If P&C Insurance AS

2019 Annual Report

Annual Report 2019

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 2019
End of financial year:	31 December 2019
Chairman of the Management Board:	Andris Morozovs
Auditor:	KPMG Baltics OÜ

Table of Contents

Management Report

Organization

If P&C Insurance AS (the Company, If) is a wholly-owned subsidiary of the leading Nordic property and casualty insurance group If P&C Insurance Holding Ltd (publ). 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 largest 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 295,000 policyholders and is one of the leading P&C companies in Estonia. If's products include property, liability, motor, marine & transport, and accident & health insurance.

The Company is registered in Estonia and operates in Latvia and Lithuania through branches. The current corporate structure enables efficient operations 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	2019	2018	2017	2016	2015
Premiums written, gross	149,046	162,666	138,750	130,781	133,200
Premiums earned, net of reinsurance	145,070	142,859	132,618	130,729	126,545
Claims incurred, net of reinsurance	89,832	88,469	84,406	83,716	75,433
Operating expenses[1]	36,917	36,511	34,023	34,041	33,862
Technical result[2]	18,321	17,879	14,190	12,971	17,250
Net profit	19,889	19,103	15,454	13,589	19,926
Combined ratio[3]	87.4%	87.5%	89.3%	90.1%	86.4%
Expense ratio[4]	25.5%	25.6%	25.6%	26.1%	26.8%
Loss ratio[5]	61.9%	61.9%	63.7%	64.0%	59.6%
Financial investments	318,436	274,731	271,960	244,971	235,574
Return on investments[6]	2.2%	-0.2%	0.8%	1.4%	1.1%
Total assets	380,500	344,818	302,911	275,508	265,144
Equity	180,959	160,587	147,382	135,528	126,757

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 €17.9 million in 2018 to €18.3 million and the combined ratio improved to 87.4% (87.5%).

Premiums written

Gross written premiums decreased by a total of €13.7 million, from €162.7 million in 2018 to €149.0 million.

It is to be noted that the gross written premium income for 2018 was increased by refined accounting methods. From 2018, gross written premiums are recognised on the inception date, previously they were recognised on the payment date. This did not influence earned premiums or the key ratios but affected 2018 positively in terms of gross written premiums.

After a weak start of the year, characterised by strong price competition and decreased premium rates on the market in general, sales volume finished off at the same level as last year. From the second quarter of 2019, the number of customers started to increase in several business lines due to more attractive pricing and a competitive offering.

Claims and operating expenses

Total claims cost, including claims handling, increased slightly, rising from €88.5 million in 2018 to €89.8 million, while the loss ratio was stable at 61.9% (61.9%). The outcome benefited from an overall good loss ratio in all lines of business except liability insurance. The outcome was also supported by an extraordinarily low level of reported large and mid-size claims in property insurance in Estonia as well as a lower average claim and lower claims frequency in motor insurance in Latvia.

Continuous efficiency improvements and tight cost control, supported by digitalisation and automation of processes and customer interaction, kept the expense ratio stable at 25.5% (25.6%). Total operating expenses, excluding claims handling, increased from €36.5 to €36.9 million. The cost increase is, inter alia, driven by salary inflation and IT-costs related to enhanced development capacity.

Investment result

The value of financial investments stood at €318.4 million as at 31 December 2019.
Applying the full market valuation, the result from asset management increased to €6.52 million, up from -€0.68 million in 2018, with a return ratio of +2.2% compared to the previous -0.2%. Net investment result recognised in profit amounted to €2.33 million compared to €2.12 million in 2018, while €4.18 million was recorded in other comprehensive income, up from -€2.80 million in 2018. The average weighted credit rating

for the holdings of the investment portfolio as at 31 December 2019, was BBB+, using Standard & Poor’s scale (BBB+ as at 31 December 2018).

As a result of the reinvestments made in 2019, the duration of the fixed income portfolio increased slightly, lengthening to 2.7 years from 2.6 years in 2018.

Net profit and tax

The overall net profit after tax was €19.9 million in 2019, up from €19.1 million in 2018. Current tax amounted to €0.77 million, a decrease from €0.89 million in 2018.

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 2019, the number of full-time employees was 554 (566 as at 31 December 2018) and expenses for personnel totalled €23.6 million, an increase by €1.0 million over the year.
If’s performance is highly dependent on how well customer interactions are performed, making strong customer focus through dedicated, professional and competent employees a key success factor.
The insurance industry is developing rapidly, driven by digitalisation and changing customer needs. 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 talents.

In addition to competence development, If strives to create a healthy workplace and a positive environment for all its employees. This does not only include well-functioning office spaces but meaningful work assignments, reasonable workloads, good leadership, team building activities and non-tolerance of discrimination and harassment.

Regular internal employee surveys show that factors of this kind are important and the overall satisfaction level is high, which is also confirmed by recent years’ improvement in the employee Net Promoter Score (eNPS).

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.

Operations

If offers a complete range of P&C insurance products to private and corporate customers in the Baltic region. Most of the work is done via phone and internet channels but there are also direct sales points and a strong network of brokers and partners. Sales and customer service staff are available in central offices throughout the region and today If has the fourth-largest insurance portfolio among all P&C insurance providers in the Baltic countries.

Previously conducted client surveys have shown that when choosing an insurer, smooth sales and claims handling processes are what matter the most to people. This is why If focuses on developing products and services, including the web environment, to offer "undifficult" insurance solutions from signing the contract to handling possible claims.

In order to offer better service to If's clients, several products were released during 2019:

- Personal accident insurance was launched in Estonia, which means that customers are now able to buy personal accident insurance easily online.
- Mobile phone insurance is now offered in all three Baltic countries.
- Bicycle insurance was launched in Estonia in June and provides customers with an extensive cover both in Estonia and abroad.
- Travel insurance is now offered, besides affordable car insurance, on the website Poliis.ee.
- Pet insurance is now offered in all three Baltic countries.

Despite the fact that the insurance business itself brings more safety and stability to the society, If strives to promote safer communities. Accordingly, If organises an event called Heroes which is dedicated to recognising people who have saved someone's life, prevented a crime or an accident or who have otherwise helped to make life in Estonia safer.

For several years now If has also been giving Christmas charity presents to people who help others. In Estonia volunteer rescuers and assistant police officers have been rewarded. In Latvia presents have been given to those who have helped to look for missing persons and in Lithuania professional lifeguards have been supported.

Outlook

The economic outlook for the Baltic region is influenced by stable consumer confidence and strong household consumption. Although the economic growth is expected to slow down, its pace should still remain relatively strong.

Following the market consolidation of recent years, the competitive environment seems to continue to stabilise, which is expected to encourage an improved financial discipline in the industry in the coming years. If's business within the Baltic region is expected to maintain a positive premium development, in line with the market growth, throughout the plan period.

