If P&C Insurance AS

Annual Report 2022

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Translation from Estonian original

Business name:	If P&C Insurance AS
Registry code:	10100168
Address:	Lõõtsa 8a, 11415 Tallinn
Telephone:	+372 777 1211
E-mail:	info@if.ee
Web page:	www.if.ee
Main field of activity:	non-life insurance services
Beginning of financial year:	1 January 2022
End of financial year:	31 December 2022
Chairman of the Management Board:	Andris Morozovs
Auditor:	Deloitte Audit Eesti AS

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Management Report

Organization

If P&C Insurance AS (the Company, If) is a wholly owned subsidiary of the leading Nordic property and casualty insurance group If P&C Insurance Holding Ltd (publ), which in turn is owned by the Finnish company Sampo plc. Sampo plc is listed on the Helsinki Stock Exchange and the Sampo Group is made up of the parent company Sampo plc and its subsidiaries If P&C, Mandatum Life, Hastings and Topdanmark.

If has been offering property and casualty insurance to private individuals and corporate customers in the Baltic markets since 1992. Across the Baltic countries, If has approximately 360,000 policyholders and is one of the leading P&C insurers companies in Estonia. If's products include Property, Liability, Motor, Marine & Transport and Accident & Health insurance.

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

Legal structure of the company

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

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

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

Financial highlights

€000	2022	2021	2020	2019	2018
Premiums written, gross	205,709	168,756	152,242	149,046	162,666
Premiums earned, net of reinsurance	184,357	156,062	147,101	145,070	142,859
Claims incurred, net of reinsurance	122,653	97,405	91,297	89,832	88,469
Operating expenses [1]	44,744	39,109	37,094	36,917	36,511
Technical result [2]	16,960	19,548	18,710	18,321	17,879
Net profit	15,924	18,170	16,602	19,889	19,103
Combined ratio [3]	90.8%	87.5%	87.3%	87.4%	87.5%
Expense ratio [4]	24.3%	25.1%	25.2%	25.5%	25.6%
Loss ratio [5]	66.5%	62.4%	62.1%	61.9%	61.9%
Financial investments	300,170	276,198	296,496	318,436	274,731
Return on investments [6]	-8.8%	0.0%	1.4%	2.2%	-0.2%
Total assets	405,627	405,332	393,591	380,500	344,818
Equity	146,756	177,653	180,241	180,959	160,587

Financial indicators' formulas

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

Results from operations

Results

The technical result deteriorated compared to the preceding year and amounted to €17.0 million (€19.5 million in 2021), corresponding to a combined ratio of 90.8% (87.5% in 2021).

Premiums written

Gross premiums written for the year amounted to €205.7 million (€168.8 million in 2021).
The premium development was attributable to successful acquisition of new customers and solid renewals of existing customers, both in the large customer segment as well as in Private and Commercial small and medium customer segments. Following the high inflation in 2022, premium rates were increased and contributed to high extent to the premium growth.

Claims and operating expenses

Total claims cost for the year, including claims handling cost, amounted to €122.7 million (€97.4 million in 2021), corresponding to a loss ratio of 66.5% (62.4% in 2021). Rapid increase in claims cost inflation resulted in worsening loss ratio in 2022, also number of large claims was somewhat higher than expected. Continuous efficiency improvements and tight cost control, supported by digitalisation and automation of customer interaction processes, reduced the expense ratio to 24.3% (25.1% in 2021). Total operating expenses, excluding claims handling, increased to €44.7 million (€39.1 million in 2021) mainly driven by salary inflation and increase in commissions and fees related to business volumes.

Investment result

The value of financial investments was €300.2 million at year-end 2022 (€276.2 million in 2021).

The activity in the portfolio was high due to favorable market conditions as well as high investment grade bond supply especially in the financial sector. Also, investment grade spreads widened during the year, which helped to boost running yield when buying new investments at higher levels.

Net investment return was €3.4 million (€2.5 million in 2021) in the income statement and -€28.7 million (-€2.6 million in 2021) in other comprehensive income. The total investment return was -8.8% (0% in 2021) and €-25.4 million (€-0.04 million in 2021) in absolute terms.

The duration of the fixed income portfolio remained 2.8 years (2.8 years at year-end 2021).

The current interest rate environment offers good buying opportunities for the portfolio. The European Central Bank is still expected to raise deposit rate further. The rate as at 31.12.2022 stands at 2.0%. There are several uncertainties around the Eurozone economy as well as ongoing Ukrainian war. However, our investment focus remains unchanged, i.e., we seek opportunities in the European investment grade bond markets and plan to re-invest maturing bonds into medium term instruments.

