If P&C Insurance AS

2018
ANNUAL REPORT

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Translation from Estonian original

Business name:	If P&C Insurance AS
Registry code:	10100168
Address:	Lõõtsa 8a, 11415 Tallinn
Telephone:	+372 777 1211
E-mail:	info@if.ee
Web page:	www.if.ee
Main field of activity:	non-life insurance services
Beginning of financial year:	1 January 2018
End of financial year:	31 December 2018
Chairman of the Management Board:	Andris Morozovs
Auditor:	KPMG Baltics OÜ

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Organization

If P&C Insurance AS (the Company, If) is a wholly owned subsidiary of the leading Nordic property and casualty insurance group If P&C Insurance Holding Ltd (publ). If P&C Insurance Holding Ltd (publ) is owned by the Finnish company Sampo plc, listed on the Helsinki Stock Exchange. Sampo Group is also the majority shareholder of the Nordea banking group and Topdanmark, the second largest non-life insurer in Denmark. Further it is the sole owner of Mandatum Life (life insurance).

If has been offering property and casualty insurance in the Baltic markets since 1992, covering both private individuals and corporate customers. Across the Baltic countries, If has approximately 280,000 policyholders and is the market leader in Estonia. If's products include property, liability, motor, marine & transport, and accident & health insurance.

The Company is registered in Estonia and operates in Latvia and Lithuania through branches. The current corporate structure enables efficient operations and claims handling across the Baltic region, with some business functions shared across all three countries.

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	2018	2017	2016	2015	2014
Premiums written, gross	162,666	138,750	130,781	133,200	122,574
Premiums earned, net of reinsurance	142,859	132,618	130,729	126,545	118,647
Claims incurred, net of reinsurance	88,469	84,406	83,716	75,433	66,947
Operating expenses[1]	36,511	34,023	34,041	33,862	36,218
Technical result[2]	17,879	14,190	12,971	17,250	15,482
Net profit	19,103	15,454	13,589	19,926	17,016
Combined ratio[3]	87.5%	89.3%	90.1%	86.4%	87.0%
Expense ratio[4]	25.6%	25.6%	26.1%	26.8%	30.5%
Loss ratio[5]	61.9%	63.7%	64.0%	59.6%	56.5%
Financial investments	274,731	271,960	244,971	235,574	223,279
Return on investments[6]	-0.2%	0.8%	1.4%	1.1%	2.3%
Total assets	344,818	302,911	275,508	265,144	245,166
Equity	160,587	147,382	135,528	126,757	113,598

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

Results from operations

RESULTS

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

PREMIUMS WRITTEN

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

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

CLAIMS AND OPERATING EXPENSES

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

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

INVESTMENT RESULT

The value of financial investments stood at €274.7 million as at 31 December 2018.

Applying the full market valuation, the result from asset management decreased to -€0.68 million, down from €1.96 million in 2017, with a return ratio of -0.2% compared to the previous 0.8%. Net investment result recognised in profit amounted to €2.12 million compared to €1.76 million in 2017, while -€2.80 million was recorded in other comprehensive income, down from €0.20 million in 2017. The average weighted credit rating for the holdings of the investment portfolio as at 31 December 2018, was BBB+, using Standard & Poor's scale (BBB+ as at 31 December 2017).

As a result of the reinvestments made in 2018, the duration of the fixed income portfolio increased to 2.6 years as opposed to 2.1 years in 2017.

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

Risk management

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

The objective of the risk management system is to create value for If´s stakeholders by securing its long-term solvency, minimising the risk of unexpected financial loss and giving input to business decisions by considering the effects on risk and capital. This requires risks to be properly identified and monitored. The risks, exposures and risk management are described in Note 2.

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

Personnel

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

If's performance is highly dependent on how well it does in customer interactions, making strong customer focus through dedicated, professional and competent employees a key success factor.

The insurance industry is rapidly developing, fuelled by digitalisation and changing customer needs. Thus, If recognises the importance of ensuring that the competence of its employees is up-to-date and continuously improved. The possibility to develop and learn enhances motivation, strengthens loyalty and is vital for attracting top talent.

In addition to competence development, If also promotes the wellbeing of its employees through building a healthy workplace for everyone. This includes for example meaningful work assignments, good leadership, a flat organisational hierarchy, team building activities and other benefits.

Regular internal employee satisfaction surveys confirm that the actions described above are on the right track as overall satisfaction levels are high.

Outlook

The market premium development is expected to continue to benefit from positive macroeconomic growth in 2019, whereas claims cost inflation levels are predicted to remain relatively high.

Following the market consolidation of recent years, the competitive environment seems to continue to stabilise which is expected to encourage an improved financial discipline for the industry in the coming years.

Operations

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

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

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

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

In addition to the above, to maintain and improve the competitive advantage, If is constantly striving to become more efficient. In 2018, a continuous improvement culture was established where all employees were welcome and encouraged to suggest ideas on how to improve the business and make If´s services smoother for the customers. About 258 improvement suggestions were generated, out of which 104 were implemented.

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

If is aware of the importance of safeguarding human rights, preventing corruption and considering other social and environmental aspects. Accordingly, If has established policies and processes including, but not limited to, Ethics Policy, Code of Conduct, Conflicts of Interest Policy, Baltic Guideline for Fit and Proper Assessment and Competition Compliance Policy and Environment Policy.

Applied accounting principles

The Company's financial statements for 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The financial statements comprise the accounts of the Estonian company and its branches.

Heinar Olak
Member of the Management Board

Artur Praun
Member of the Management Board

Statement of comprehensive income

€000	Note	2018	2017
PREMIUMS EARNED, NET OF REINSURANCE			
Premiums earned, gross		145,783	135,292
Premiums ceded		-2,924	-2,674
TOTAL	3	**142,859**	**132,618**
OTHER INCOME			
Investment result	4	2,119	1,761
Reinsurance commissions and other income		308	276
TOTAL		**2,427**	**2,037**
TOTAL REVENUE		**145,286**	**134,655**
CLAIMS INCURRED, NET OF REINSURANCE			
Claims incurred, gross		-88,825	-87,104
Reinsurers' share of claims incurred		356	2,698
TOTAL	5	**-88,469**	**-84,406**
EXPENSES			
Insurance contract acquisition costs		-23,298	-21,879
Administrative expenses		-13,520	-12,419
TOTAL	6	**-36,818**	**-34,298**
TOTAL CLAIMS AND EXPENSES		**-125,287**	**-118,704**
NET RESULT BEFORE TAXES		**19,999**	**15,951**
INCOME TAX	14	-895	-498
NET PROFIT FOR THE FINANCIAL YEAR		**19,104**	**15,453**
OTHER COMPREHENSIVE INCOME			
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT AND LOSS IN SUBSEQUENT PERIODS:			
Change in the value of available-for-sale assets	4	-2,799	201
TOTAL		**-2,799**	**201**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**16,305**	**15,654**

The notes on pages 13 to 60 are an integral part of the financial statements.

Statement of financial position

€000	Note	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents		30,142	8,011
Financial investments	9	274,731	271,960
Receivables related to insurance activities	7	29,649	13,055
Accrued income and prepaid expenses	8	4,021	4,035
Reinsurance assets	13	5,629	5,202
Deferred tax asset	14	-	118
Investment in subsidiary	15	88	88
Property, plant and equipment	10	558	442
TOTAL ASSETS		**344,818**	**302,911**
LIABILITIES AND EQUITY			
Liabilities related to insurance activities	11	6,277	5,463
Accrued expenses and prepaid revenues	12	5,888	4,842
Liabilities arising from insurance contracts	13	172,066	145,224
TOTAL LIABILITIES		**184,231**	**155,529**
Share capital		6,391	6,391
Share premium		3,679	3,679
Mandatory capital reserve		2,362	2,362
Fair value reserve		905	3,704
Retained earnings		128,146	115,793
Net profit for the year		19,104	15,453
TOTAL EQUITY	16	**160,587**	**147,382**
TOTAL LIABILITIES AND EQUITY		**344,818**	**302,911**

The notes on pages 13 to 60 are an integral part of the financial statements.

