Risk exposure
The maturities of cash flows for technical provisions, financial assets and liabilities are presented in Table 9. In the table, financial assets and liabilities are divided into contracts with an exact contractual maturity profile. 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 for financial assets, liabilities and net technical provisions

31.12.2017	Carrying amount			Cash flows						
€000	Carrying amount	Without maturity	With contractual maturity	2018	2019	2020	2021	2022	2023-2032	2033-
Financial assets	**294,263**	**9,248**	**285,015**	42,044	54,989	95,177	29,457	24,939	43,348	-
Financial liabilities	**10,305**	**-**	**10,305**	10,305	-	-	-	-	-	-
Net technical provisions	**140,021**	**-**	**140,021**	75,876	17,436	11,277	8,025	5,764	16,420	5,223

31.12.2016	Carrying amount			Cash flows						
€000	Carrying amount	Without maturity	With contractual maturity	2017	2018	2019	2020	2021	2022-2031	2032-
Financial assets	**269,336**	**13,268**	**256,068**	73,328	9,337	64,739	79,144	22,373	11,846	-
Financial liabilities	**9,368**	**-**	**9,368**	9,368	-	-	-	-	-	-
Net technical provisions	**127,895**	**-**	**127,895**	71,009	16,121	9,988	6,955	4,960	14,322	4,540

Concentration risk

Concentration risk is all risk concentrations towards 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

In the Company's Underwriting Policy, Investment Policy and Reinsurance Policy limits are set for maximum exposures towards single issuers and per rating class.

Risk exposure

The Company provides insurance services across multiple lines of business in three Baltic countries in different legislation and competition environment. Therefore, the insurance portfolio and operations of the insurance business can be regarded diversified. However, the main risk concentration in the Company insurance portfolio may arise as a result of the natural catastrophes as storms and floods influencing three Baltic countries simultaneously. The risk exposure, management and control of this risk is described more in detail in Premium risk and catastrophe risk section above.

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

Table 10. Concentration of market and credit risks in individual counterparties and asset classes, 31 December

2017 €000	Deposits	FRN and bonds	Total
Luminor Bank AB	22,400	-	**22,400**
Raiffeisen-Boerenleenbank BA/Netherlands	-	16,299	**16,299**
DnB ASA	-	10,079	**10,079**
General Electric Co	-	10,049	**10,049**
Jyske Bank A/S	-	8,252	**8,252**
TOTAL	**22,400**	**44,679**	**67,079**

2016 €000	Deposits	FRN and bonds	Total
Nordea Bank AB	22,002	-	**22,002**
DnB ASA	-	17,201	**17,201**
Raiffeisen-Boerenleenbank BA/Netherlands	-	16,366	**16,366**
General Electric Co	-	10,019	**10,019**
Swedbank AB	-	9,923	**9,923**
TOTAL	**22,002**	**53,509**	**75,511**

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 unpredictable or unknown legal development or uncertain interpretations of regulations as well as defective documentation.

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 is assessing the operational risks from the company perspective. The risk levels are monitored on continuous basis and reported regularly to the Management and Supervisory Board 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 the incidents trend and the severe impacts are part of 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. The business continuity exercises are carried out at least annually in each country, and the results are analysed and improved actions implemented into the IT Disasters Recovery Plans and Business Continuity Plans. Overview of the continuity management exercises plans and their results are reported to Estonian FSA annually.

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, Complaints Handling Policy and Claims Handling Policy.

Risk exposure
Insurance daily operations are heavily dependent on the IT and infrastructure functioning. Therefore, the main material Operational risk exposure may arise from IT systems and developments.

Other risk

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.

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 with the operational risks and incidents. Additionally, compliance monitoring activities in particular field of compliance topics are carried out when deemed necessary.

Identified risks are assessed from a severity perspective, encompassing 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 materialized operational or compliance risk and is defined as potential damage to the Company through deterioration of its reputation amongst customer 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 in all aspects.

Risk Management and Control
When assessing the operational and compliance risks, the reputational consequence of a materialized risk is taken into account. Additionally, media incidents are reported by the Head of Communication Units in Estonia, Latvia and Lithuania at least twice per year to the Risk Manager. The 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 work 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 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
The 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 implementation of management actions based on the risk development.

4. SOLVENCY II

Detailed information about the Company´s risks based on the Solvency II regulation is available from the Solvency and Financial Condition Report and is disseminated annually in the web page.

5. VALUATION OF FINANCIAL ASSETS AND LIABILITIES

The recognition of financial assets and liabilities depend on their classification. The classification of assets and liabilities categorized in accordance with IAS 39 is shown in Table 11.