Net profit and tax

The overall net profit after tax for the year decreased to €15.9 million (€18.2 million in 2021) and the current corporate income tax amounted to €4.4 million (3.9 million in 2021).

Risk management

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

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

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

Sustainability report

The parent company If P&C Insurance Holding Ltd (publ), corporate reg. no. 556241-7559, whose headquarter is in Solna Sweden, has prepared a sustainability report called If Sustainability Report 2022. It covers the parent company and its subsidiaries and is available on the website if.se. If P&C Insurance AS has therefore chosen not to prepare its own sustainability report.

Personnel

In 2022, the number of full-time employees was 577 (550 in 2021) at year-end and expenses for personnel totalled €28.3 million (€25.1 million in 2021), an increase by €3.2 million over the year.

Our employees and their contribution are If's most important source of competitive advantage. The Company's success is entirely dependent on employees delivering top-class professional insurance services in all customer interactions. If invests heavily in culture, talent acquisition and people engagement in order to build a work environment that enables strong performance while supporting employee well-being. Ensuring that great people want to join If, want to stay at If, and want to give their best to help the company reach its goals is vitally important for company performance and value creation. Furthermore, the importance of having great people, a strong company culture and a first-rate work environment where employees can impact their growth opportunities is vital to create the people engagement. A supportive and inspiring culture, and the capability to adapt to a changing market, is the best way of ensuring that we build a resilient organization where people put their hearts into it and where we continuously stay ahead.

Strengthening the One If culture

If is dependent on a great company culture with engaged employees. This requires a healthy and safe work environment for all employees including physical safety, relating to issues such as ergonomics and well-functioning workspaces, as well as psychological safety, which concerns issues such as reasonable workload, good leadership, development opportunities and non-tolerance of discrimination and harassment. The basic building blocks of a sound work environment and company culture include having clear and well-known purpose statements and values, along with our vision of becoming the most caring insurance company. A strong company culture is also vital for attracting and retaining the right employees.

Building great leadership

Quality leadership is an important foundation for If's continued success. Leaders play a significant role in the continuous improvement of the work environment and in building a strong culture. Following the principles of If Leadership Compass enables all leaders to support and motivate their teams better. Starting from October 2022 all leaders in If participate in If Leadership Compass Program which supports them in their personal development journey of their leadership.

Securing people and skills for the future

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

Operations

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

In 2022, If has continued growing itś visibility via different channels. After the reduction in marketing activities in the first quarter of the year due to war in Ukraine, If has increased its visibility during later quarters, focusing on communication about different products and also branding. During the fourth quarter If in all Baltic countries started a brand image campaign "If helps a lot". In this campaign, we shine the spotlight on our customer service and claim handling, where "caring" is shown as an action and really helps our customers in a concrete way - by helping them and being by their side.

When the war in Ukraine started in the first quarter of 2022, it also affected insurance in several ways. Due to the restrictions imposed on Russia and Belarus, If Insurance has made changes to its products mainly in terms of travel and transport insurance. If has kept customers updated of various changes. If strongly condemns the attacks on Ukraine and wants to contribute to helping the victims of the war, both in the short and in the long term. If has decided to double the donations made by each If employee and has continued this initiative throughout the year.

If remains focused on it‘s ambition to have the most satisfied customers by developing easy-to-use products and services which are supported by smart digital solutions that simplify the process for the customer throughout the entire customer journey. A survey conducted in the Baltic countries by research company Dive showed that If`s service is the one of the best among insurers, taking second place in Estonia and Lithuania. Also, If was recognized as most loved brand in insurance category in Estonia by Baltic Brands Rating - the most extensive brand perception and lifestyle research done in Baltics by RAIT. According to the Kantar Emor research company NPS (Net Promoter Score) survey, customers of If Insurance rate our service experience highly. If has achieved the first place in the insurance sector of Estonia. For the last five years, If Insurance has been among the top three companies of insurance sector every year, having won the title of the best insurance company three times. If achieved good results in the most prestigious employer brand competition “Dream Employer 2022” in Estonia, reaching the top five finalists of private sector companies in Estonia. This confirms that If Insurance is on the right track, being not only the best in customer service, but also a very good employer for its employees.

While striving to have the most engaged employees, various internal activities have been organized during the year in the Baltics. Mental health, Diversity & Inclusion weeks, two annual festivals for all employees or celebrative November month, with the aim to acknowledge how we have helped our customers throughout the year.

Donation and volunteering are something we are proud about. Each year If, instead of giving Christmas gifts to customers and partners, is doing good by donating to organizations that help increase security for the whole society. This year we have expanded our Christmas donation and on behalf of each employee working in the Baltics, If made a donation to local organizations that support Ukraine in its fight for freedom. The total amount of the donation is 53,000 euros in the Baltics. Also, our employees are supported and gets the flexibility to volunteer during the workday and still get paid.