Statement of changes in equity

€000	Share capital	Share premium	Mandatory capital reserve	Fair value reserve	Retained earnings	Net profit for the year	Total equity
AT 1 JANUARY 2017	**6,391**	**3,679**	**2,362**	**3,503**	**119,593**	**-**	**135,528**
Dividends paid	-	-	-	-	-3,800	-	**-3,800**
Other comprehensive income	-	-	-	201	-	-	**201**
Net profit for the year	-	-	-	-	-	15,453	**15,453**
AT 31 DECEMBER 2017	**6,391**	**3,679**	**2,362**	**3,704**	**115,793**	**15,453**	**147,382**
AT 1 JANUARY 2018	**6,391**	**3,679**	**2,362**	**3,704**	**131,246**	-	**147,382**
Dividends paid	-	-	-	-	-3,100	-	**-3,100**
Other comprehensive income	-	-	-	-2,799	-	-	**-2,799**
Net profit for the year	-	-	-	-	-	19,104	**19,104**
AT 31 DECEMBER 2018	**6,391**	**3,679**	**2,362**	**905**	**128,146**	**19,104**	**160,587**

The notes on pages 13 to 60 are an integral part of the financial statements.

Statement of cash flows

€000	Note	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES			
Premiums received	3, 7, 11	146,876	137,400
Premiums ceded	3, 11	-2,925	-2,589
Claims paid, incl. claims handling expenses	5, 6, 7	-79,064	-76,234
Cash flow from reinsurance		-117	357
Employee-related and service-related expenses		-36,216	-34,335
Investments in bonds and other interest-bearing securities	9	-74,372	-80,902
Proceeds from disposals of bonds and other interest-bearing securities	9	46,522	54,228
Investments in term deposits	9	-	-30,400
Proceeds from term deposits	9	22,400	30,000
Interest received		2,705	2,699
Income tax paid	14	-124	-421
NET CASH FLOW FROM OPERATING ACTIVITIES		**25,685**	**-197**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		-457	-174
Proceeds from disposal of property, plant and equipment		3	4
NET CASH FLOW FROM INVESTING ACTIVITIES		**-454**	**-170**
CASH FROM FROM FINANCING ACTIVITIES			
Dividends paid	16	-3,100	-3,800
NET CASH FLOW FROM FINANCING ACTIVITIES		**-3,100**	**-3,800**
CHANGE IN CASH FLOW		**22,131**	**-4,167**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**8,011**	**12,178**
CASH AND CASH EQUIVALENTS AT END OF YEAR		**30,142**	**8,011**

The notes on pages 13 to 60 are an integral part of the financial statements.

Note 1. Significant accounting policies and measurement bases

1. THE COMPANY AND ITS ACTIVITIES

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

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

The financial statements of the Company for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Management Board on 21 February 2019.

2. BASIS OF PREPARATION

The 2018 financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union. The financial statements have been prepared on a historical cost basis, except for certain financial investments which have been measured at fair value.

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

The Annual Report which is prepared by the Management Board and reviewed by the Supervisory Board and includes the financial statements, is approved by the General Shareholder's Meeting in accordance with the Commercial Code of the Republic of Estonia. Shareholders have the right not to approve the Annual Report prepared by the Management Board and reviewed by the Supervisory Board, and to demand the preparation of a new Annual Report.

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

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

IFRS 15 Revenue from Contracts with Customers took effect on 1 January 2018. For the Company, the standard applies to revenue in the insurance operations other than revenue involving a transfer of insurance risk. Such revenue is recognised as other income in the statement of comprehensive income and comprises an insignificant share of the Company's overall operations and result. The application of IFRS 15 did not have any material impact on the Company's financial position or result.

3.2. New standards and interpretations issued but not yet effective

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

IFRS 9 Financial Instruments took effect on 1 January 2018. In accordance with an EU-adopted amendment to IFRS 4 Insurance Contracts, the IASB has decided that, under certain circumstances, insurance companies may delay their initial application of IFRS 9 so that the date coincides with the initial application of IFRS 17 Insurance Contracts (see below). The Company meets these requirements since it has not previously applied IFRS 9 and the carrying amount of the insurance-related liabilities accounts for more than 90% of the carrying amount of the total liabilities. In light of this, the Company has decided to delay the application of IFRS 9. Accordingly, the transition from IAS 39 to IFRS 9 is not expected to have any significant impact on the Company's financial reporting until 2022. However, expanded disclosure requirements have been introduced for financial instruments, which will facilitate comparisons with companies that have already implemented IFRS 9. For more information, please refer to Note 9 Financial investments.

IFRS 9 contains some optionality, and the Company is of the opinion that there are significant cross-influences with respect to the published, but not yet adopted, standard concerning insurance contracts that still need to be carefully assessed before a final decision can be made as to the classification of financial assets.

IFRS 17 Insurance Contracts was published in May 2017 and was originally expected to take effect on 1 January 2021. The standard has not yet been adopted by the EU. In November 2018, the IASB proposed that the standard take effect one year later and that the initial mandatory application of IFRS 9 be delayed. 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 profit or loss and statement of financial position, while the presentation rules may have a material impact.

IFRS 16 Leases is effective for annual periods beginning on or after 1 January 2019 and the Company applies the standard from this date. The standard replaces the existing IAS 17. Following the transition, the Company recognises a lease liability that corresponds to the present value of the remaining lease payments for leases that were previously subject to IAS 17, discounted by an estimated incremental borrowing rate as at the date of initial application. A corresponding amount is recognised as a right of use asset in the statement of financial position. However, the Company applies a company-specific materiality assessment that includes, but is not limited to, the two exemptions specified in the standard. Accordingly, only leases of large office premises will initially be recognised in accordance with IFRS 16. The standard thus will 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 is recognised in the statement of financial position under both non-current assets and interest-bearing liabilities. For information about amounts as at 1 January 2019, please refer to Note 10 Property, plant and equipment. The Company’s technical result will also improve slightly since current leasing costs, which are included in operating expenses, are divided between depreciation and interest expense, which is included in the investment result.

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 the reporting date, and the income and expenses of the financial year. Although the judgments are based on the management’s best knowledge as well as concrete facts, the actual results may differ from the estimates.

VALUATION OF LIABILITIES FROM INSURANCE CONTRACTS

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

More detailed information about insurance technical provisions is disclosed in Note 13 “Liabilities related to insurance contracts and reinsurance assets”.

5. MAIN ACCOUNTING POLICIES

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

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

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

B) TRANSACTIONS IN FOREIGN CURRENCY

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

C) INSURANCE CONTRACTS

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

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

D) REVENUE RECOGNITION

Revenue is recognised at the fair value of the consideration received or receivable. Revenue from the sales of services is recorded on the rendering of the service.

Premiums written

The premium refers to the compensation that an insurance company receives from the policyholder in return for the transfer of risk. Premiums written are reported in the statement of comprehensive income at the inception of risk coverage in line with the insurance contract. When the contracted premium for the insurance period is divided into several amounts, the entire premium amount is still recognised at the beginning of the period. Premiums paid in advance (before the commencement of the inception of risk coverage) are not recognised as written premiums but booked as a liability to the policyholder. Premiums receivable (receivables from policyholders) are recognised at the same moment when the written premium is recognised. In 2018 the Company harmonised the recognition of gross written premiums across the Baltics and in the reporting period no material differences were detected in the recognition of premium revenue.

Premiums earned

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

Reinsurance commissions

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

Interest and dividend income

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

E) EXPENSES

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

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

Claims handling expenses are recognised within claims incurred in the statement of comprehensive income.

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

F) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of bank balances and overnight deposits.

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

G) FINANCIAL ASSETS

Initial recognition and measurement

Financial assets are classified to the following categories upon their 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 included in any other category).

Upon initial recognition, financial assets are measured at fair value plus, in the case of investments not at fair value through profit or loss, 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 to the category of loans and receivables.

The Company did not classify any financial assets as held-to-maturity investments 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 include assets held for trading and certificates of deposit which are designated to this category upon initial recognition.

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 whose performance is 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 measured at fair value at each reporting date. Gains and losses arising from changes in fair value or realised on disposal, together with the related interest income, are recognised in "Investment result" in the statement of comprehensive income.

The Company measures its financial assets at fair value through profit or loss (held for trading) when 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 to the fair value through profit or loss category. This 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 reporting 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 liquidity needs or in response to changes in the market conditions.

After initial measurement, available-for-sale financial assets are measured at fair value, with unrealised gains or losses recognised in other comprehensive income and in the fair value reserve (equity). Where the insurer holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis.

Interest earned whilst holding available-for-sale investments is reported as interest income using the effective interest rate. When an asset is derecognised, the cumulative gain or loss is recognised in "Investment result" in the statement of comprehensive income. When an asset is determined to be impaired, the cumulative loss is recognised in profit or loss and removed from the fair value reserve.

Loans and receivables
Loans and receivables comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the short term. Loans and receivables are initially recognised at cost which is the fair value of the consideration given for them, including transaction costs that are directly attributable to the acquisition of the asset. Loans and receivables are subsequently measured at their amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition, as well as expenses directly related to the transaction, over the years to maturity.