Statement of comprehensive income

€000	Note	2019	2018
PREMIUMS EARNED, NET OF REINSURANCE			
Premiums earned, gross		147,991	145,783
Premiums ceded		-2,921	-2,924
TOTAL	3	**145,070**	**142,859**
OTHER INCOME			
Investment result	4	2,334	2,119
Reinsurance commissions and other income		276	308
TOTAL		**2,610**	**2,427**
TOTAL REVENUE		**147,680**	**145,286**
CLAIMS INCURRED, NET OF REINSURANCE			
Claims incurred, gross		-89,698	-88,825
Reinsurers' share of claims incurred		-134	356
TOTAL	5	**-89,832**	**-88,469**
EXPENSES			
Insurance contract acquisition costs		-23,003	-23,298
Administrative expenses		-14,190	-13,520
TOTAL	6	**-37,193**	**-36,818**
TOTAL CLAIMS AND EXPENSES		**-127,025**	**-125,287**
NET RESULT BEFORE TAXES		**20,655**	**19,999**
INCOME TAX	15	-766	-895
NET PROFIT FOR THE FINANCIAL YEAR		**19,889**	**19,104**
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	4,183	-2,799
TOTAL		**4,183**	**-2,799**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**24,072**	**16,305**

The notes on pages 12 to 59 are an integral part of the financial statements.

Statement of financial position

€000	Note	31 December 2019	31 December 2018
ASSETS			
Cash and cash equivalents		17,968	30,142
Financial investments	9	318,436	274,731
Receivables related to insurance activities	7	30,311	29,649
Accrued income and prepaid expenses	8	4,018	4,021
Reinsurance assets	14	5,114	5,629
Investment in subsidiary	16	88	88
Property, plant and equipment [1]	10	4,565	558
TOTAL ASSETS		**380,500**	**344,818**
LIABILITIES AND EQUITY			
Liabilities related to insurance activities	11	6,205	6,277
Lease liabilities	12	3,922	-
Accrued expenses and deferred income	13	6,039	5,846
Deferred tax liability	15	83	42
Liabilities arising from insurance contracts	14	183,292	172,066
TOTAL LIABILITIES		**199,541**	**184,231**
Share capital		6,391	6,391
Share premium		3,679	3,679
Mandatory capital reserve		2,362	2,362
Fair value reserve		5,088	905
Retained earnings		143,550	128,146
Net profit for the year		19,889	19,104
TOTAL EQUITY	17	**180,959**	**160,587**
TOTAL LIABILITIES AND EQUITY		**380,500**	**344,818**

[1] Following the adoption of IFRS 16, the Company has presented right-of-use assets that do not meet the definition of investment property within “Property plant and equipment“.

The notes on pages 12 to 59 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 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**
AT 1 JANUARY 2019	**6,391**	**3,679**	**2,362**	**905**	**147,250**	**-**	**160,587**
Dividends paid	-	-	-	-	-3,700	-	**-3,700**
Other comprehensive income	-	-	-	4,183	-	-	**4,183**
Net profit for the year	-	-	-	-	-	19,889	**19,889**
AT 31 DECEMBER 2019	**6,391**	**3,679**	**2,362**	**5,088**	**143,550**	**19,889**	**180,959**

The notes on pages 12 to 59 are an integral part of the financial statements.

Statement of cash flows

€000	Note	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES			
Premiums received	3, 7, 11	148,492	146,876
Premiums ceded	3, 11	-2,944	-2,925
Claims paid, incl. claims handling expenses	5, 6, 7	-79,797	-79,064
Cash flow from reinsurance		787	-117
Employee-related and service-related expenses		-36,215	-36,216
Investments in bonds and other interest-bearing securities	9	-74,271	-74,372
Proceeds from disposals of bonds and other interest-bearing securities	9	50,248	46,522
Investments in term deposits	9	-15,000	-
Proceeds from term deposits	9	-	22,400
Interest received		2,630	2,705
Interest paid		-12	-
Income tax paid	15	-764	-124
NET CASH FLOW FROM OPERATING ACTIVITIES		**-6,846**	**25,685**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		-372	-457
Proceeds from disposal of property, plant and equipment		2	3
NET CASH FLOW FROM INVESTING ACTIVITIES		**-370**	**-454**
CASH FROM FROM FINANCING ACTIVITIES			
Dividends paid	17	-3,700	-3,100
Repayment of lease liability[2]	12	-1,258	-
NET CASH FLOW FROM FINANCING ACTIVITIES		**-4,958**	**-3,100**
CHANGE IN CASH FLOW		**-12,174**	**22,131**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**30,142**	**8,011**
CASH AND CASH EQUIVALENTS AT END OF YEAR		**17,968**	**30,142**

[2]The Company has classified:
- Cash payments for the principal portion of lease payments as financing activities;
- Cash payments for the interest portion as operating activities consistent with the presentation of interest payments chosen by the Company; and
- Payments for the lease contracts not recognised in the statement of financial positions due to low value, short term or the entity specific materiality threshold as operating activities.

The Company has not restated comparative information.

The notes on pages 12 to 59 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 2019 were authorised for issue in accordance with a resolution of the Management Board on 21 February 2020.

2. Basis of preparation

The 2019 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 16 Leases took effect on 1 January 2019 and the Company applies the standard as of this date. The standard replaced IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease. The Company made the transition to IFRS 16 in accordance with the modified retrospective model and comparative information was not restated.

Following the transition, the company recognised a lease liability that corresponds to the present value of the remaining lease payments for the leases that were previously subject to IAS 17, discounted by an estimated incremental borrowing rate as of the date of initial application. A corresponding amount was 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 attributable to large office premises were initially recognised in accordance with IFRS 16.

The adoption of the standard had a limited impact on the Company's financial statements. Upon transition as at 1 January 2019, property, plant and equipment increased by €5,154 thousand and liabilities increased by the same amount. The weighted average incremental borrowing rate applied to the lease liabilities at the initial recognition was 0.27 %. The Company's technical result also improved slightly since only depreciation of right-of-use assets is included in the technical result, while interest expenses related to the lease liabilities are presented as a part of the investment result. Before the implementation of IFRS 16 lease costs were included in the technical result.

Please see also the accounting policies for "Property, plant and equipment" and "Lease liabilities" in the note.

3.2. New standards and interpretations issued but not yet effective

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

IFRS 9 Financial Instruments took effect on 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 the Company 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, refer to Note 9 "Financial investments".

IFRS 9 contains some optionality, and the Company's opinion is 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 June 2019, the IASB published an exposure draft including a proposed amendment 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 a 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.

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 14 "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

<u>Premiums written</u>

The premium refers to the compensation that an insurance company receives from the policyholder in return for the transfer of risk. Premiums written are reported in the statement of 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 there were no material differences in the recognition of premium revenue.