Table 11. Financial assets and financial liabilities

€000	31.12.2017	31.12.2016
Financial assets measured at fair value through profit and loss:		
Classified as held for trading		
Bonds and other interest-bearing securities	10,725	35,722
Available-for-sale financial assets		
Bonds and other interest-bearing securities	238,835	187,247
Total financial assets at fair value	**249,560**	**222,969**
Financial assets measured at amortised cost:		
Loans and receivables		
Term deposits	22,400	22,002
Other assets		
Cash and cash equivalents	8,011	12,178
Receivables related to direct insurance activities	12,747	10,778
Accrued income	1,237	1,090
Receivables related to reinsurance	136	164
Other receivables	172	155
TOTAL FINANCIAL ASSETS	**294,263**	**269,336**
Financial liabilities valued at amortised cost:		
Accrued expenses	4,842	4,490
Liabilities related to direct insurance activities	4,338	3,499
Liabilities related to reinsurance	997	974
Other liabilities	128	405
TOTAL FINANCIAL LIABILITIES	**10,305**	**9,368**

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 made by several different external sources and assessments of abnormal price changes are performed when necessary.

Different valuation methods are used to determine the 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, the 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 the generally accepted valuation techniques.

Financial instruments measured at fair value have been classified into three hierarchy levels depending on their liquidity and valuation methods. The control of hierarchy levels is done quarterly and if conditions have changed for the existing level, the holding in question is moved to the correct hierarchy level. The valuation of financial assets is shown in Table 12.

Table 12. Determination of hierarchy of fair value

€000 31.12.2017	Level 1	Level 2	Total fair value
Financial assets at fair value through profit or loss			
Debt securities	10,725	-	10,725
Available-for-sale financial assets			
Debt securities	219,953	18,882	238,835
TOTAL	**230,678**	**18,882**	**249,560**

31.12.2016	Level 1	Level 2	Total fair value
Financial assets at fair value through profit or loss			
Debt securities	35,722	-	35,722
Available-for-sale financial assets			
Debt securities	173,380	13,866	187,247
TOTAL	**209,102**	**13,866**	**222,969**

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 characterized by quoted prices that are easily and regularly available and that represent actual and regularly occurring transactions at arm's length distance. 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 noted prices on an active market at the time of valuation.

Level 2 – Financial assets and liabilities with values based on quoted prices or valuation based on directly or indirectly observable market data.
In the level 2 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 in 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 valued at level 2 include interest-bearing assets where the market is not active enough like 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 is 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 encountering financial difficulties.

There were no level 3 financial instruments measured at fair value in the portfolio as at 31.12.2017.

Note 3. Premiums earned, net of reinsurance

€000	2017	2016
Premiums written, gross	138,750	130,781
Change in the provision for unearned premiums	-3,458	2,517
Premiums earned, gross of reinsurance	**135,292**	**133,298**
Reinsurance premiums	-2,615	-2,687
Change in the provision for unearned premiums	-59	118
Premiums earned, ceded	**-2,674**	**-2,569**
TOTAL	**132,618**	**130,729**

Note 4. Return on investments

€000	2017	2016
INTEREST INCOME/EXPENSE		
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other interest-bearing securities	619	1,292
Available-for-sale financial assets		
From bonds and other interest-bearing securities	1,915	1,475
Loans and receivables		
From term deposits	8	20
From cash and cash equivalents	1	1
TOTAL	**2,543**	**2,788**
PROFIT FROM DISPOSALS		
Available -for-sale financial financial assets		
From bonds and other interest-bearing securities	430	14
TOTAL	**430**	**14**
PROFIT/LOSS FROM CHANGE IN FAIR VALUE		
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other interest-bearing securities	-530	-886
TOTAL	**-530**	**-886**
Investment expenses	**-682**	**-634**
TOTAL RETURN ON INVESTMENTS	**1,761**	**1,282**

Reconciliation of fair value reserve of available-for-sale financial assets	**2017**	**2016**
Opening balance, available-for-sale financial assets	3,503	1,421
Changes in fair value during the year, recognized in comprehensive income	631	2,096
Recognized in income statement	-430	-14
CLOSING BALANCE, AVAILABLE-FOR-SALE FINANCIAL ASSETS	**3,704**	**3,503**

Note 5. Claims incurred, net of reinsurance

€000	2017	2016
Gross		
Claims paid during the year related to that year	-59,140	-66,566
Claims paid related to previous years	-21,214	-17,995
Amounts recovered from salvage and recourses	8,534	9,167
Change in the provision for claims outstanding	-11,153	-4,812
Claims handling costs	-4,131	-3,945
TOTAL	**-87,104**	**-84,151**
Reinsurer's share		
Claims paid during the year related to that year	119	114
Claims paid related to previous years	35	28
Change in the provision for claims outstanding	2,544	293
TOTAL	**2,698**	**435**
Net		
Claims paid during the year related to that year	-59,021	-66,452
Claims paid related to previous years	-21,179	-17,967
Amounts recovered from salvage and regresses	8,534	9,167
Change in the provision for claims outstanding	-8,609	-4,519
Claims handling expenses	-4,131	-3,945
TOTAL	**-84,406**	**-83,716**