Interest income on loans, receivables and deposits is recorded in "Investment result" in the statement of comprehensive income.

Receivables from customers, reinsurance receivables and other receivables are recognised at nominal value when incurred (on the transaction date), and, subsequent to initial recognition, at cost less any impairment losses. 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 but has assumed an obligation to pay the cash flows in full and without material delay to a third party under a 'pass-through' arrangement;

  and either:

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

  or

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

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

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

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

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 or 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 on the estimated future cash flows of the financial asset that can be reliably estimated.

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

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

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

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

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

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

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

Interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income is recorded within finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss.

H) PROPERTY, PLANT AND EQUIPMENT

Assets with a useful life of over one year are recorded as items of property, plant and equipment (PPE). Items of PPE are initially recorded at acquisition cost, consisting of the purchase price (incl. customs duties and other non–refundable taxes) and expenses directly related to the acquisition, incurred upon bringing the assets to their present condition and location.

Following initial recognition, an item of PPE is carried in the statement of financial position at its cost, less accumulated depreciation and any accumulated impairment losses. If the recoverable amount of the non-current asset item drops below its carrying amount, the asset is written down to its recoverable amount (the higher of fair value, less sales expenses, and value-in-use).

Impairment tests will be conducted to determine whether the recoverable amount has dropped below the carrying amount, if there is any indication that the carrying amount may not be recoverable. Impairment losses are recognised in the statement of comprehensive income in "Insurance contract acquisition costs", "Claims handling expenses", and "Administrative expenses" depending on their function.

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

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

The depreciable amount of an item of PPE (i.e., the difference between the acquisition cost and residual value) is charged to expenses over the useful life of the item. Land and works of art are not depreciated. Depreciation is calculated on a straight-line basis, in accordance with the useful life of the asset, as follows:

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

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

The Company applies the new standard IFRS 16 Leases from the 2019 fiscal year. This entails that the Company recognises the value of the right of use of material leases that are subject to the standard as an asset. The acquisition cost corresponds to an amount equivalent to the present value of fixed lease payments and certain variable lease payments to be made under the lease, discounted using an estimated incremental borrowing rate. Depreciation is applied over the estimated useful life.

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

I) FINANCIAL LIABILITIES

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

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

J) DEFERRED ACQUISITION COSTS

Insurance contract acquisition costs directly related to premiums that are carried over to the next period are recognised in the statement of financial position as deferred acquisition costs. Direct acquisition costs are deferred on the basis of the ratio of the provision for unearned premiums to premiums written. Deferred acquisition costs include only direct insurance contract acquisition costs, such as commission fees to intermediaries.

K) PROVISION FOR UNEARNED PREMIUMS

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

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

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

L) PROVISION FOR CLAIMS OUTSTANDING

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

The provision for claims outstanding is calculated using a case-by-case valuation method (larger reported claims) as well as statistical methods (small reported claims, IBNR provision). The provision for claims outstanding is not discounted, except motor third party liability annuities that are discounted to their net present value using a discount rate of 1.0% (2017: 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 minimise the potential net loss by hedging the risks. All reinsurance contracts transfer a significant portion of insurance risk.

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

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

N) LEASES

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

Operating lease payments are recorded as expenses over the lease term using the straight-line method.

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

O) CORPORATE INCOME TAX

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

Current taxes are calculated individually for every unit in accordance with the tax rules of the country of operation. The Company's foreign branch offices are taxed on their results in the country concerned. In Estonia the Company has to pay income tax at the rate of 20% (2017: 20%) only on the income that has not been taxed in the branches and only when dividends are distributed or when non-business expenses are incurred. Corporate income tax payable on the distribution of dividends is recognised as income tax expense in the statement of comprehensive income in the period in which the dividend is actually distributed. The maximum possible income tax liability that could arise on a dividend distribution is disclosed in Note 16.

Starting from 1 January 2018, companies in Latvia have to pay income tax only on distributed dividends and non-business expenses. As at 31 December 2018, the Latvian branch had transferred its reporting year's profit to the Company in Estonia and due to that corporate income tax expense and liability have been recognised in the Latvian branch at the rate of 20% (2017: 15%).

In Lithuania, both current and deferred tax is calculated and reported. Deferred tax attributable to temporary differences between the amounts recognised in books and the amounts actually paid is reported in the Company's financial statements. For income reported in the statement of comprehensive income for the period but which is not taxed until a later period, a deferred tax cost is charged, which results in a corresponding liability item, a deferred tax liability. Similarly, costs that will not result in tax deductions until a later period give rise to deferred tax revenue and a corresponding deferred tax asset. Deferred tax assets and liabilities are reported net in those cases where they pertain to the same tax authority and can be offset against each other. For the Lithuanian branch, the corporate income tax rate is 15% (2017: 15%).

Current and deferred tax disclosures are made in Note 14.

P) EVENTS AFTER THE REPORTING PERIOD

The financial statements reflect all significant events affecting the valuation of assets and liabilities that occurred between the reporting date (31 December 2018) and the date on which the financial statements were authorised for issue (21 February 2019) but are related to transactions that occurred in the reporting period or earlier periods.

Note 2. Risks and risk management

1. RISK MANAGEMENT SYSTEM

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

The Company's Risk Management System comprises strategies, processes and reporting procedures necessary to, on a continuous basis, identify, measure, monitor, manage and report risks. The Risk Management System is part of the larger Internal Control System and ensures that all risks are managed. For effective implementation of the Risk Management System, the three lines of defence concept is used based on the COSO[1] framework (Figure 1).

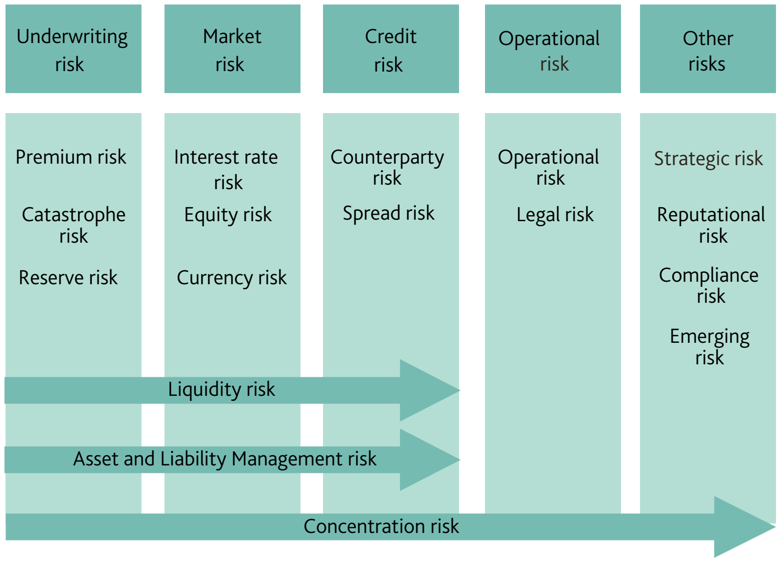
Figure 1. Three lines of defence concept

First line of defence **Heads of Units**	• own the risk, is accountable for 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 **Risk Manager** **Compliance Officer**	• assesses, analyses and monitors the Company level risks independently from the business; • supports and gives advice to the business on the risk management matters; and • reports regularly on risk matters to the Management Board, Supervisory Board and to the Chief Risk Officer of If Group.
Third line of defence **Internal Auditor**	• evaluate and test effectiveness of internal controls, risk management and governance in 1st and 2nd line of defence; and • reports regularly to the Supervisory Board.

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

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

Figure 2. Risks encompassed in the Risk Management System



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

Risk Management Strategy

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

- Ensure a sound and well-established risk culture in the Company;
- Ensure that risks affecting the financial position and capital are identified, assessed, managed, monitored and reported;
- Ensure that the riskiness of the insurance business is reflected in 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 economic indicators; and
- Safeguard the Company´s reputation and ensure that customers and other stakeholders have confidence in If.
- Ensure the overall efficiency, security and continuity of operations.