<u>Premiums earned</u>

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

<u>Reinsurance commissions</u>

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.

<u>Derecognition of financial assets</u>
A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

or

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

  and either:

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

  or

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

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

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

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

<u>Impairment of financial assets</u>
The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset, 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 as of 1 January 2019. This entails that the Company recognises right-of-use assets for material leases that are in the scope of the standard. The Company applies a company-specific materiality assessment that includes, but is not limited to, the two exemptions specified in the standard. The acquisition cost corresponds to an amount equivalent to lease liabilities, discounted using an incremental borrowing rate.

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

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

The comparative information is presented based on IAS 17, which has been replaced by IFRS 16. According to IAS 17, lessees recognised leases either as operating leases or finance leases. The Company had only operating lease contracts. Operating leases were not recognised in the statement of financial position, and the lease payments were recognised as expenses in the statement of comprehensive income on a straight-line basis over the lease term.

i) Financial liabilities

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

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

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

j) Deferred acquisition costs

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

k) Provision for unearned premiums

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

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

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

l) Provision for claims outstanding

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

The provision for claims outstanding is calculated using a case-by-case valuation method (larger reported claims) as well as statistical methods (small reported claims, IBNR provision). The provision for claims outstanding is not discounted, except motor third party liability annuities that are discounted to their net present value using a discount rate of 0.5% (2018: 1.0%).

m) Reinsurance

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

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

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

n) Lease liabilities

Lease liabilities are initially measured at the present value of the fixed lease payments and certain variable lease payments to be made under the lease that are not paid at the commencement date, discounted using the incremental borrowing rate. The lease liabilities are subsequently measured at amortised cost using the effective interest method. They are remeasured to reflect any lease modifications or reassessments. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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

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

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% (2018: 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.

In 2018, a new income tax system entered into force in Latvia. The system resembles the Estonian one but upon its application Latvian entities began to recognise deferred tax in their consolidated IFRS financial statements differently from the Estonian approach. In accordance with the Latvian treatment, deferred tax for investments in branches is to be recognised even if the investments are located in jurisdictions where corporate income tax is to be paid on the distribution of profit (Estonia and Latvia), except to the extent that the company is able to control the timing of the reversal of the taxable temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. In line with the treatment used in Estonia to date, deferred tax liabilities are not recognised in such cases.

There is no consensus yet in Estonia as to which treatment is correct. The Ministry of Finance has asked the IFRS Interpretations Committee (IFRIC) to express an opinion on the correct interpretation of IAS 12 Income Taxes. As at the date of release of this report, IFRIC has not yet communicated its opinion.

In the case of investments in branches, the Company's management has decided to continue to account for deferred tax liabilities using the policy applied to date. In line with the latter, in jurisdictions where corporate income tax is to be paid on the distribution of profit (as in Estonia and Latvia), a deferred tax liability is always zero because deferred tax liabilities arising on investments located in those jurisdictions are measured at the zero rate applicable to undistributed profits, as provided in paragraph 52A of IAS 12.

The maximum income tax liability which would arise if all of the available equity were distributed as dividends is disclosed in Note 17. As at 31 December 2019, 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% (2018: 20%).

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. Detailed information on the deferred tax asset and liability of the Lithuanian branch is disclosed in Note 15. Deferred tax assets and liabilities are reported net in those cases where they pertain to the same tax authority and can be offset against each other. For the Lithuanian branch, the corporate income tax rate is 15% (2018: 15%).

p) Events after the reporting period

The financial statements reflect all significant events affecting the valuation of assets and liabilities that occurred between the reporting date (31 December 2019) and the date on which the financial statements were authorised for issue (21 February 2020) 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 aremanaged. For effective implementation of the Risk Management System, the three lines of defence concept is used based on the COSO[1] framework (Figure 1).

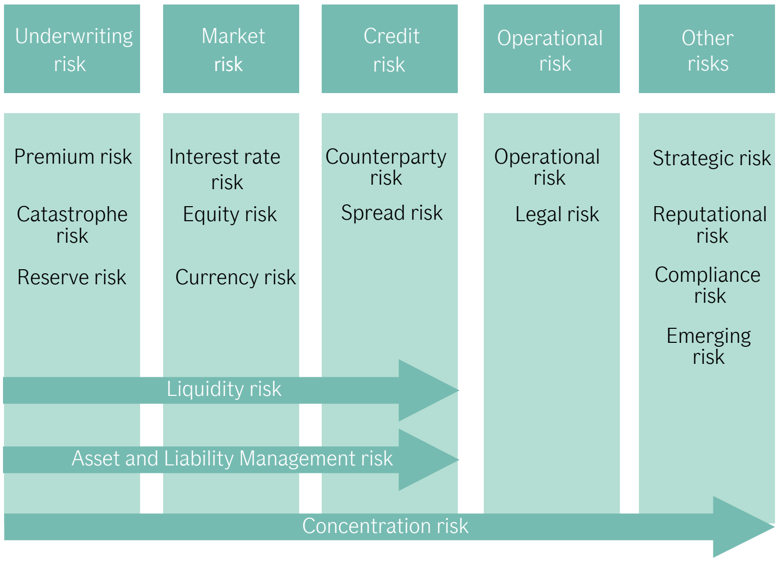
Figure 1. Three lines of defence concept

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 external risks;
- Limit fluctuations in economic value; 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.

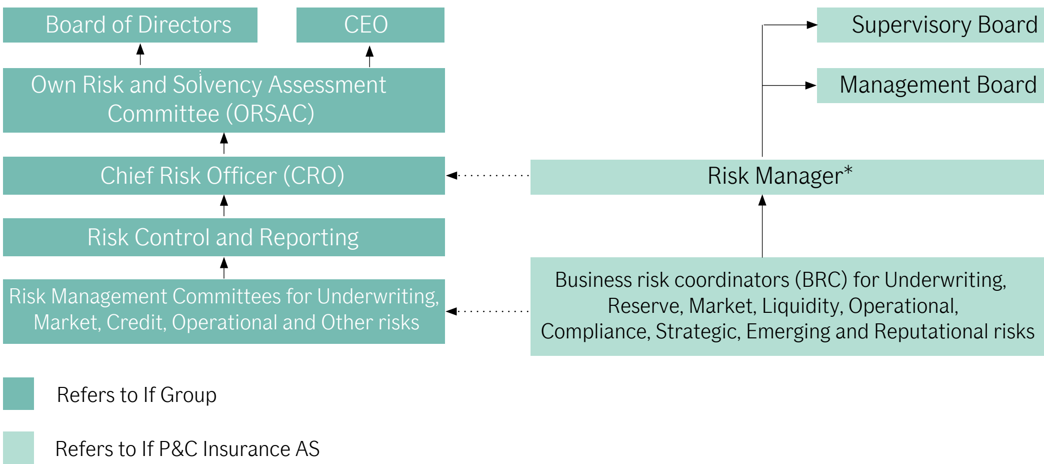
Risk governance and reporting structure

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 2019, 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 2019