Note 6. Expenses

€000	2017	2016
Personnel expenses	-20,476	-19,272
Commissions to intermediaries	-9,379	-8,948
Data processing	-2,213	-2,596
Expenses on premises	-2,175	-2,071
Office expenses (incl. communication expenses)	-1,024	-977
Other operating expenses	-3,162	-4,377
TOTAL	**-38,429**	**-38,241**
Division of costs on the basis of functions		
Insurance contract acquisition costs	-21,879	-22,480
Administrative expenses	-12,419	-11,816
Claims handling expenses	-4,131	-3,945
TOTAL	**-38,429**	**-38,241**

Note 7. Receivables related to insurance activities and specification of bad debts

€000	31.12.2017	31.12.2016
Receivables related to direct insurance activities, incl.	12,747	10,778
- policyholders	9,061	7,704
- intermediaries	2,100	1,750
- recourses with significant recoverability	1,271	987
- salvages	252	277
- other	63	60
Receivables related to reinsurance	136	164
- incl. from related parties (Note 18)	4	-
Other receivables	172	155
TOTAL	**13,055**	**11,097**

Term of the receivables		
Neither past-due nor impaired:		
- not due yet (due within 1 year)	12,326	10,447
Past-due but not impaired:		
- due for 0-3 months	621	519
- due for 3-6 months	28	22
- due for 6-12 months	43	55
- due for over 1 year	37	54
TOTAL	**13,055**	**11,097**

SPECIFICATION OF CHANGE IN BAD DEBT PROVISION

€000	Individually impaired	Collectively impaired	Total
At 1 January 2016	**-225**	**-98**	**-323**
Realized losses during the year	109	-	109
Unused amounts reversed during the year	403	-	403
Additions	-559	-	-559
Change in general provisions	-	4	4
At 31 December 2016	**-272**	**-94**	**-366**
Realized losses during the year	46	-	46
Unused amounts reversed during the year	474	-	474
Additions	-503	-	-503
Change in general provisions	-	12	12
At 31 December 2017	**-255**	**-82**	**-337**

Note 8. Accrued income and prepaid expenses

€000	31.12.2017	31.12.2016
Net deferred acquisition costs	2,916	2,772
Prepaid expenses	819	595
Corporate income tax	300	367
TOTAL	**4,035**	**3,734**

DEFERRED ACQUISITION COSTS	2017		
€000	Share of acquisition costs (gross)	Reinsurer's share of acquisition costs	Share of acquisition costs (net)
Balance as of January 1	**2,844**	**-72**	**2,772**
Acquisition costs deferred during the year	9,251	-190	9,061
Reversal of previously deferred acquisition costs	-9,113	196	-8,917
Balance as of December 31	**2,982**	**-66**	**2,916**

DEFERRED ACQUISITION COSTS	2016		
€000	Share of acquisition costs (gross)	Reinsurer's share of acquisition costs	Share of acquisition costs (net)
Balance as of January 1	**3,364**	**-51**	**3,313**
Acquisition costs deferred during the year	8,832	-209	8,623
Reversal of previously deferred acquisition costs	-9,352	188	-9,164
Balance as of December 31	**2,844**	**-72**	**2,772**

Note 9. Financial investments

€000	31.12.2017	31.12.2016
Financial assets measured at fair value through profit and loss		
Classified as held for trading		
Bonds and other interest-bearing securities		
- listed, with a fixed interest rate (4.25-5.5% , 31.12.2016: 2.375-5.5%)	10,725	35,722
Available-for-sale financial assets		
Bonds and other interest-bearing securities		
- listed	230,022	180,499
- unlisted	8,813	6,748
incl. with a floating interest rate	95,293	93,405
incl. with a fixed interest rate (0.0-3.75%)	143,542	93,842
TOTAL	**238,835**	**187,247**
Loans and receivables		
Term deposits	22,400	22,002
FINANCIAL INVESTMENTS TOTAL	**271,960**	**244,971**

Term deposits earn an annual interest 0.01-0.03% (as of 31.12.2016: 0.05%).

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS

€000	2017	2016
Balance at Jan.1	**35,722**	**41,621**
Classified as held for trading		
Bonds and other interest-bearing securities		
Sale	-23,878	-4,977
Change in fair value through profit and loss	-530	-887
Change in accrued interest	-589	-35
Balance at Dec. 31	**10,725**	**35,722**

AVAILABLE-FOR-SALE FINANCIAL ASSETS

€000	2017	2016
Balance at Jan.1	**187,247**	**169,438**
Bonds and other interest-bearing securities		
Purchase	80,901	47,839
Sale	-29,921	-32,384
Change in fair value recorded in other comprehensive income	201	2,082
Change in accrued interest	407	272
Balance at Dec. 31	**238,835**	**187,247**