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

FIgure 3. Risk management process

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

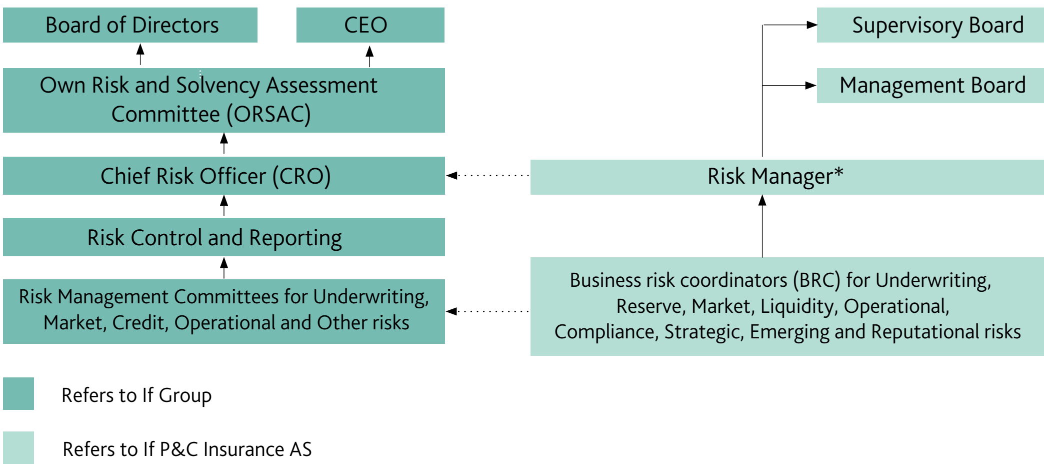
Risk Governance and Reporting Structure

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

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

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

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



*Person responsible for the Risk Management Function

2. CAPITAL MANAGEMENT

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

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

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

Capital position
The capital position is the relationship between available capital (eligible own funds) and required capital. To fulfil requirements from various stakeholders, different measures are used to describe the capital position: the external regulatory capital measures include the minimum capital requirement and the solvency capital requirement and the internal measure is economic capital.

In 2018, the Company met the regulatory minimum capital requirement and solvency capital requirement set out in the Solvency II regulation. This safeguards sustainable services for customers and ensures that all obligations taken by the Company can be met.

3. RISK PROFILE

Underwriting risk

Underwriting risk is the risk of loss or of adverse changes in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.
The underwriting risk consists of premium, catastrophe and reserve risks.

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

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

Risk management and control
For managing and mitigating the premium and catastrophe risks, the Company uses reinsurance, diversification, prudent underwriting and regular follow-ups linked to the strategy and business plan. The Underwriting Policy sets general principles and restrictions for underwriting activities. The Underwriting Policy is supplemented with the Baltic and country based guidelines which outline in greater detail how to conduct underwriting within each line of business.

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

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

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

Table 1. Sensitivity analysis of premium risk as at 31 December 2018

€000 Parameter	Current level, 2018	Change	Effect on profit before tax 2018	Effect on profit before tax 2017
Combined ratio	87.5%	+/-2% points	+/-2,857	+/-2,652
Premium volume	142,859	+/-2%	+/-358	+/-284
Claims level	88,469	+/-2%	+/-1,769	+/-1,688

RESERVE RISK

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

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

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

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

Risk management and control

The Management Board of the Company adopts The Baltic Reserving 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 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 the number of claims and average claim costs.

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

Risk exposure

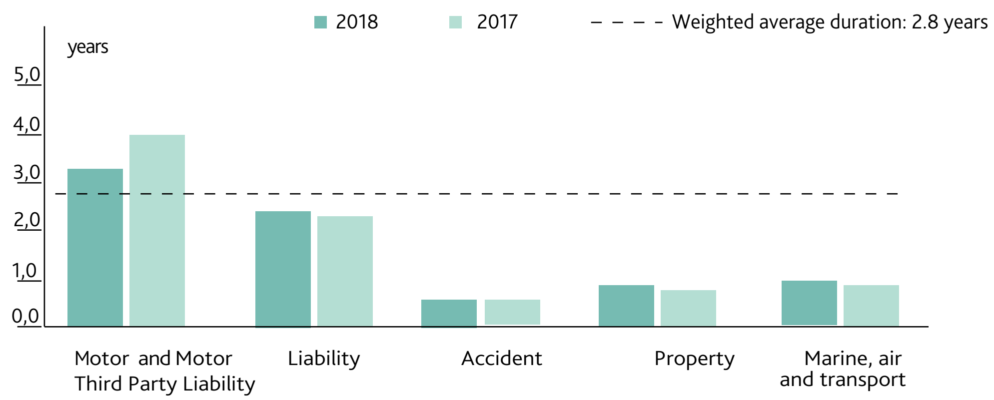
The amount of technical provisions broken down by line of business is shown in Table 2. The Company's technical provisions are dominated by short-tailed business. The contribution of the long-tail annuities related to the compulsory motor third party liability insurance have a relatively small impact.

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

€000 Line of business	Gross liabilities related to insurance contracts		Reinsurers' share of liabilities		Net liabilities	
	2018	2017	2018	2017	2018	2017
Compulsory MTPL	77,289	65,418	2,787	380	74,502	65,038
Motor Own Damage	29,162	21,525	-	-	29,162	21,525
Private Property	12,828	8,945	-	-	12,828	8,945
Corporate Property	17,228	14,629	413	282	16,815	14,347
Liability	22,733	24,251	1,633	3,741	21,100	20,510
Personal Accident	2,801	2,065	-	-	2,801	2,065
Health	4,149	3,634	-	-	4,149	3,634
Other	5,876	4,757	796	799	5,080	3,958
TOTAL	**172,066**	**145,224**	**5,629**	**5,202**	**166,437**	**140,022**

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

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



Sensitivity analysis

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

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

€000 Portfolio	Risk	Change in risk parameter	Country	Effect on liabilities/ profit before tax 2018	2017
			Estonia	1,492	1,362
Nominal reserves	Increase in inflation rate	Increase by 1 percentage point	Latvia	301	197
			Lithuania	588	435
			TOTAL	**2,381**	**1,994**
			Estonia	1,458	1,458
Discounted reserves (annuities)	Decrease in discount rate	Decrease by 1 percentage point	Latvia	323	306
			Lithuania	120	95
			TOTAL	**1,901**	**1,859**
			Estonia	160	165
Annuities	Decrease in mortality rate	Decrease by 20%	Latvia	14	19
			Lithuania	4	4
			TOTAL	**178**	**187**

Market risk

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

Risk management and control

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

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

Risk exposure

Market risk expresses the risks stemming from investment activities. The Company's investment strategy is conservative and the investment portfolio consists only of fixed income instruments. The Company did not have any derivatives during the reporting period.

The Company's investment operations generated a return of -0.2% in 2018 (2017: 0.8%). The investment assets amounted as at the end of the reporting period to €274,731 thousand (2017: €271,960 thousand).

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

Table 4. Allocation of investment assets

€000	31 Dec 2018	%	31 Dec 2017	%
Bonds and other interest-bearing securities	274,731	100%	249,560	92%
Loans and receivables (term deposits)	-	0%	22,400	8%
TOTAL	**274,731**	**100%**	**271,960**	**100%**

INTEREST RATE RISK

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

Risk management and control

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

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

<u>Sensitivity analysis</u>

The table below reflects some of the key assumptions indicating the effect of potential changes when other factors remain constant. The analysis is based on the investment portfolio as at 31 December 2018 and as at 31 December 2017 and is calculated before taxes.

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

The Company's investment portfolio as at 31 December

€000	1% parallel shift in the interest curve			
	2018		2017	
	100 basis points up	100 basis points down	100 basis points up	100 basis points down
Effect on financial results	-7,392	7,715	-5,687	5,996

Risk exposure

Since technical provisions are predominantly stated at nominal value in the statement of financial position, the Company is mainly exposed to changes in future inflation rates. However, the economic value of technical provisions, meaning the present value of future claim payments, is exposed to changes in interest rates. Furthermore, the technical provisions for annuities in Estonia, Lithuania and Latvia are discounted and potential changes in the discount rates affect, to some extent, the level of technical provisions in the Company's statement of financial position.

The 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 2.6 years at the end of 2018 (2.2 years at the end of 2017). The duration of those investments is shown in Table 6.

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

	2018			2017		
€000	**Carrying amount**	**%**	**Duration in years**	**Carrying amount**	**%**	**Duration in years**
Euro credit (excl. Scandinavian)	151,938	55.3%	2.7	130,739	48.1%	2.6
Scandinavian credit	68,744	25.0%	2.8	49,877	18.3%	2.5
US credit	43,504	15.8%	1.3	58,352	21.5%	1.4
Short-term fixed income (incl. Scandinavian)	-	0.0%	0.0	22,400	8.2%	0.9
Global credit	8,020	2.9%	4.5	8,095	3.0%	0.2
EU government bonds	2,527	0.9%	7.1	2,497	0.9%	8.1
TOTAL	**274,731**	**100%**	**2.6**	**271,960**	**100%**	**2.2**

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 the market prices of equities.