€000 Parameter	Current level, 2019	Change	Effect on profit before tax 2019	Effect on profit before tax 2018
Combined ratio	87.4%	+/-2% points	+/-2,901	+/-2,857
Premium volume	145,070	+/-2%	+/-366	+/-358
Claims level	89,832	+/-2%	+/-1,797	+/-1,769

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

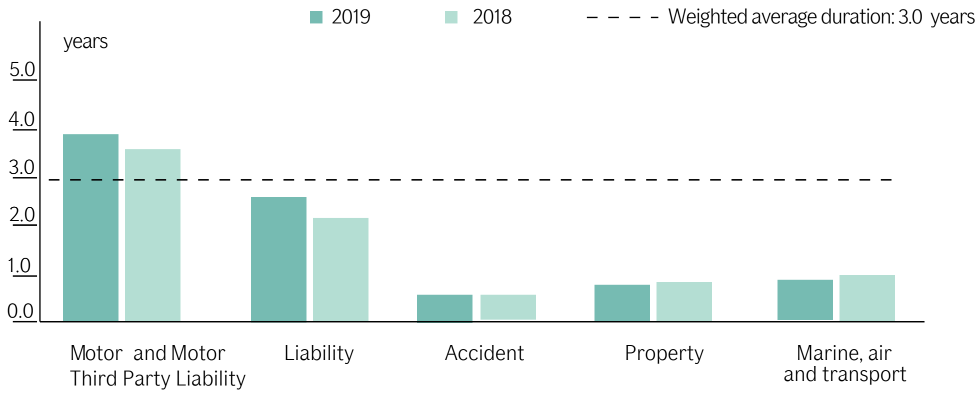
The amount of technical provisions broken down by line of business is shown in Table 2. The Company's technical provisions are dominated by short-tailed business. The contribution of the long-tail annuities related to the compulsory motor third party liability insurance have a relatively small impact.

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	
	2019	2018	2019	2018	2019	2018
Compulsory MTPL	82,152	77,289	3,051	2,787	79,101	74,502
Motor Own Damage	29,014	29,162	-	-	29,014	29,162
Private Property	12,221	12,828	-	-	12,221	12,828
Corporate Property	18,894	17,228	311	413	18,583	16,815
Liability	27,853	22,733	1,690	1,633	26,163	21,100
Personal Accident	2,759	2,801	-	-	2,759	2,801
Health	4,341	4,149	-	-	4,341	4,149
Other	6,058	5,876	62	796	5,996	5,080
TOTAL	**183,292**	**172,066**	**5,114**	**5,629**	**178,178**	**166,437**

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 2019	 2018
Nominal reserves	Increase in inflation rate	Increase by 1 percentage point	Estonia	1,852	1,492
			Latvia	353	301
			Lithuania	724	588
			TOTAL	**2,929**	**2,381**
Discounted reserves (annuities)	Decrease in discount rate	Decrease by 1 percentage point	Estonia	1,464	1,458
			Latvia	390	323
			Lithuania	108	120
			TOTAL	**1,962**	**1,901**
Annuities	Decrease in mortality rate	Decrease by 20%	Estonia	167	160
			Latvia	20	14
			Lithuania	4	4
			TOTAL	**191**	**178**

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 2.2% in 2019 (2018: -0.2%). The investment assets amounted as at the end of the reporting period to €318,436 thousand (2018: €274,731 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 2019	%	31 Dec 2018	%
Bonds and other interest-bearing securities	303,418	95%	274,731	100%
Loans and receivables (term deposits)	15,018	5%	-	0%
TOTAL	**318,436**	**100%**	**274,731**	**100%**

INTEREST RATE RISK

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

Risk management and control

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

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

Sensitivity analysis

The table below reflects some of the key assumptions indicating the effect of potential changes when other factors remain constant. The analysis is based on the investment portfolio as at 31 December 2019 and as at 31 December 2018 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			
	2019		2018	
	100 basis points up	100 basis points down	100 basis points up	100 basis points down
Effect on financial results	-8,704	9,070	-7,392	7,715

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 2.7 years at the end of 2019 (2.6 years at the end of 2018). 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

	2019			2018		
€000	**Carrying amount**	**%**	**Duration in years**	**Carrying amount**	**%**	**Duration in years**
Euro credit (excl. Scandinavian)	159,802	50.2%	2.7	151,938	55.3%	2.7
Scandinavian credit	86,018	27.0%	2.8	68,744	25.0%	2.8
US credit	41,261	13.0%	2.5	43,504	15.8%	1.3
Short-term fixed income (incl. Scandinavian)	15,018	4.7%	0.5	-	0.0%	0.0
Global credit	13,731	4.3%	3.8	8,020	2.9%	4.5
EU government bonds	2,606	0.8%	6.2	2,527	0.9%	7.1
TOTAL	**318,436**	**100%**	**2.7**	**274,731**	**100%**	**2.6**

EQUITY RISK

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

Risk exposure

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

CURRENCY RISK

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

Risk exposure

Exposure to currency risk is 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