LOANS AND RECEIVABLES

€000	2017	2016
Balance at Jan.1	**22,002**	**24,515**
Term deposits		
Purchase	30,400	25,000
Maturity	-30,000	-27,500
Change in accrued interest	-2	-13
Balance at Dec. 31	**22,400**	**22,002**

DIVISION OF BONDS AND OTHER INTEREST-BEARING SECURITIES BY MATURITY TERMS

€000	31.12.2017	31.12.2016
Up to 1 year	4,168	38,170
1-2 years	54,020	6,818
2-5 years	146,318	166,162
5-10 years	45,054	11,818
TOTAL	**249,560**	**222,969**

DEPOSITS BY MATURITY TERMS

€000	31.12.2017	31.12.2016
6-12 months	22,400	22,002
TOTAL	**22,400**	**22,002**

	31.12.2017		31.12.2016	
€000	Fair value	Acquisition cost	Fair value	Acquisition cost
Financial assets measured at fair value through profit or loss				
Classified as held for trading				
Bonds and other interest-bearing securities	10,725	10,040	35,722	33,918
Available-for-sale financial assets				
Bonds and other interest-bearing securities	238,835	233,875	187,247	182,894
TOTAL	**249,560**	**243,915**	**222,969**	**216,812**
Loans and receivables				
Term deposits	22,400	22,400	22,002	22,000
FINANCIAL ASSETS TOTAL	**271,960**	**266,315**	**244,971**	**238,812**

BONDS WITH A FIXED INTEREST RATE, BY INTEREST RATES

€000	31.12.2017	31.12.2016
Interest rate: 0.0-0.9%	49,747	37,445
Interest rate: 1.0-1.9%	66,953	29,752
Interest rate: 2.0-2.9%	24,749	36,397
Interest rate: 3.0-3.9%	2,093	14,891
Interest rate: 4.0-4.9%	9,616	9,927
Interest rate: 5.0-6.0%	1,109	1,152
TOTAL	**154,267**	**129,564**

Note 10. Property, plant and equipment

€000	Other PPE
Net book value 31.12.2016	**765**
Acquisition	206
Write-off	-1,343
Disposal	-88
Acquisition cost 31.12.2016	1,681
-incl. fully depreciated	514
Depreciation charge for the year	-335
Depreciation charge of sales and disposals	1,390
Accumulated depreciation 31.12.2016	-1,086
Net book value 31.12.2016	**595**
Acquisition	175
Write-off	-31
Disposal	-29
Acquisition cost 31.12.2017	1,796
-incl. fully depreciated	525
Depreciation charge for the year	-325
Depreciation charge of sales and disposals	57
Accumulated depreciation 31.12.2017	-1,354
Net book value 31.12.2017	**442**

Note 11. Liabilities related to insurance activities

€000	31.12.2017	31.12.2016
Liabilities related to direct insurance activities, incl.	**4,338**	**3,499**
-policyholders	2,836	2,507
-intermediaries	1,387	869
-others	115	123
Liabilities related to reinsurance	997	974
- incl. from related parties (Note 18)	626	536
Other liabilities	128	405
TOTAL	**5,463**	**4,878**

All above mentioned liabilities are current liabilities.

Note 12. Accrued expenses and deferred income

€000	31.12.2017	31.12.2016
Variable compensation reserve (incl. taxes)	1,982	1,676
Unused vacation liability (incl. taxes)	1,028	1,004
Employee-related liabilities	607	585
Taxes payable	401	400
Other accrued expenses	824	825
TOTAL	**4,842**	**4,490**
Terms of liabilities		
Up to 12 months	4,842	4,490

Note 13. Liabilities related to insurance contracts and reinsurance assets

€000	31.12.2017	31.12.2016
Gross		
Provision for incurred and reported claims and claims handling expenses	69,016	62,165
Provision for incurred but not reported claims	31,525	27,222
Provision for unearned premiums	44,683	41,225
TOTAL	**145,224**	**130,612**
Reinsurer's share		
Provision for incurred and reported claims and claims handling expenses	4,282	1,780
Provision for incurred but not reported claims	277	235
Provision for unearned premiums	643	702
TOTAL	**5,202**	**2,717**
Net		
Provision for incurred and reported claims and claims handling expenses	64,734	60,385
Provision for incurred but not reported claims	31,248	26,987
Provision for unearned premiums	44,040	40,523
TOTAL	**140,022**	**127,895**

€000		**2017**	
Provision for incurred and reported claims,claims incurred but not yet reported (IBNR)and provision for claims handling expenses	**Liabilities arising from insurance contracts**	**Reinsurer's share of liabilities**	**Net**
Balance as of January 1	**89,387**	**-2,015**	**87,372**
Change in the provision for claims incurred but not yet settled, related to current year	17,942	-854	17,088
Change in the provision for claims incurred but not yet settled, related to previous years	-11,378	-1,648	-13,026
Change in the provision for claims incurred but not reported, related to current year	10,698	-42	10,656
Change in the provision for claims incurred but not reported, related to previous years	-6,395	-	-6,395
Change in the provision for claims handling expenses	287	-	287
Balance as of December 31	**100,541**	**-4,559**	**95,982**