Outlook

The macroeconomic outlook and outlook for the P&C Insurance market in the Baltic countries is uncertain for 2023. Ongoing war in Europe, with following high inflation and expected economic recession is causing uncertainty. Claims inflation is expected to be high in short term and will require continued premium rate increases. Underlying policy - and customer count development is expected to be moderate in short term, additional uncertainty is related to the salary – and other cost inflation in 2023.

Over the time, market volumes are expected to regain a growth pace that is somewhat faster than the economic growth due to increase consumption, investments and trade volumes, and also due to increasing awareness of the importance of being insured.

If’s business in the Baltic region is expected to maintain a premium development in 2023 in line with the market growth. If remains prepared to secure business continuity and high customer service level.

Annual Financial Statements

Statement of profit or loss and other comprehensive income

€000	Note	2022	2021
PREMIUMS EARNED, NET OF REINSURANCE			
Premiums earned, gross		188,769	160,426
Premiums ceded		-4,412	-4,364
TOTAL	3	**184,357**	**156,062**
OTHER INCOME			
Investment result, net	4	3,371	2,521
Reinsurance commissions and other income		354	372
TOTAL		**3,725**	**2,893**
TOTAL REVENUE		**188,082**	**158,955**
CLAIMS INCURRED, NET OF REINSURANCE			
Claims incurred, gross		-123,843	-98,016
Reinsurers' share of claims incurred		1,190	611
TOTAL	5	**-122,653**	**-97,405**
EXPENSES			
Insurance contract acquisition costs	6	-27,742	-24,569
Administrative expenses	6	-17,356	-14,912
TOTAL		**-45,098**	**-39,481**
TOTAL CLAIMS AND EXPENSES		**-167,751**	**-136,886**
NET RESULT BEFORE TAXES		**20,331**	**22,069**
INCOME TAX	15	-4,407	-3,899
NET PROFIT FOR THE FINANCIAL YEAR		**15,924**	**18,170**
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT AND LOSS IN SUBSEQUENT PERIODS:			
Change in the value of available-for-sale assets	4	-28,721	-2,558
TOTAL		**-28,721**	**-2,558**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**-12,797**	**15,612**

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

Statement of financial positions

€000	Note	31 December 2022	31 December 2021
ASSETS			
Cash and cash equivalents		42,425	78,327
Financial investments	9	300,170	276,198
Receivables related to insurance activities	7	45,515	36,267
Accrued income and prepaid expenses	8	5,669	4,551
Reinsurance assets	14	7,320	6,260
Investment in subsidiary	16	88	88
Property, plant and equipment	10	4,440	3,641
TOTAL ASSETS		**405,627**	**405,332**
LIABILITIES AND EQUITY			
Liabilities related to insurance activities	11	8,112	7,705
Lease liabilities	12	3,811	3,471
Accrued expenses and deferred income	13	9,578	7,847
Deferred income tax liability	15	116	40
Liabilities arising from insurance contracts	14	237,254	208,616
TOTAL LIABILITIES		**258,871**	**227,679**
Share capital		6,391	6,391
Share premium		3,679	3,679
Mandatory capital reserve		2,362	2,362
Fair value reserve	4	-24,011	4,710
Retained earnings		142,411	142,341
Net profit for the year		15,924	18,170
TOTAL EQUITY	17	**146,756**	**177,653**
TOTAL LIABILITIES AND EQUITY		**405,627**	**405,332**

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 2021	**6,391**	**3,679**	**2,362**	**7,268**	**160,541**	**-**	**180,241**
Dividends paid (Note 17)	-	-	-	-	-18,200	-	**-18,200**
Other comprehensive income (Note 4)	-	-	-	-2,558	-	-	**-2,558**
Net profit for the year	-	-	-	-	-	18,170	**18,170**
AT 31 DECEMBER 2021	**6,391**	**3,679**	**2,362**	**4,710**	**142,341**	**18,170**	**177,653**
AT 1 JANUARY 2022	**6,391**	**3,679**	**2,362**	**4,710**	**160,511**	**-**	**177,653**
Dividends paid (Note 17)	-	-	-	-	-18,100	-	**-18,100**
Other comprehensive income (Note 4)	-	-	-	-28,721	-	-	**-28,721**
Net profit for the year	-	-	-	-	-	15,924	**15,924**
AT 31 DECEMBER 2022	**6,391**	**3,679**	**2,362**	**-24,011**	**142,411**	**15,924**	**146,756**