2019

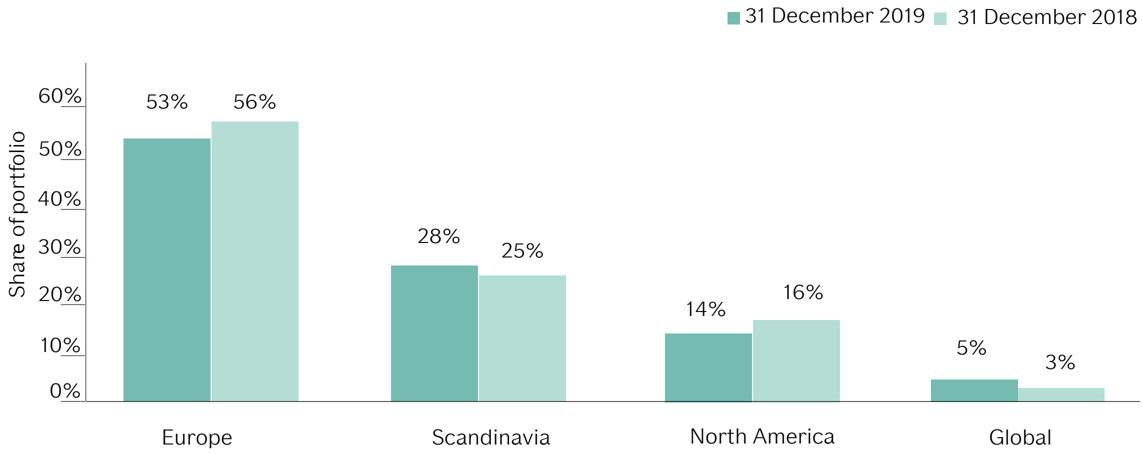
€000	AAA	AA+- AA-	A+ - A-	BBB+- BBB-	BB+ - C	Non-rated	Fixed income total
Basic Industry	-	-	5,006	2,068	-	7,791	**14,865**
Capital Goods	-	-	3,020	10,272	-	10,881	**24,173**
Consumer Products	-	-	12,953	15,723	968	-	**29,644**
Covered Bonds	8,140	-	-	-	-	-	**8,140**
Energy	-	-	-	-	-	9,112	**9,112**
Financial Institutions	-	49,963	62,073	43,598	-	-	**155,635**
Governments	-	2,606	-	-	-	-	**2,606**
Health Care	-	-	-	5,195	-	499	**5,694**
Insurance	-	-	4,092	-	-	-	**4,092**
Packaging	-	-	-	-	-	2,981	**2,981**
Real Estate	-	-	5,737	9,572	-	2,053	**17,362**
Services	-	-	-	3,564	771	4,061	**8,396**
Technology and Electronics	-	-	1,014	5,934	1,080	-	**8,029**
Telecommunications	-	-	2,058	9,845	-	-	**11,903**
Transportation	-	-	2,593	2,069	-	-	**4,662**
Utilities	-	-	1,528	2,035	3,038	-	**6,601**
Other	-	2,015	-	-	-	2,526	**4,541**
TOTAL	**8,140**	**54,584**	**100,076**	**109,875**	**5,857**	**39,904**	**318,436**

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**

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)**	**2019**	**%**	**2018**	**%**
AA	678	12.7%	1,342	22.0%
A	4,183	78.7%	4,378	71.6%
NR	455	8.6%	393	6.4%
Total	**5,316**	**100%**	**6,113**	**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 2019	Carrying amount			Cash flows						
€000	Carrying amount	Without maturity	With contractual maturity	2020	2021	2022	2023	2024	2025-2034	2035-
Financial assets	**367,409**	**18,662**	**348,747**	112,212	34,828	39,858	65,369	70,275	30,440	-
Financial liabilities	**12,326**	**-**	**12,326**	12,326	-	-	-	-	-	-
Lease liabilities	**3,922**	**-**	**3,922**	1,277	1,281	855	527	-	-	-
Net technical provisions	**178,178**	**-**	**178,178**	94,882	21,337	14,454	10,579	7,750	23,262	5,914

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

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

2019 €000	Deposits	Floating rate notes and bonds	**Total**
Luminor Bank AS	15,018	2,039	**17,057**
Swedbank AB	-	14,430	**14,430**
DnB ASA	-	10,057	**10,057**
Raiffeisen-Boerenleenbank BA/Netherlands	-	10,014	**10,014**
Danske Bank A/S, Copenhagen	-	9,120	**9,120**
Total top five exposures	**15,018**	**45,660**	**60,678**

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 top five exposures	-	**45,485**	**45,485**

The five largest exposures amount to €60,678 thousand, representing 19.0% (2018: 16.5%) of the financial investments under active management.

Operational risk

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

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

Risk management and control
The Company identifies operational risks through different processes:

- Operational and Compliance Risk Assessment Process. Operational and Compliance Risk Assessment process is conducted by each unit as a self-assessment twice per year. Based on this assessment the second line of defence assesses operational risks from the Company's perspective. The risk levels are monitored on a continuous basis and reported regularly to the Management and Supervisory Boards of the Company.
- Incident reporting process. Operational incidents are reported via a web-based system. The incidents are analysed by the Risk Management Function to determine the areas needing improvements. Information on incident trends and severe impacts is included in the quarterly risk report.
- Business Continuity Management. Business Continuity Management is implemented to ensure the organisation's capability to manage business interruptions and crises situations effectively. Business continuity exercises are carried out 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 Management and Supervisory Boards 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	2019	2018
Premiums written, gross	149,046	162,666
Change in the provision for unearned premiums	-1,055	-16,883
Premiums earned, gross	**147,991**	**145,783**
Reinsurance premiums	-2,837	-3,018
Change in the provision for unearned premiums	-84	94
Premiums ceded	**-2,921**	**-2,924**
TOTAL	**145,070**	**142,859**

Gross written premium recognition was changed in 2018. 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 year 2018.

Note 4. Investment result

€000	2019	2018
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
Available-for-sale financial assets		
Bonds and other interest-bearing securities	2,774	2,400
Loans and receivables		
Term deposits	18	3
Cash and cash equivalents	-	1
Lease liabilities	-12	-
TOTAL	**2,780**	**2,651**
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	345	396
TOTAL	**345**	**594**
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
Exchange rate changes	-28	-
TOTAL	**-28**	**-420**
Investment expenses	**-763**	**-706**
TOTAL INVESTMENT RESULT	**2,334**	**2,119**

Reconciliation of the fair value reserve of available-for-sale financial assets	2019	2018
Opening balance, available-for-sale financial assets	**905**	**3,704**
Changes in fair value during the year, recognised in other comprehensive income	4,528	-2,403
Realised gain recognised in profit or loss	-345	-396
Closing balance, available-for-sale financial assets	**5,088**	**905**
Change in the fair value reserve of available-for-sale financial assets during the year	4,183	-2,799

Note 5. Claims incurred, net of reinsurance

€000	2019	2018
Gross		
Claims paid related to the reporting period	-64,248	-62,326
Claims paid related to previous periods	-20,954	-21,650
Amounts recovered from salvage and subrogation	10,158	9,456
Change in the provision for claims outstanding	-10,172	-9,960
Claims handling expenses	-4,482	-4,345
TOTAL	**-89,698**	**-88,825**
Reinsurers' share		
Claims paid related to the reporting period	80	2
Claims paid related to previous periods	214	18
Change in the provision for claims outstanding	-428	336
TOTAL	**-134**	**356**
Net		
Claims paid related to the reporting period	-64,168	-62,324
Claims paid related to previous periods	-20,740	-21,632
Amounts recovered from salvage and subrogation	10,158	9,456
Change in the provision for claims outstanding	-10,600	-9,624
Claims handling expenses	-4,482	-4,345
TOTAL	**-89,832**	**-88,469**

Note 6. Expenses

€000	2019	2018
Salaries and remuneration	-17,856	-15,771
Social security costs	-3,671	-4,700
Other personnel expenses	-2,044	-2,063
Total personnel expenses	**-23,571**	**-22,534**
Commissions to intermediaries	-9,076	-9,817
Data processing	-2,473	-2,298
Expenses on premises	-2,170	-2,224
Office expenses (incl. communication expenses)	-857	-960
Other operating expenses	-3,528	-3,330
TOTAL	**-41,675**	**-41,163**
Division of costs on the basis of function		
Insurance contract acquisition costs	-23,003	-23,298
Administrative expenses	-14,190	-13,520
Claims handling expenses	-4,482	-4,345
TOTAL	**-41,675**	**-41,163**