Risk exposure

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

CURRENCY RISK

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

Risk exposure

Exposure to currency risk is not material. The majority of the Company's technical provisions and all financial investments of the Company are in euros.

Credit risk

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

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

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

CREDIT RISK IN INVESTMENT OPERATIONS

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

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

Risk management and control

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

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

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

Risk exposure

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

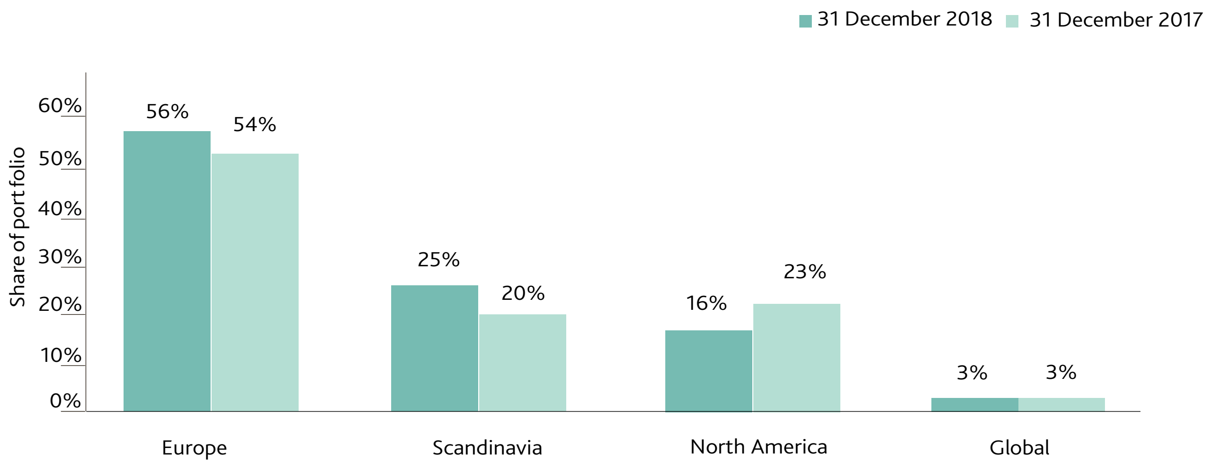
Table 7. Credit risk exposures by sectors, asset classes and ratings as at 31 December

2018 €000	AAA	AA+- AA-	A+ - A-	BBB+- BBB-	BB+ - C	Non-rated	Fixed income total
Basic Industry	-	-	5,006	-	-	9,722	**14,728**
Capital Goods	-	-	3,039	10,100	-	9,814	**22,953**
Consumer Products	-	-	15,963	8,326	857	-	**25,146**
Covered Bonds	11,090	-	-	-	-	-	**11,090**
Energy	-	-	-	-	-	6,910	**6,910**
Financial Institutions	-	37,010	57,362	19,745	-	-	**114,117**
Governments	-	2,527	-	-	-	-	**2,527**
Health Care	-	-	-	7,536	-	5,133	**12,669**
Insurance	-	-	3,001	-	-	-	**3,001**
Real Estate	-	-	5,503	6,724	-	-	**12,227**
Services	-	-	-	10,389	1,402	4,018	**15,809**
Technology and Electronics	-	-	-	-	1,018	-	**1,018**
Telecommunications	-	-	-	12,066	-	-	**12,066**
Transportation	-	-	2,617	3,530	-	-	**6,147**
Utilities	-	-	1,527	5,248	3,039	-	**9,814**
Other	-	2,011	-	-	-	2,498	**4,509**
TOTAL	**11,090**	**41,548**	**94,018**	**83,664**	**6,316**	**38,095**	**274,731**

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**

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 from reinsurance receivables and the reinsurers' share of technical provisions.

The Company's credit risk exposure to policyholders and intermediaries 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 reinsurers' minimum credit ratings and the maximum exposure to individual reinsurers. Credit ratings from rating agencies are used to determine the creditworthiness of reinsurance companies.

Risk exposure

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

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

€000 **Rating (S&P)**	**2018**	**%**	**2017**	**%**
AA	1,342	22.0%	3,474	65.1%
A	4,378	71.6%	1,469	27.5%
NR	393	6.4%	396	7.4%
Total	**6,113**	**100%**	**5,339**	**100%**

Liquidity risk

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

Risk management and control

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

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

Risk exposure

The maturities of cash flows for technical provisions, financial assets and liabilities are presented in Table 9. For financial assets and liabilities the exact contractual maturity profile is presented. In addition, the table shows expected cash flows for net technical provisions, which are inherently associated with a degree of uncertainty.

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

31 Dec 2018	Carrying amount			Cash flows						
€000	Carrying amount	Without maturity	With contractual maturity	2019	2020	2021	2022	2023	2024-2033	2034-
Financial assets	**335,278**	**30,899**	**304,379**	65,028	76,140	34,320	32,111	58,411	46,929	-
Financial liabilities	**12,165**	**-**	**12,165**	12,165	-	-	-	-	-	-
Net technical provisions	**166,437**	**-**	**166,437**	94,108	19,284	12,423	8,930	6,415	19,942	5,335

31 Dec 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

Concentration risk

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

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

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

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

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

2018 €000	Deposits	Floating rate notes and bonds	**Total**
Raiffeisen-Boerenleenbank BA/Netherlands	-	11,350	**11,350**
DnB ASA	-	10,025	**10,025**
Jyske Bank A/S	-	8,087	**8,087**
Toronto-Dominion Bank	-	8,020	**8,020**
McDonald's Corporation	-	8,003	**8,003**
TOTAL	**-**	**45,485**	**45,485**

2017 €000	Deposits	Floating rate notes 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**

Operational risk

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

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

Risk management and control

The Company identifies operational risks through different processes:

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

The Company's daily insurance operations are heavily dependent on the functioning of IT systems and infrastructure. Therefore, the most material operational risk exposure may arise from IT systems and software developments.

Other risks

COMPLIANCE RISK

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

Risk management and control

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

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

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

REPUTATIONAL RISK

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

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

Risk management and control

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

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

STRATEGIC RISK

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

Risk management and control

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

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

EMERGING RISK

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

Risk management and control

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

Risk exposure

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

4. SOLVENCY II

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

Note 3. Premiums earned, net of reinsurance

€000	2018	2017
Premiums written, gross	162,666	138,750
Change in the provision for unearned premiums	-16,883	-3,458
Premiums earned, gross	**145,783**	**135,292**
Reinsurance premiums	-3,018	-2,615
Change in the provision for unearned premiums	94	-59
Premiums ceded	**-2,924**	**-2,674**
TOTAL	**142,859**	**132,618**

Gross written premium recognition was changed in 2018 compared to 2017 in order to harmonise recognition principles within the Company. The Company started to recognise full period insurance premium at the inception of risk coverage for the Estonian business which had a one-off effect of €13,192 thousand on the balance of gross premiums written at the beginning of the reporting year. However, there was only an immaterial effect on gross premiums earned and the result of the Company as a whole in the reporting period. The one-off effect has been derived from the policies issued in 2017 and valid as at 1 January 2018. Only instalment premium amounts of those policies were recognised in 2017. Due to the change, the premium amount for the remaining period of such policies was recognised as a one-off effect in line with the new method introduced.

Note 4. Investment result

€000	2018	2017
INTEREST INCOME/EXPENSE ON:		
Financial assets at fair value through profit or loss		
Classified as held for trading		
Bonds and other interest-bearing securities	247	619
Available-for-sale financial assets		
Bonds and other interest-bearing securities	2,400	1,915
Loans and receivables		
Term deposits	3	8
Cash and cash equivalents	1	1
TOTAL	**2,651**	**2,543**
GAIN FROM THE DISPOSAL OF:		
Financial assets at fair value through profit or loss		
Classified as held for trading		
Bonds and other interest-bearing securities	198	-
Available -for-sale financial assets		
Bonds and other interest-bearing securities	396	430
TOTAL	**594**	**430**
GAIN/LOSS FROM THE CHANGE IN THE FAIR VALUE OF:		
Financial assets at fair value through profit or loss		
Classified as held for trading		
Bonds and other interest-bearing securities	-420	-530
TOTAL	**-420**	**-530**
Investment expenses	**-706**	**-682**
TOTAL INVESTMENT RESULT	**2,119**	**1,761**

Reconciliation of the fair value reserve of available-for-sale financial assets	**2018**	**2017**
Opening balance, available-for-sale financial assets	3,704	3,503
Changes in fair value during the year, recognised in other comprehensive income	-2,403	630
Realised gain recognised in profit or loss	-396	-429
Closing balance, available-for-sale financial assets	**905**	**3,704**
Change in the fair value reserve of available-for-sale financial assets during the year	-2,799	201