€000	2016		
Provision for incurred and reported claims,claims incurred but not yet reported (IBNR)and provision for claims handling expenses	**Liabilities arising from insurance contracts**	**Reinsurer's share of liabilities**	**Net**
Balance as of January 1	**84,575**	**-1,722**	**82,853**
Change in the provision for claims incurred but not yet settled, related to current year	17,946	-2	17,944
Change in the provision for claims incurred but not yet settled, related to previous years	-13,769	-330	-14,099
Change in the provision for claims incurred but not reported, related to current year	9,332	-32	9,300
Change in the provision for claims incurred but not reported, related to previous years	-8,197	71	-8,126
Change in the provision for claims handling expenses	-500	-	-500
Balance as of December 31	**89,387**	**-2,015**	**87,372**

€000	2017		
Provision for unearned premiums	**Liabilities arising from insurance contracts**	**Reinsurer's share of liabilities**	**Net**
Balance as of January 1	**41,225**	**-702**	**40,523**
Premiums written in the year	138,751	-2,616	136,135
Premiums earned during the year	-135,293	2,674	-132,619
Translation difference	-	1	1
Balance as of December 31	**44,683**	**-643**	**44,040**

€000	2016		
Provision for unearned premiums	**Liabilities arising from insurance contracts**	**Reinsurer's share of liabilities**	**Net**
Balance as of January 1	**43,742**	**-586**	**43,156**
Premiums written in the year	130,781	-2,687	128,094
Premiums earned during the year	-133,298	2,569	-130,729
Translation difference	-	2	2
Balance as of December 31	**41,225**	**-702**	**40,523**

The development of claims: 2010 - 2017

The overview of claims 2010-2017 has been provided in the below tables. The claims have been presented separately for each year. The tables provide 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 2017, the gross provision for claims outstanding for earlier accident years amounted to €7,412 thousand (at 31 December 2016 €8,843 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 2017. The Company believes that the estimate of provision for outstanding claims as at the end of 2017 is adequate to cover claims incurred till the 31.12.2017 (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	2010	2011	2012	2013	2014	2015	2016	2017
At 31 December								
Accident year	71,683	66,946	68,357	70,894	69,821	76,735	87,509	81,838
1 year later	71,690	69,644	68,659	73,242	70,326	77,744	90,643	
2 years later	70,102	69,294	68,434	73,562	71,256	78,427		
3 years later	69,148	66,592	66,927	72,272	71,629			
4 years later	69,395	65,692	63,858	72,579				
5 years later	69,041	65,379	62,648					
6 years later	68,431	64,980						
7 years later	67,848							
Provision for outstanding claims (incl. IBNR) as of 31.12.2017	4,792	3,985	5,313	10,884	10,036	10,733	15,454	28,640

Claims paid, recourses and salvages (accumulated), gross

€000	2010	2011	2012	2013	2014	2015	2016	2017
At 31 December								
Accident year	46,732	47,296	43,432	46,648	46,600	53,052	60,231	53,199
1 year later	60,916	57,908	54,967	59,474	59,494	66,451	75,190	
2 years later	60,951	59,997	56,077	60,675	60,633	67,693		
3 years later	61,871	60,355	56,727	61,269	61,592			
4 years later	62,660	60,533	56,983	61,679				
5 years later	63,098	60,631	57,309					
6 years later	62,719	61,015						
7 years later	63,085							

Note 14. Corporate income tax

(A) INCOME TAX EXPENSE

€000	2017	2016
Current tax	-488	-639
Deferred tax	-10	-25
TOTAL INCOME TAX EXPENSE	**-498**	**-664**
Specification of income tax expense		
Latvia	-136	-209
Lithuania	-362	-455
TOTAL	**-498**	**-664**

(B) RECONCILIATION OF TAX CHARGE

€000	2017	2016
Profit of Branches	**3,661**	**4,390**
Tax at 15%	**-549**	**-659**
Permanent differences	24	10
Temporary differences	2	2
Prior year tax adjustment	12	-24
Donation	13	7
TOTAL TAX CHARGE FOR THE YEAR	**-498**	**-664**

(C) DEFERRED TAX

€000	31.12.2017	31.12.2016
Deferred tax liability		
Accelerated capital allowances	-12	16
Provision for amounts recoverable by subrogation	-66	37
TOTAL DEFERRED TAX LIABILITY	**-78**	**53**
Deferred tax asset		
Vacation reserve and other accruals	166	144
Doubtful debts	32	37
Asset valuation allowance for doubtful receivables	-4	-6
Software amortization	2	6
TOTAL DEFERRED TAX ASSET	**196**	**181**
NET DEFERRED TAX ASSET	**118**	**128**