Note 7. Receivables related to insurance activities and bad debts

€000	31 Dec 2019	31 Dec 2018
Receivables related to direct insurance activities, incl.	30,058	29,021
- *policyholders*	25,850	25,213
- *intermediaries*	2,110	1,968
- *subrogation with significant recoverability*	1,570	1,378
- *salvages*	422	338
- *other*	106	124
Receivables related to reinsurance	202	484
- *incl. from related parties (Note 18)*	-	4
Other receivables	51	144
TOTAL	**30,311**	**29,649**
Maturity analysis of receivables		
Neither past-due nor impaired:		
- not due yet (due within 1 year)	29,027	28,341
Past due but not impaired:		
- past due for 0-3 months	1,161	1,293
- past due for 3-6 months	23	6
- past due for 6-12 months	88	8
- past due for over 1 year	12	1
TOTAL	**30,311**	**29,649**

CHANGE IN BAD DEBT PROVISION

€000	Individually impaired	Collectively impaired	Total
At 1 January 2018	**-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**
Realised losses during the year	58	-	58
Unused amounts reversed during the year	518	-	518
Additions	-398	-	-398
Change in general provisions	-	8	8
At 31 December 2019	**-175**	**-72**	**-247**

Note 8. Accrued income and prepaid expenses

€000	31 Dec 2019	31 Dec 2018
Deferred acquisition costs (including reinsurers' share)	3,323	3,264
Prepaid expenses	695	757
TOTAL	**4,018**	**4,021**

DEFERRED ACQUISITION COSTS		2019	
€000	Deferred acquisition costs (gross)	Reinsurers' share of acquisition costs	Deferred acquisition costs (net)
Balance as at January 1	**3,334**	**-70**	**3,264**
Acquisition costs deferred during the year	8,921	-197	8,724
Amortisation of previously deferred acquisition costs	-8,870	205	-8,665
Balance as at December 31	**3,385**	**-62**	**3,323**

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**

Note 9. Financial investments

€000	31 Dec 2019	31 Dec 2018
Available-for-sale financial assets		
Bonds and other interest-bearing securities		
- listed	287,382	261,854
- unlisted	16,036	12,877
Incl. with a floating interest rate	59,931	71,837
Incl. with a fixed interest rate (0.0-3.75%)	243,487	202,894
TOTAL	**303,418**	**274,731**
Loans and receivables		
Term deposits	15,018	-
TOTAL FINANCIAL INVESTMENTS	**318,436**	**274,731**

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

€000	2019	2018
Balance at 1 January	**-**	**10,725**
Classified as held for trading		
Bonds and other interest-bearing securities		
Sale	-	-10,040
Change in fair value recognised in profit or loss	-	-420
Change in accrued interest	-	-265
Balance at 31 December	**-**	**-**

AVAILABLE-FOR-SALE FINANCIAL ASSETS

€000	2019	2018
Balance at 1 January	**274,731**	**238,835**
Bonds and other interest-bearing securities		
Purchase	74,271	74,372
Sale	-49,903	-35,946
Change in fair value recognised in other comprehensive income	4,183	-2,799
Change in accrued interest	136	269
Balance at 31 December	**303,418**	**274,731**

LOANS AND RECEIVABLES

€000	2019	2018
Balance at 1 January	**-**	**22,400**
Term deposits		
Purchase	15,000	-
Maturity	-	-22,400
Change in accrued interest	18	-
Balance at 31 December	**15,018**	**-**

BONDS AND OTHER INTEREST-BEARING SECURITIES BY MATURITY TERMS

€000	31 Dec 2019	31 Dec 2018
Up to 1 year	64,614	33,100
1-2 years	32,985	74,473
2-5 years	172,871	120,860
5-10 years	32,948	46,298
TOTAL	**303,418**	**274,731**

DEPOSITS BY MATURITY TERMS

€000	31 Dec 2019	31 Dec 2018
Up to 6 months	5,017	-
6-12 months	10,001	-
TOTAL	**15,018**	**-**

BONDS WITH A FIXED INTEREST RATE, BY INTEREST RATES

€000	31 Dec 2019	31 Dec 2018
Interest rate: 0.0-0.9%	124,567	92,468
Interest rate: 1.0-1.9%	100,562	85,310
Interest rate: 2.0-2.9%	15,322	22,178
Interest rate: 3.0-3.9%	3,036	2,938
TOTAL	**243,487**	**202,894**

THE CLASSIFICATION OF FINANCIAL INVESTMENTS IN ACCORDANCE WITH IAS 39

€000	31 Dec 2019 Fair value	31 Dec 2019 Acquisition cost	31 Dec 2018 Fair value	31 Dec 2018 Acquisition cost
Available-for-sale financial assets				
Bonds and other interest-bearing securities	303,418	296,670	274,731	272,301
Loans and receivables				
Term deposits	15,018	15,000	-	-
TOTAL FINANCIAL ASSETS	**318,436**	**311,670**	**274,731**	**272,301**

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 2019	Level 1	Level 2	Total fair value
Available-for-sale financial assets			
Debt securities	273,986	29,432	303,418
At 31 December 2018	**Level 1**	**Level 2**	**Total fair value**
Available-for-sale financial assets			
Debt securities	247,337	27,394	274,731

-

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 2019.

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.

€000	Fair value 31 Dec 2019	Fair value 31 Dec 2018	Change in fair value
Available-for-sale financial assets			
Bonds and other fixed income securities	303,418	274,731	28,687
Financial assets at amortised cost			
Term deposits	15,018	-	15,018
FINANCIAL ASSETS TOTAL	**318,436**	**274,731**	**43,705**

Note 10. Property, plant and equipment

€000	Right-of-use: Buildings	Other PPE
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**
First application of IFRS 16 as at 1 January	5,154	-
Acquisition	26	407
Disposal	-	-35
Acquisition cost as at 31 December 2019	5,180	2,259
- incl. fully depreciated items	-	1,199
Depreciation charge for the year	-1,265	-314
Depreciation charge of sales and disposals	-	34
Accumulated depreciation as at 31 December 2019	-1,265	-1,609
Net book value as at 31 December 2019	**3,915**	**650**

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

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

The Company leases premises for its own use. The expected lease term varies from 3 to 4 years. Some contracts include an option to extend the contract at the end of the term.

Variable lease payments are linked to consumer price indexes.

Expenses relating to lease contracts not recognized in the statement of financial position amount to €437 thousand in 2019.