Note 5. Claims incurred, net of reinsurance

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

Note 6. Expenses

€000	2018	2017
Salaries and remuneration	-15,771	-14,511
Social security costs	-4,700	-4,351
Other personnel expenses	-2,063	-1,614
Total personnel expenses	**-22,534**	**-20,476**
Commissions to intermediaries	-9,817	-9,379
Data processing	-2,298	-2,213
Expenses on premises	-2,224	-2,175
Office expenses (incl. communication expenses)	-960	-1,024
Other operating expenses	-3,330	-3,162
TOTAL	**-41,163**	**-38,429**
Division of costs on the basis of function		
Insurance contract acquisition costs	-23,298	-21,879
Administrative expenses	-13,520	-12,419
Claims handling expenses	-4,345	-4,131
TOTAL	**-41,163**	**-38,429**

Note 7. Receivables related to insurance activities and bad debts

€000	31 Dec 2018	31 Dec 2017
Receivables related to direct insurance activities, incl.	29,021	12,747
- policyholders	25,213	9,061
- intermediaries	1,968	2,100
- subrogation with significant recoverability	1,378	1,271
- salvages	338	252
- other	124	63
Receivables related to reinsurance	484	136
- incl. from related parties (Note 18)	4	4
Other receivables	144	172
TOTAL	**29,649**	**13,055**

Maturity analysis of receivables		
Neither past-due nor impaired:		
- not due yet (due within 1 year)	27,823	12,326
Past due but not impaired:		
- past due for 0-3 months	1,402	621
- past due for 3-6 months	81	28
- past due for 6-12 months	161	43
- past due for over 1 year	182	37
TOTAL	**29,649**	**13,055**

CHANGE IN BAD DEBT PROVISION

€000	Individually impaired	Collectively impaired	Total
At 1 January 2017	**-272**	**-94**	**-366**
Realised 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**
Realised losses during the year	9	-	9
Unused amounts reversed during the year	610	-	610
Additions	-717	-	-717
Change in general provisions	-	2	2
At 31 December 2018	**-353**	**-80**	**-433**

Note 8. Accrued income and prepaid expenses

€000	31 Dec 2018	31 Dec 2017
Deferred acquisition costs (including reinsurers' share)	3,264	2,916
Prepaid expenses	757	819
Corporate income tax	-	300
TOTAL	**4,021**	**4,035**

DEFERRED ACQUISITION COSTS

	2018		
€000	**Deferred acquisition costs (gross)**	**Reinsurers' share of acquisition costs**	**Deferred acquisition costs (net)**
Balance as at January 1	**2,982**	**-66**	**2,916**
Acquisition costs deferred during the year	9,533	-212	9,321
Amortisation of previously deferred acquisition costs	-9,181	208	-8,973
Balance as at December 31	**3,334**	**-70**	**3,264**

DEFERRED ACQUISITION COSTS

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

Note 9. Financial investments

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

€000	2018	2017
Balance at 1 January	**10,725**	**35,722**
Classified as held for trading		
Bonds and other interest-bearing securities		
Sale	-10,040	-23,878
Change in fair value recognised in profit or loss	-420	-530
Change in accrued interest	-265	-589
Balance at 31 December	**-**	**10,725**

AVAILABLE-FOR-SALE FINANCIAL ASSETS

€000	2018	2017
Balance at 1 January	**238,835**	**187,247**
Bonds and other interest-bearing securities		
Purchase	74,372	80,901
Sale	-35,946	-29,921
Change in fair value recognised in other comprehensive income	-2,799	201
Change in accrued interest	269	407
Balance at 31 December	**274,731**	**238,835**

LOANS AND RECEIVABLES

€000	2018	2017
Balance at 1 January	**22,400**	**22,002**
Term deposits		
Purchase	-	30,400
Maturity	-22,400	-30,000
Change in accrued interest	-	-2
Balance at 31 December	**-**	**22,400**

BONDS AND OTHER INTEREST-BEARING SECURITIES BY MATURITY TERMS

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

DEPOSITS BY MATURITY TERMS

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

BONDS WITH A FIXED INTEREST RATE, BY INTEREST RATES

€000	31 Dec 2018	31 Dec 2017
Interest rate: 0.0-0.9%	92,468	49,747
Interest rate: 1.0-1.9%	85,310	66,953
Interest rate: 2.0-2.9%	22,178	24,749
Interest rate: 3.0-3.9%	2,938	2,093
Interest rate: 4.0-4.9%	-	9,616
Interest rate: 5.0-6.0%	-	1,109
TOTAL	**202,894**	**154,267**

THE CLASSIFICATION OF FINANCIAL INVESTMENTS IN ACCORDANCE WITH IAS 39

	31 Dec 2018		31 Dec 2017	
€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
Available-for-sale financial assets				
Bonds and other interest-bearing securities	274,731	272,301	238,835	233,875
TOTAL	**274,731**	**272,301**	**249,560**	**243,915**
Loans and receivables				
Term deposits	-	-	22,400	22,400
TOTAL FINANCIAL ASSETS	**274,731**	**272,301**	**271,960**	**266,315**

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

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

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

Table 11. Determination of the hierarchy of fair value

€000

At 31 December 2018	Level 1	Level 2	Total fair value
Available-for-sale financial assets			
Debt securities	247,337	27,394	274,731

At 31 December 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**

Level 1 – Financial assets and liabilities with values based on quoted prices in active markets for identical assets or liabilities.
Quoted prices in active markets are considered the best estimate of an asset's fair value. An active market is typically characterised by quoted prices that are easily and regularly available and that represent actual and regularly occurring arm's length transactions. In order to evaluate the activity in a market with respect to frequency and volume, the Company uses information compiled and published by Bloomberg.

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

Level 2 - Financial assets and liabilities with values based on quoted prices or other directly or indirectly observable market data.
In level 2 of the hierarchy all essential inputs are observable either directly or indirectly. The large majority of the instruments in level 2 are traded in a market with daily quoted prices and regularly occurring market transactions but where the market is not considered to be active enough regarding frequency and volume. A very limited part of the instruments are model valued with the help of market data that is indirectly observable, meaning that prices can be derived from observable markets where market interest rates and underlying rates normally are updated daily or, in exceptional cases, at least on a monthly basis.

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

Level 3 - Financial assets and liabilities which are traded on an illiquid market, with non-observable market data or indications of trading levels without any actual trade.
When neither quoted prices in active markets nor observable market data are available, the fair value of financial instruments is based on valuation techniques which are based on non-observable market data.

Level 3 comprises unquoted instruments and distressed assets.

There were no level 3 financial instruments measured at fair value in the portfolio as at 31 December 2018.

The classification of financial investments in accordance with IFRS 9
In accordance with the requirements of IFRS 4, insurance companies that have decided to delay the implementation of IFRS 9 until 2022 must provide certain disclosures regarding fair value and changes in fair values. These disclosures have to be made separately for two groups of financial assets.

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

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

	Fair value		
€000	**31 Dec 2018**	**31 Dec 2017**	**Change in fair value**
Financial assets at fair value through profit or loss			
Bonds and other fixed income securities	274,731	249,560	25,171
Financial assets at amortised cost			
Term deposits	-	22,400	-22,400
FINANCIAL ASSETS TOTAL	**274,731**	**271,960**	**2,771**

Note 10. Property, plant and equipment

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

Effects on the opening balance as at 1 January 2019 due to the initial application of IFRS 16 Leases.

€000	
Property, plant and equipment	
Right-of-use assets: premises	5,154
Other liabilities	
Lease liabilities	5,154
Net effect on equity	0

Note 11. Liabilities related to insurance activities

€000	31 Dec 2018	31 Dec 2017
Liabilities related to direct insurance activities, incl.	**5,065**	**4,338**
-policyholders	3,225	2,836
-intermediaries	1,702	1,387
-others	138	115
Liabilities related to reinsurance	1,091	997
- incl. from related parties (Note 18)	683	626
Other liabilities	121	128
TOTAL	**6,277**	**5,463**

All of the above liabilities are current items.