SPECIFICATION OF DEFERRED TAXES

€000	31.12.2017	31.12.2016
Deferred tax liability		
Latvia	-12	16
Lithuania	-66	37
TOTAL	**-78**	**53**
Deferred tax asset		
Latvia	129	115
Lithuania	67	66
TOTAL	**196**	**181**
Net deferred tax asset		
Latvia	117	99
Lithuania	1	29
TOTAL	**118**	**128**

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

€000	31.12.2017	31.12.2016
At 1 January	**367**	**-47**
Calculated	-488	-639
Paid	421	1,053
At 31 December	**300**	**367**

Note 15. Investment into subsidiary

Support Services AS
Field of activity: sales and claims handling back-office services to If Group companies in Finland, Norway, Denmark and Sweden.
Legal address: Lõõtsa 8a, Tallinn 11415

€000	31.12.2017	31.12.2016
Acquisition cost of shares	**88**	**88**
Number of shares	25,000	25,000
Participation	**100%**	**100%**
Total owner's equity	**505**	**371**
Share capital	25	25
Share premium	63	63
Mandatory reserve	3	3
Retained earnings	280	163
Profit for the period	134	117
Investment in the company's statement of financial position	**88**	**88**

As of 31 December 2017 the number of issued shares was 25,000 shares with nominal value 1 EUR.

Starting from 01.01.2018 major activities related to services provided to If Group companies was sold to If P&C Insurance Ltd (publ).

Note 16. Owner's equity

Share capital
As of 31 December 2017 the number of issued shares was of 6,391,165 with nominal value 1 EUR.

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

As of 31.12.2017, share premium amounted to €3,679 thousand (31.12.2016: €3,679 thousand).

Mandatory reserve
The mandatory reserve is set up, in accordance with the Commercial Code of Estonia. The mandatory reserve must amount to no less than 1/10 of the share capital.

As of 31.12.2017, mandatory reserve amounted to €2,362 thousand (31.12.2016: €2,362 thousand).

Retained earnings
On 27 March 2017, the sole shareholder resolved the dividend to be paid out in amount of €3,800 thousand and earnings after dividend's payment in amount of €115,793 thousand to be carried forward.

Dividends paid and proposed

€000	2017	2016
Declared and paid during the year	3,800	6,900
Final equity dividend per ordinary share	€0.5946	€1.0796

The Company's potential income tax liability
As of 31.12.2017 the Company's retained earnings amounted to €131,246 thousand (2016: €119,593 thousand). Undistributed profit from Estonian activities amounts to €127,785 thousand (2016: €115,244 thousand).

The maximum possible income tax liability in Estonia related to the payment of the Company's retained earnings, excluding retained earnings of Latvian and Lithuanian branches, as dividends is €25,613 thousand (2016: €23,155 thousand). The Company could thus pay total €105,633 thousand (2016: €96,437 thousand) in net dividends including profits of branches in amount of €3,181 thousand (2016: €3,816) taxed already in Latvia and 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 expenses to be recorded in the statement of comprehensive income in 2018, would not exceed the retained earnings as of 31.12.2017.

The profit available for distribution may be further limited by the solvency capital requirement (SCR).

Note 17. Operating lease

The Company leases office space and passenger cars under operating lease terms. Total rental expenses carried in the Company's income statement amount to €1,683 thousand (2016: €1,636 thousand).

As of 31.12.2017, the Company had the following deferred liabilities arising from operating lease contracts:

- up to 1 years	€1,697 thousand	(as of 31.12.2016	€1,321 thousand)
- 1 to 5 years	€4,833 thousand	(as of 31.12.2016	€1,720 thousand)

Note 18. Related party transactions

1. INFORMATION ABOUT RELATED COMPANIES

Subsidiary

The subsidiary Support Services AS, located in Tallinn, Estonia, has been providing sales and claims handling back-office services to the group companies If Finland, If Norway, If Denmark and If Sweden.

Parent company and other group companies

If P&C Insurance Holding Ltd (publ) 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 and life insurance If Livförsäkring AB, the Finnish company If P&C Insurance Company Ltd and the Estonian company If P&C Insurance AS. If's operations in Denmark, Norway, Latvia and partly in Finland are conducted via branches. Finnish company If P&C Insurance Company Ltd was merged with Swedish company If P&C Insurance Ltd from 01.10.2017 and operates now as a branch. In addition to the Nordic branches, If P&C Insurance Ltd has established branches in Germany, France, the Netherlands and the United Kingdom.
The holding company owns also If IT Services A/S which is located in Copenhagen, Denmark, and its line of business is to purchase IT operation services for the If Group's companies in the Nordic and Baltic area.
If P&C Insurance Holding Ltd (publ) is a wholly owned subsidiary of Sampo plc., a Finnish listed company.