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

Note 11. Liabilities related to insurance activities

€000	31 Dec 2019	31 Dec 2018
Liabilities related to direct insurance activities, incl.	**5,075**	**5,065**
- *policyholders*	3,246	3,225
- *intermediaries*	1,710	1,702
- *others*	119	138
Liabilities related to reinsurance	984	1,091
- *incl. from related parties (Note 18)*	637	683
Other liabilities	146	121
TOTAL	**6,205**	**6,277**

All of the above liabilities are current items.

Note 12. Lease liabilities

Reconciliation of lease commitments in Annual report 2018 to lease liabilities as at 1 January 2019

€000	
Future minimum lease payments as at 31 December 2018	6,164
Lease contracts not recognised in the statement of financial position *)	-980
Effect of discounting	-30
Lease liabilities as at 1 January 2019	5,154
Weighted average incremental borrowing rate at initial application, %	0.27

*) not recognised due to low value, short term or the entity specific materiality threshold

Total future minimum lease payments of operating lease agreements (lessee):

€000 Due dates	2018
Up to 1 year	1,777
1–5 years	4,387
TOTAL	6,164

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

€000	2019
Opening balance	-
First application of IFRS 16 as at 1 January	5,154
Cash flows - Repayment of lease liabilities	-1,258
Cash flows - Interest paid on lease liabilities	-12
Non-cash changes - New leases and reassessments	26
Non-cash changes - Interest expense	12
Closing balance **)	**3,922**

**) of which €2,654 thousand matures later than 12 months after the reporting date

The total cash outflow for leases amounted to €1,708 thousand in 2019 (including payments for lease contracts not recognised in the statement of financial position, see Note 10).

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

Note 13. Accrued expenses and deferred income

€000	31 Dec 2019	31 Dec 2018
Variable compensation reserve (incl. taxes)	2,217	2,062
Unused vacation pay liability (incl. taxes)	1,156	1,105
Employee-related liabilities	736	683
Taxes payable	684	731
- incl. corporate income tax	272	310
Other accrued expenses	1,246	1,265
TOTAL	**6,039**	**5,846**
Terms of accrued expenses and deferred income		
Up to 12 months	6,039	5,846

Note 14. Liabilities related to insurance contracts and reinsurance assets

€000	31 Dec 2019	31 Dec 2018
Gross		
Provision for incurred and reported claims and claims handling expenses	85,826	77,852
Provision for incurred but not reported claims	34,846	32,649
Provision for unearned premiums	62,620	61,565
TOTAL	**183,292**	**172,066**
Reinsurers' share		
Provision for incurred and reported claims and claims handling expenses	4,236	4,690
Provision for incurred but not reported claims	231	206
Provision for unearned premiums	647	733
TOTAL	**5,114**	**5,629**
Net		
Provision for incurred and reported claims and claims handling expenses	81,590	73,162
Provision for incurred but not reported claims	34,615	32,443
Provision for unearned premiums	61,973	60,832
TOTAL	**178,178**	**166,437**

€000		2019	
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	**110,501**	**-4,896**	**105,605**
Change in the provision for claims outstanding for claims incurred but not yet settled, related to current year	18,352	-656	17,696
Change in the provision for claims outstanding for claims incurred but not yet settled, related to previous years	-10,568	1,111	-9,457
Change in the provision for claims incurred but not reported, related to current year	10,904	-38	10,866
Change in the provision for claims incurred but not reported, related to previous years	-8,707	12	-8,695
Change in the provision for claims handling expenses	190	-	190
Balance as at December 31	**120,672**	**-4,467**	**116,205**

€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	2019		
Provision for unearned premiums	**Liabilities arising from insurance contracts**	**Reinsurers' share of liabilities**	**Net**
Balance as at January 1	**61,565**	**-733**	**60,832**
Premiums written during the year	149,046	-2,837	146,209
Premiums earned during the year	-147,991	2,921	-145,070
Translation difference	-	2	2
Balance as at December 31	**62,620**	**-647**	**61,973**

€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**

The development of claims: 2010 - 2019

An overview of claims development in the period 2010-2019 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 2019, the gross provision for claims outstanding for earlier accident years amounted to €5,494 thousand (at 31 December 2018 €6,418 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 2019. The Company believes that the estimate of the provision for claims outstanding as at the end of 2019 is adequate to cover claims incurred till 31 December 2019 (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	2019
At 31 December										
Accident year	71,683	66,946	68,357	70,894	69,821	76,735	87,509	81,838	90,703	86,608
1 year later	71,690	69,644	68,659	73,242	70,326	77,744	90,643	81,990	93,017	
2 years later	70,102	69,294	68,434	73,562	71,256	78,427	87,020	81,160		
3 years later	69,148	66,592	66,927	72,272	71,629	78,548	86,495			
4 years later	69,395	65,692	63,858	72,579	70,588	78,575				
5 years later	69,041	65,379	62,648	73,131	69,099					
6 years later	68,431	64,980	61,706	72,781						
7 years later	67,848	64,845	62,801							
8 years later	67,465	64,639								
9 years later	66,734									
Provision for outstanding claims (incl. IBNR) as at 31 December 2019	3,581	3,440	4,724	10,358	7,131	9,672	8,857	11,551	23,087	29,255

Claims paid, subrogation and salvages (cumulatively), gross

€000	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
At 31 December										
Accident year	46,732	47,296	43,432	46,648	46,600	53,052	60,231	53,199	55,821	57,352
1 year later	60,916	57,908	54,967	59,474	59,494	66,451	75,190	67,702	69,930	
2 years later	60,951	59,997	56,077	60,675	60,633	67,693	77,037	69,610		
3 years later	61,871	60,355	56,727	61,269	61,592	68,329	77,637			
4 years later	62,660	60,533	56,983	61,679	61,898	68,903				
5 years later	63,098	60,631	57,309	62,316	61,968					
6 years later	62,719	61,015	57,793	62,407						
7 years later	63,085	61,227	58,050							
8 years later	63,128	61,219								
9 years later	63,183									

Note 15. Corporate income tax

(A) INCOME TAX EXPENSE

€000	2019	2018
Current tax	-726	-734
Deferred tax	-40	-161
TOTAL INCOME TAX EXPENSE	**-766**	**-895**
Specification of income tax expense		
Latvia	-431	-766
Lithuania	-335	-129
TOTAL	**-766**	**-895**

(B) RECONCILIATION OF TAX CHARGE

€000	2019	2018
Profit of the branches	**4,281**	**4,528**
Tax at 15%/20%	**-746**	**-869**
Permanent differences	-46	-90
Temporary differences	2	-
Recognition of a previously unrecognised tax asset	-	94
Prior year tax adjustment	16	-38
Donation	8	8
TOTAL TAX CHARGE FOR THE YEAR	**-766**	**-895**

(C) DEFERRED TAX

€000	31 Dec 2019	31 Dec 2018
Deferred tax liability		
Provision for amounts recoverable by subrogation	-118	-71
TOTAL DEFERRED TAX LIABILITY	**-118**	**-71**
Deferred tax asset		
Vacation pay reserve and other accruals	27	11
Doubtful debts	10	21
Impairment allowance for doubtful receivables	-2	-4
TOTAL DEFERRED TAX ASSET	**35**	**28**
NET DEFERRED TAX ASSET/LIABILITY (-)	**-83**	**-43**

SPECIFICATION OF DEFERRED TAXES

€000	31 Dec 2019	31 Dec 2018
Deferred tax liability		
Lithuania	-118	-71
Deferred tax asset		
Lithuania	35	28
Net deferred tax asset/liability (-)		
Lithuania	-83	-43

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

€000	31 Dec 2019	31 Dec 2018
At 1 January	**-310**	**300**
Calculated	-726	-734
Paid	764	124
At 31 December	**-272**	**-310**

Note 16. 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.