Note 12. Accrued expenses and deferred income

€000	31 Dec 2018	31 Dec 2017
Variable compensation reserve (incl. taxes)	2,062	1,982
Unused vacation pay liability (incl. taxes)	1,105	1,028
Employee-related liabilities	683	607
Taxes payable	731	401
- incl. corporate income tax	310	-
Other accrued expenses	1,265	824
Deferred income tax	42	-
TOTAL	**5,888**	**4,842**
Terms of accrued expenses and deferred income		
Up to 12 months	5,888	4,842

Note 13. Liabilities related to insurance contracts and reinsurance assets

€000	31 Dec 2018	31 Dec 2017
Gross		
Provision for incurred and reported claims and claims handling expenses	77,852	69,016
Provision for incurred but not reported claims	32,649	31,525
Provision for unearned premiums	61,565	44,683
TOTAL	**172,066**	**145,224**
Reinsurers' share		
Provision for incurred and reported claims and claims handling expenses	4,690	4,282
Provision for incurred but not reported claims	206	277
Provision for unearned premiums	733	643
TOTAL	**5,629**	**5,202**
Net		
Provision for incurred and reported claims and claims handling expenses	73,162	64,734
Provision for incurred but not reported claims	32,443	31,248
Provision for unearned premiums	60,832	44,040
TOTAL	**166,437**	**140,022**

€000		2018	
Provision for claims incurred and reported, claims incurred but not yet reported (IBNR) and claims handling expenses	**Liabilities arising from insurance contracts**	**Reinsurers' share of liabilities**	**Net**
Balance as at January 1	**100,541**	**-4,559**	**95,982**
Change in the provision for claims outstanding for claims incurred but not yet settled, related to current year	24,403	-2,434	21,969
Change in the provision for claims outstanding for claims incurred but not yet settled, related to previous years	-15,606	2,026	-13,580
Change in the provision for claims incurred but not reported, related to current year	10,479	-36	10,443
Change in the provision for claims incurred but not reported, related to previous years	-9,355	107	-9,248
Change in the provision for claims handling expenses	39	-	39
Balance as at December 31	**110,501**	**-4,896**	**105,605**

€000		2017	
Provision for claims incurred and reported, claims incurred but not yet reported (IBNR) and claims handling expenses	**Liabilities arising from insurance contracts**	**Reinsurers' share of liabilities**	**Net**
Balance as at January 1	**89,387**	**-2,015**	**87,372**
Change in the provision for claims outstanding for claims incurred but not yet settled, related to current year	17,942	-854	17,088
Change in the provision for claims outstanding 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 at December 31	**100,541**	**-4,559**	**95,982**

€000		2018	
Provision for unearned premiums	**Liabilities arising from insurance contracts**	**Reinsurers' share of liabilities**	**Net**
Balance as at January 1	**44,683**	**-643**	**44,040**
Premiums written during the year	162,666	-3,018	159,648
Premiums earned during the year	-145,784	2,924	-142,860
Translation difference	-	4	4
Balance as at December 31	**61,565**	**-733**	**60,832**

€000		2017	
Provision for unearned premiums	**Liabilities arising from insurance contracts**	**Reinsurers' share of liabilities**	**Net**
Balance as at January 1	**41,225**	**-702**	**40,523**
Premiums written during 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 at December 31	**44,683**	**-643**	**44,040**

The development of claims: 2010 - 2018

An overview of claims development in the period 2010-2018 is provided in the tables below. The tables include cumulative estimates of claims development (claims paid, incl. subrogation and salvages, provision for incurred and reported losses, and IBNR provision) on a gross basis. The information on claims paid is presented in the last table. The tables do not include information on actual claims handling expenses and the provision for claims handling expenses.

At 31 December 2018, the gross provision for claims outstanding for earlier accident years amounted to €6,418 thousand (at 31 December 2017 €7,412 thousand).

Various factors affect the change in claims estimates over time, and the change more often happens for lines with a longer tail. While the information in the table discloses the historical perspective of the adequacy of claims outstanding estimates, it alone is not a sufficient basis to conclude on the adequacy of estimates of claims outstanding as at the end of 2018. The Company believes that the estimate of the provision for claims outstanding as at the end of 2018 is adequate to cover claims incurred till 31 December 2018 (irrespective of whether these claims have been reported or not).
It is clear, however, that the final amounts paid by the Company will differ from the estimates due to their inherent uncertainty, although the Company strives to reduce the differences as far as possible.

Development of claims, gross

€000	2010	2011	2012	2013	2014	2015	2016	2017	2018
At 31 December									
Accident year	71,683	66,946	68,357	70,894	69,821	76,735	87,509	81,838	90,703
1 year later	71,690	69,644	68,659	73,242	70,326	77,744	90,643	81,990	
2 years later	70,102	69,294	68,434	73,562	71,256	78,427	87,020		
3 years later	69,148	66,592	66,927	72,272	71,629	78,548			
4 years later	69,395	65,692	63,858	72,579	70,588				
5 years later	69,041	65,379	62,648	73,131					
6 years later	68,431	64,980	61,706						
7 years later	67,848	64,845							
8 years later	67,465								
Provision for outstanding claims (incl. IBNR) as at 31 December 2018	4,367	3,638	3,886	10,799	8,690	10,219	9,984	14,288	34,882

Claims paid, subrogation and salvages (cumulatively), gross

€000	2010	2011	2012	2013	2014	2015	2016	2017	2018
At 31 December									
Accident year	46,732	47,296	43,432	46,648	46,600	53,052	60,231	53,199	55,821
1 year later	60,916	57,908	54,967	59,474	59,494	66,451	75,190	67,702	
2 years later	60,951	59,997	56,077	60,675	60,633	67,693	77,037		
3 years later	61,871	60,355	56,727	61,269	61,592	68,329			
4 years later	62,660	60,533	56,983	61,679	61,898				
5 years later	63,098	60,631	57,309	62,316					
6 years later	62,719	61,015	57,793						
7 years later	63,085	61,227							
8 years later	63,128								

Note 14. Corporate income tax

(A) INCOME TAX EXPENSE

€000	2018	2017
Current tax	-734	-488
Deferred tax	-161	-10
TOTAL INCOME TAX EXPENSE	**-895**	**-498**
Specification of income tax expense		
Latvia	-766	-136
Lithuania	-129	-362
TOTAL	**-895**	**-498**

(B) RECONCILIATION OF TAX CHARGE

€000	2018	2017
Profit of the branches	**4,528**	**3,661**
Tax at 15%/20%	**-869**	**-549**
Permanent differences	-90	24
Temporary differences	-	2
Recognition of a previously unrecognised tax asset	94	-
Prior year tax adjustment	-38	12
Donation	8	13
TOTAL TAX CHARGE FOR THE YEAR	**-895**	**-498**

(C) DEFERRED TAX

€000	31 Dec 2018	31 Dec 2017
Deferred tax liability		
Accelerated capital allowances	-	-12
Provision for amounts recoverable by subrogation	-71	-66
TOTAL DEFERRED TAX LIABILITY	**-71**	**-78**
Deferred tax asset		
Vacation pay reserve and other accruals	11	166
Doubtful debts	21	32
Impairment allowance for doubtful receivables	-4	-4
Software amortization	-	2
TOTAL DEFERRED TAX ASSET	**28**	**196**
NET DEFERRED TAX ASSET/LIABILITY (-)	**-43**	**118**

SPECIFICATION OF DEFERRED TAXES

€000	31 Dec 2018	31 Dec 2017
Deferred tax liability		
Latvia	-	-12
Lithuania	-71	-66
TOTAL	**-71**	**-78**
Deferred tax asset		
Latvia	-	129
Lithuania	28	67
TOTAL	**28**	**196**
Net deferred tax asset/liability (-)		
Latvia	-	117
Lithuania	-43	1
TOTAL	**-43**	**118**

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

€000	31 Dec 2018	31 Dec 2017
At 1 January	**300**	**367**
Calculated	-734	-488
Paid	124	421
At 31 December	**-310**	**300**

Note 15. Investment in the subsidiary

Support Services AS provides insurance policy handling services to If P&C Insurance AS partners such as Luminor Bank AS, Coop Pank AS and Coop Liising AS. From 1 January 2018 back office activities related to services provided to If Group companies were sold to If P&C Insurance Ltd (publ) Estonian branch.
Legal address: Lõõtsa 8a, Tallinn 11415

€000	**31 Dec 2018**	**31 Dec 2017**
Acquisition cost of shares	**88**	**88**
Number of shares	25,000	25,000
Ownership interest	**100%**	**100%**
Total equity	**1,356**	**505**
Share capital	25	25
Share premium	63	63
Mandatory capital reserve	3	3
Retained earnings	414	280
Profit for the period	851	134
Investment in the parent company's statement of financial position	**88**	**88**

Note 16. Equity

Share capital
As at 31 December 2018 the number of issued shares was 6,391,165 with the nominal value of 1 EUR.

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

As at 31 December 2018, share premium amounted to €3,679 thousand (31 December 2017: €3,679 thousand).