Relations with Sampo

Sampo Plc is located in Helsinki, Finland. The Company's field of activity is to own and administer shares, other stocks and real estate, to trade in securities, and carry on other investment activities. Sampo Plc manages the Company's investments assets. Compensation for these services is based on a fixed commission calculated in accordance with the market value of the managed investments assets. The Company concluded agreement with Sampo Plc 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, so is a company related to If. Nordea distributes If' P&C insurance services in Sweden, Finland and the Baltics. The compensation takes the form of commission.
Nordea (Luminor Bank AS from 01.10.2017) is a banking partner of the Company and agreements have been concluded covering the management of bank accounts and related services. In asset management, investments are made by the Company in term deposits issued by Luminor Bank AS (prev Nordea).

Other related parties
The Company's shareholders, staff, Management Board and Supervisory Board members, their close relatives and other individuals with whom the above persons have significant influence are considered related parties.

2. TRANSACTIONS WITH MEMBERS OF THE MANAGEMENT BOARD AND MEMBERS OF THE SUPERVISORY BOARD

The Management Board members received a total of €1,061 thousand in remuneration in 2017, including social tax (2016: €1,523 thousand). No termination benefits were paid to members of the Management Board during 2017 (2016:0). According to the conditions of the contract concluded with the members of the Management Board, termination benefit up to 12 months shall be paid if the contract is terminated. No remuneration was paid to members of the Supervisory Board in 2017 and 2016. Insurance contracts with total premiums of €10 thousand were concluded with the Management Board members in the financial period (2016: €11 thousand).

The remuneration of the Chairman and other members of the Management Board consists of a fixed remuneration, variable compensation, and participation in long-term incentive programs. The proportion of the variable compensation does not exceed 30% of the fixed remuneration. Variable compensation is based on the performance of the Company and If Group (measured by combined ratio, volume of gross written premiums, net profit targets) and the reaching of personal work goals.

3. TRANSACTIONS WITH OTHER GROUP OR RELATED COMPANIES

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

	Calculated reinsurance premiums		Indemnifications and commissions received	
€000	**2017**	**2016**	**2017**	**2016**
If P&C Insurance Ltd (Sweden)	1,696	1,514	16	11
If P&C Insurance Company Ltd (Finland)	-3	204	-	16
Total	**1,693**	**1,718**	**16**	**27**

Receivables and payables related to the above transactions as of 31.12.2017 and 31.12.2016:

€000	**31.12.2017**	**31.12.2016**
Receivables		
If P&C Insurance Ltd (Sweden)	4	-
Payables		
If P&C Insurance Ltd (Sweden)	626	498
If P&C Insurance Company Ltd (Finland)	-	38
Total	**626**	**536**

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

€000	Services purchased 2017	Services purchased 2016	Services rendered 2017	Services rendered 2016
Mandatum Life Insurance Baltic SE	-	-	17	18
Nordea Group companies	333	262	622	578
If P&C Insurance Ltd (Sweden)	73	11	232	140
If P&C Insurance Company Ltd (Finland)	-	-	289	-
Sampo Plc	522	493	-	-
If IT Services A/S	419	394	-	7
Support Services AS	-	-	97	45
Total	**1,347**	**1,160**	**1,257**	**788**

Receivables and payables related to the above transactions as of 31.12.2017 and 31.12.2016:

€000	31.12.2017	31.12.2016
Receivables		
Nordea Group companies	79	65
If P&C Insurance Ltd (Sweden)	13	13
Support Services AS	-	1
Total	**92**	**79**
Payables		
Mandatum Life Insurance Baltic SE	2	2
Nordea Group companies	59	20
Sampo Plc	135	126
If P&C Insurance Ltd (Sweden)	2	7
Total	**198**	**155**

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

€000	31.12.2017	31.12.2016
Financial assets		
Nordea Group companies	22,400	22,002

€000	2017	2016
Investment income/expense		
Nordea Group companies	7	12

EY
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Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of If P&C Insurance AS

Opinion

We have audited the financial statements of If P&C Insurance AS (the Company), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and their financial performance and their 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). 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 Company in accordance with the Code of Ethics for Professional Accountants (Estonia), and we have fulfilled our other ethical responsibilities in accordance with the requirements of the code of ethics.

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 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, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

1. Valuation of financial investment assets

As of 31 December 2017 financial investments assets amounted to 271,960 thousand EUR, which constitutes 89.8% of the Company's total assets.

As disclosed in Note 1 Accounting principles and basis of estimations used in the preparation of the financial statements, Note 2 Risks and risk management and Note 9 Financial investments of the financial statements, financial investment assets are carried out at fair value in the balance sheet and are classified in different levels in a fair value hierarchy (level 1, 2 and 3). Level 1 consists of financial instruments for which quoted market prices on active markets for identical assets or liabilities are available. For financial instruments in level 2, assumptions and estimates might be required when establishing the fair value, however, the need of assumptions and estimates is significantly lower than what is required for establishing fair value for financial instruments in level 3. As of 31 December 2017, 92.4% of financial investments assets valued at fair value are classified as level 1, 7.6% as level 2 and 0.0% as level 3.