Legal address: Lõõtsa 8a, Tallinn 11415

€000	31 Dec 2019	31 Dec 2018
Acquisition cost of shares	**88**	**88**
Number of shares	25,000	25,000
Ownership interest	**100%**	**100%**
Total equity	**1,373**	**1,356**
Share capital	25	25
Share premium	63	63
Mandatory capital reserve	3	3
Retained earnings	1,265	414
Profit for the period	17	851
Investment in the parent company's statement of financial position	**88**	**88**

Note 17. Equity

Share capital
As at 31 December 2019 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 2019, share premium amounted to €3,679 thousand (31 December 2018: €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 2019, the mandatory capital reserve amounted to €2,362 thousand (31 December 2018: €2,362 thousand).

Retained earnings
On 27 March 2019, the sole shareholder resolved that the Company should pay out a dividend of €3,700 thousand and carry forward earnings after the dividend payment of €143,550 thousand.

Dividends paid and proposed

€000	2019	2018
Dividend declared and paid the year	3,700	3,100
Final equity dividend per ordinary share	€0.5789	€0.4850

Contingent income tax liability
As at 31 December 2019 the Company's retained earnings amounted to €163,439 thousand (2018: €147,250 thousand). Undistributed profit from Estonian activities amounts to €159,910 thousand (2018: €143,255 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 €31,982 thousand (2018: € 28,707 thousand). The Company could thus pay a total of €131,457 thousand (2018: €118,542 thousand) as a net dividend including the profits of the branches of €3,529 thousand (2018: €3,714 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 2019 may not exceed retained earnings as at 31 December 2019.

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

Note 18. Related party transactions

1. Information about related companies

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

Luminor Bank AS (previous Nordea) is a banking partner of the Company and agreements have been concluded covering the management of bank accounts and related services. Luminor distributes If's P&C insurance services in the Baltics. The compensation takes the form of a commission.

In asset management, investments are made by the Company in term deposits issued by Luminor Bank AS (previously Nordea). Starting from 01.10.2019 the Company does not consider Luminor Bank anymore as related party as Nordea participation in Luminor reduced from 50% to 20%.

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 €1,255 thousand in remuneration in 2019, including social tax (2018: €1,284 thousand). No termination benefits were paid to members of the Management Board during 2019 (2018: 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 2019 and 2018. Insurance contracts of €10 thousand were concluded with the Management Board members in the reporting period (2018: €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	**2019**	**2018**	**2019**	**2018**
If P&C Insurance Ltd (publ)	1,599	1,779	10	25

Receivables and payables related to the above transactions as at 31 December 2019 and 31 December 2018:

€000	31 Dec 2019	31 Dec 2018
Receivables		
If P&C Insurance Ltd (publ)	-	4
Payables		
If P&C Insurance Ltd (publ)	637	683

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

	Services purchased		Services rendered	
€000	**2019**	**2018**	**2019**	**2018**
Mandatum Life Insurance Baltic SE	-	-	8	17
Nordea Group companies	445	439	210	752
If P&C Insurance Ltd (publ)	12	34	208	235
Sampo plc	627	564	-	-
If IT Services A/S	482	467	-	-
Total	**1,566**	**1,504**	**426**	**1,004**

Receivables and payables related to the above transactions as at 31 December 2019 and 31 December 2018:

€000	**31 Dec 2019**	**31 Dec 2018**
Receivables		
Nordea Group companies	-	89
Payables		
Nordea Group companies	-	18
Sampo plc	163	146
If P&C Insurance Ltd (publ)	7	25
If IT Services A/S	36	-
Total	**206**	**189**

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

€000	**31 Dec 2019**	**31 Dec 2018**
Financial assets		
Nordea Group companies	5,141	-

€000	**2019**	**2018**
Investment income/expense		
Nordea Group companies	9	3

Signatures to Annual Report 2019

The Management Board of If P&C Insurance AS has prepared the management report and financial statements for 2019.

Signatures:

Heinar Olak	Member of the Management Board		21.02.	2020
Tiit Kolde	Member of the Management Board		21.02	2020

KPMG Baltics OÜ
Narva mnt 5
Tallinn 10117
Estonia

Telephone +372 6 268 700
Fax +372 6 268 777
Internet www.kpmg.ee

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 2019, 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 8 to 59, present fairly, in all material respects, the financial position of the Company as at 31 December 2019, 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 2019 was EUR 120,672 thousand and the expense recognised in profit or loss from the change in the provision for claims outstanding was EUR 10,171 thousand.

We refer to the financial statements: Note 1 (accounting policies) and Note 14 (financial disclosure).

The key audit matter	How the matter was addressed in our audit
The provision for claims outstanding as at 31 December 2019 comprises of the provision for incurred but not reported claims of EUR 34,846 thousand and the provision for reported but not settled claims (including the provision for claims handling expenses) of EUR 85,826 thousand. Provisions for claims outstanding involve significant judgement of uncertain future outcome,	We have assessed whether the methods to calculate the provisions used by the management are appropriate and compliant with the financial reporting framework. We have tested the internal controls implemented by management over the calculation of the claims provision including for example internal controls

KPMG

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.

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.

KPMG

Report on Other Legal and Regulatory Requirements

We were appointed by the sole shareholder of If P&C Insurance AS on 27 March 2019 to audit the financial statements of If P&C Insurance AS for the year ended 31 December 2019. Our total uninterrupted period of engagement is 2 years, covering the periods ending 31 December 2018 to 31 December 2019.

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, 21 February 2020

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	€143,549,495
Net profit for 2019	€19,889,018

Total profit available for distribution as at 31 December 2019:	**€163,438,513**

The Management Board proposes:

To make a dividend distribution to the sole shareholder	€3,500,000
To recognise as retained earnings	€159,938,513

Heinar Olak
Member of the Management Board

Tiit Kolde
Member of the Management Board