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

As at 31 December 2018, the mandatory capital reserve amounted to €2,362 thousand (31 December 2017: €2,362 thousand).

Retained earnings
On 27 March 2018, the sole shareholder resolved that the Company should pay out a dividend of €3,100 thousand and carry forward earnings after the dividend payment of €128,146 thousand.

Dividends paid and proposed

€000	2018	2017
Dividend declared and paid the year	3,100	3,800
Final equity dividend per ordinary share	€0.4850	€0.5946

Contingent income tax liability
As at 31 December 2018 the Company's retained earnings amounted to €147,250 thousand (2017: €131,246 thousand). Undistributed profit from Estonian activities amounts to €143,255 thousand (2017: €127,785 thousand).

The maximum possible income tax liability in Estonia related to the distribution of the Company's retained earnings, excluding the retained earnings of the Latvian and Lithuanian branches, as dividends is €28,707 thousand (2017: €25,613 thousand). The Company could thus pay a total of €118,542 thousand (2017: €105,633 thousand) as a net dividend including the profits of the branches of €3,714 thousand (2017: €3,181 thousand) which have already been taxed 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 expense to be recorded in the statement of comprehensive income in 2018 may not exceed retained earnings as at 31 December 2018.

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

Note 17. Operating leases

The Company leases office space and passenger cars under operating leases. Total operating lease expenses recognised in the reporting period amounted to €1,777 thousand (2017: €1,683 thousand).

As at 31 December 2018, the Company had the following deferred liabilities arising from operating lease contracts:

- Up to 1 year	€1,777 thousand	(as at 31 December 2017 €1,697 thousand)
- 1 to 5 years	€4,387 thousand	(as at 31 December 2017 €4,833 thousand)

Note 18. Related party transactions

1. INFORMATION ABOUT RELATED COMPANIES

Subsidiary
The subsidiary Support Services AS, located in Tallinn, Estonia, has been providing insurance policy handling services to If P&C Insurance AS partners such as Luminor Bank AS, Coop Pank AS and Coop Liising AS.

Parent company and other group companies
If P&C Insurance Holding Ltd is located in Stockholm, Sweden and is the parent company of If Group. It is a holding company and owns and administers the shares of If Group companies. The holding company owns the Swedish If P&C Insurance Ltd (publ) and life insurance provider If Livförsäkring AB and the Estonian company If P&C Insurance AS. If's operations in Denmark, Norway, Latvia, Estonia and Finland are conducted via branches. In addition to the Nordic branches, If P&C Insurance Ltd (publ) has established branches in Germany, France, the Netherlands and the United Kingdom.
The holding company also owns If IT Services A/S, which is located in Copenhagen, Denmark, and is involved in the purchase of IT services for If Group companies in the Nordic and Baltic area.
If P&C Insurance Holding Ltd is a wholly owned subsidiary of Sampo plc, a Finnish listed company.

Relations with Sampo
Sampo plc is located in Helsinki, Finland. Its field of activity is to own and administer shares, other securities and real estate, trade in securities, and carry out other investment activities. Sampo plc manages the Company's investments assets. Compensation for these services is based on a fixed commission calculated in accordance with the market value of the managed investments assets.
The Company has concluded an agreement with Sampo plc's subsidiary Mandatum Life Insurance Baltic SE regarding the marketing and sales of products. The compensation takes the form of commission.

Relations with Nordea
Nordea is a company associated with Sampo. Thus, it is a company related to If. Nordea distributes If's P&C insurance services in Sweden, Finland and the Baltics. The compensation takes the form of a commission.

Nordea (Luminor Bank AS from 1 October 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 (previously Nordea).

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

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

The Management Board members received a total of €1,284 thousand in remuneration in 2018, including social tax (2017: €1,061 thousand). No termination benefits were paid to members of the Management Board during 2018 (2017: 0). According to the conditions of the contracts concluded with the members of the Management Board, severance payments may be paid for up to 12 months on the termination of the contract. No remuneration was paid to members of the Supervisory Board in 2018 and 2017. Insurance contracts of €10 thousand were concluded with the Management Board members in the reporting period (2017: €10 thousand).

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

3. TRANSACTIONS WITH OTHER GROUP OR RELATED COMPANIES

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

	Calculated reinsurance premiums		**Indemnifications and commissions received**	
€000	**2018**	**2017**	**2018**	**2017**
If P&C Insurance Ltd (publ)	1,779	1,693	25	16

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

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

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

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

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

€000	**31 Dec 2018**	**31 Dec 2017**
Receivables		
Nordea Group companies	89	79
If P&C Insurance Ltd (publ)	-	13
Total	**89**	**92**
Payables		
Mandatum Life Insurance Baltic SE	-	2
Nordea Group companies	18	59
Sampo plc	146	135
If P&C Insurance Ltd (publ)	25	2
Total	**189**	**198**

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

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

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

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Independent Auditors' Report

(Translation of the Estonian original)

To the Shareholder of If P&C Insurance AS

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of If P&C Insurance AS (the Company), which comprise the statement of financial position as at 31 December 2018, the statements of comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the financial statements presented on pages 9 to 60, present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters 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.

Valuation and completeness of the provision for claims outstanding	
The gross carrying amount of the provision for claims outstanding as at 31 December 2018 was EUR 110,501 thousand and the expense recognised in profit or loss from the change in the provision for claims outstanding was EUR 9,960 thousand. We refer to the financial statements: Note 1 (accounting policies) and Note 13 (financial disclosure).	
The key audit matter	**How the matter was addressed in our audit**
The provision for claims outstanding as at 31 December 2018 comprises of the provision for incurred but not reported claims of EUR 32,649 thousand and the provision for reported but not settled claims (including the provision for claims handling expenses) of EUR 77,852 thousand. Provisions for claims outstanding involve significant judgement of uncertain future outcome,	We have assessed whether the actuarial assumptions used by the Company in calculating the provisions are reasonable compared with the Company's own investigations, those required for regulatory purposes as well as industry data. We have tested the internal controls implemented by management over the calculation of the claims provision including for example internal controls

primarily including the timing and size of incurred claims which will be settled with the policyholders.	over the extraction of data used as input to the actuarial calculations.
The Company uses established actuarial valuation models to support the calculations of the technical provisions. The complexity of the models may cause risk for errors as a result of inadequate/incomplete data and/or incorrect assumptions made and/or incorrect actuarial calculations.	We have involved our internal actuarial specialists in order to challenge the methods and assumptions used in the projections of future cash flows and valuation of the provision. We have also performed recalculations to verify that the provision is reasonable as compared to the expected future claims.
The Company's provision for claims outstanding consists of a variety of different products, with different characteristics such as long settlement time, damage patterns, assumptions about morbidity, inflation, discount rate, mortality (annuities) and overheads.	We have also considered the completeness of the underlying facts and circumstances that are presented in the disclosures in the annual report and assessed whether the information is sufficient to provide an understanding of the methods and assumptions used by management.

Other Information

Management is responsible for the other information. The other information comprises the Management Report, but does not include the financial statements and our auditors' report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. 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 the financial statements in accordance with 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 the 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.

KPMG

Auditors' 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 auditors' 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 professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 auditors' 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 auditors' 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 or 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.

Report on Other Legal and Regulatory Requirements

We were appointed by the sole shareholder of If P&C Insurance AS on 27 March 2018 to audit the financial statements of If P&C Insurance AS for the year ended 31 December 2018. Our total uninterrupted period of engagement is 1 year, covering the period ending 31 December 2018.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company;
- we have not provided to the Company the prohibited non-audit services referred to in Article 5(1) of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

For the period to which our statutory audit relates, in addition to the audit and audit related services, we have not provided non-audit services to the Company.

Tallinn, 22 February 2019

Eero Kaup
Certified Public Accountant, Licence No 459

KPMG Baltics OÜ
Licence No 17

PROPOSAL FOR THE DISTRIBUTION OF PROFIT

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

Profit carried forward	€128,146,052
Net profit for 2018	€19,103,443
Total profit available for distribution as at 31 December 2018:	**€147,249,495**

The Management Board proposes:

To make a dividend distribution to the sole shareholder	€3,700,000
To recognise as retained earnings	€143,549,495

Andris Morozovs
Chairman of the Management Board

Dace Ivaska
Member of the Management Board

Sanita Ķeniņa
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

Tiit Kolde
Member of the Management Board

SIGNATURES TO ANNUAL REPORT 2018

The Management Board of If P&C Insurance AS has prepared the management report and financial statements for 2018.

Signatures:

Heinar Olak	Member of the Management Board		21.02 2019
Artur Praun	Member of the Management Board		21.02. 2019