This area is material and significant to our audit due to the size of financial investments in relation to total assets and that valuation technics for financial investments in level 2 can be subjective in nature and involve various management's assumptions regarding pricing factors.

Among other audit procedures, we assessed the Company's process for valuation of financial instruments, valuation methods and, when relevant, evaluated management's assumptions by comparing them against appropriate benchmarks and pricing sources. We assessed and tested the design and operating effectiveness of controls over the valuation and related disclosures. We performed our own independent price test by using external quotes for liquid positions for a sample of instruments.

We also considered the adequacy of the disclosures in the financial statements in this area.

2. Valuation of liabilities arising from insurance contracts

As disclosed in Note 13 Liabilities related to insurance contracts and reinsurance assets of the financial statements, as of December 31 2017, the liabilities arising from insurance contracts include the provision for claims outstanding amounting to 100,541 thousand EUR, which constitutes 64.6% of the Company's total liabilities. The provision for claims outstanding is designed to cover anticipated future payments for all claims incurred, including claims incurred, but not yet reported to the Company, referred to as IBNR provision. The provision for claims outstanding is calculated by using statistical methods or through individual assessments of claims.

Information on provision for claims outstanding is found in Note 1 Accounting principles and basis of estimations used in the preparation of the financial statements and Note 2 Risks and risk management. Further information is found in Note 13 Liabilities related to insurance contracts.

This area is material and significant to our audit due to the size of provision for claims outstanding in relation to total liabilities, and the fact that the valuation of claims outstanding involves significant degree of management' assumptions and estimates.

Among other audit procedures, we assessed and tested the design and operating effectiveness of controls over Company's provisioning process, assessed the provisioning methods and assumptions used against industry practices and provisioning guidelines and for comparison performed independent calculations for classes requiring the highest degree of management judgement. We involved our internal actuarial specialists to assist in the audit procedures performed over provision for claims outstanding. The assistance of our internal actuarial specialists was used for comparison of assumptions, reserving methodologies and estimates of losses to expectations based on the Group's historical experience, current trends and benchmarking to our own industry knowledge and for a sample of classes to perform run-off result analysis and independent projections.

We also considered adequacy of the disclosures in the financial statements in this area.

Other information

Management is responsible for the other information. Other information consists of management report, but does not consists of the financial statements and our auditor's report therefon. 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. 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.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as 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 these financial statements, management is responsible for assessing the Company'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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 International Standards on Auditing (Estonia) 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 International Standards on Auditing (Estonia), we exercise pofessional judgment and maintain professional skepticism 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of 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 Company'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 Company 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 and business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company 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 any significant deficiencies in internal control that we identify during our audit.

We are also required to 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.

Building a better working world

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 requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Appointment and approval of the auditor

In accordance with the decision made by the shareholder we have been chosen to carry out the audit of Company's financial statements the first time in 2005. Our appointment to carry out the audit of Company's financial statements in accordance with the decision made by shareholder has been renewed annually and the period of total uninterrupted engagement is 13 years.

Consistence with Additional Report to Supervisory Board and Audit Committee

Our audit opinion on the annual financial statements expressed herein is consistent with the additional report to the Supervisory Board and Audit Committee of the Company, which we issued in accordance with Article 11 of the Regulation (EU) No. 537/2014 on the same date as the date of this report.

Non audit services

We confirm that in light of our knowledge and belief, services provided to the Company are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.
In the course of audit, we have not provided any other services except for audit of financial statements.

The responsible certified auditor on the audit resulting in this independent auditors' report is Olesia Abramova.

Tallinn, 23 February 2018

Olesia Abramova
Authorised Auditor's number 561
Ernst & Young Baltic AS
Audit Company's Registration number 58

Tiina Leif
Authorised Auditor's number 441

PROPOSAL FOR THE DISTRIBUTION OF THE PROFIT

Profit available for distribution in accordance with the statement of financial position amount to:

Profit carried forward	€115,792,507
Net profit for the financial year 2017	€15,453,545
Total profit available for distribution as of 31.12.2017:	**€131,246,052**

The Management Board proposes:

to distribute as dividends to the sole shareholder	€3,100,000
to carry forward	€128,146,052

Andris Morozovs
Chairman of the Management Board

Dace Ivaska
Member of the Management Board

Sanita Ķēniņa
Member of the Management Board

Žaneta Stankevičienė
Member of the Management Board

Heinar Olak
Member of the Management Board

Artur Praun
Member of the Management Board

Jukka Tapani Laitinen
Member of the Management Board

Ville Valtteri Haapalinna
Member of the Management Board

Tiit Kolde
Member of the Management Board

SIGNATURES TO THE ANNUAL REPORT 2017

The Management Board of If P&C Insurance AS has prepared the management report and financial statements for 2017.

Signatures:

Heinar Olak	Member of the Management Board		22.02	2018
Artur Praun	Member of the Management Board		22.02.	2018