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

Statement of cash flows

€000	Note	2022	2021
CASH FLOW FROM OPERATING ACTIVITIES			
Cash flow from insurance operations			
Premiums received	3, 7, 11	196,197	164,383
Premiums ceded	3, 11	-4,412	-4,495
Claims paid, incl. claims handling expenses	5, 6, 7	-112,616	-94,239
Cash flow from reinsurance		629	433
Paid for employee-related and service-related expenses		-43,540	-38,465
TOTAL		**36,258**	**27,617**
Cash flow from asset management			
Investments in bonds and other interest-bearing securities	9	-116,846	-18,907
Proceeds from disposals of bonds and other interest-bearing securities		65,035	32,078
Proceeds from term deposits		-	5,000
Interest received		3,040	3,284
Interest paid		-192	-8
TOTAL		**-48,963**	**21,447**
Income tax paid	15	-3,538	-4,114
NET CASH FLOW FROM OPERATING ACTIVITIES		**-16,243**	**44,951**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10	-574	-59
NET CASH FLOW FROM INVESTING ACTIVITIES		**-574**	**-59**
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid	17	-18,100	-18,200
Repayment of lease liability	1, 12	-985	-1,244
NET CASH FLOW FROM FINANCING ACTIVITIES		**-19,085**	**-19,444**
CHANGE IN CASH FLOW		**-35,902**	**25,447**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**78,327**	**52,880**
CASH AND CASH EQUIVALENTS AT END OF YEAR		**42,425**	**78,327**

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

Notes to the Annual Financial Statements

Note 1. Significant accounting policies and measurement bases

1. The company and its activities

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

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

The financial statements of the Company for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the Management Board on 28 February 2023.

2. Basis of preparation

The 2022 financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union. The financial statements have been prepared on a historical cost basis, except for certain financial investments which have been measured at fair value.

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

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

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

The Company is a wholly-owned subsidiary of If P&C Holding Ltd (publ) and the parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards (IFRS) as adopted by the EU. The consolidated financial statements of the parent are available on the website www.sampo.com in the section Annual report.

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

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

3. Changes in accounting policies and disclosures

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

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

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

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

- Amendments to IAS 16 “Property, Plant and Equipment” - Proceeds before Intended Use adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” - Onerous Contracts - Cost of Fulfilling a Contract adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IFRS 3 “Business Combinations” - Reference to the Conceptual Framework with amendments to IFRS 3 adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- Amendments to various standards due to “Improvements to IFRSs (cycle 2018 -2020)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 28 June 2021 (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.).

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

3.2. New standards and interpretations issued but not yet effective

The following standards are issued but not yet effective during the reporting period:

- IFRS 17 “Insurance Contracts” including amendments to IFRS 17 issued by IASB on 25 June 2020 - adopted by the EU on 19 November 2021 (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IFRS 17 “Insurance contracts” - Initial Application of IFRS 17 and IFRS 9 – Comparative Information, adopted by the EU on 8 September 2022 (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 1 “Presentation of Financial Statements” - Disclosure of Accounting Policies adopted by the EU on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” – Definition of Accounting Estimates adopted by the EU on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 12 “Income Taxes” - Deferred Tax related to Assets and Liabilities arising from a Single Transaction adopted by the EU on 11 August 2022 (effective for annual periods beginning on or after 1 January 2023).

Issued, but not yet effective, international accounting standards or standards that are not yet mandatory to the Company, 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 became effective on January 1, 2018 and superseded IAS 39 Financial Instruments: Recogntion and Measurement. In accordance with an EU-adopted amendment to IFRS 4 Insurance Contracts, the IASB has decided that under certain circumstances, insurance companies may delay their initial application of IFRS 9 so that the date coincides with the initial application of IFRS 17 Insurance Contracts (see below). The Company meets these requirements since it has not previously applied IFRS 9 and the carrying amount of the insurance-related liabilities accounts for more than 90% of the carrying amount of the total liabilities. In light of this, the Company has decided to delay the application of IFRS 9 until January 1, 2023. However, extended disclosure requirements have been Introduced for financial instruments, to facilitate comparisons with companies that have already implemented IFRS 9. For more information, refer to the classification of financial investments in accordance with IFRS 9 in Note 9.

IFRS 9 changes the principles of classification and measurement of financial assets and introduces a new impairment model based on expected, rather than incurred, credit losses. The implementation of IFRS 9 will not have a material impact on the Group’s balance sheet, as the main part of the financial assets currently are measured at fair value, which will be the measurement basis also under IFRS 9. Unlike in current accounting, under IFRS 9 the changes in fair value will be recognised in the income statement, which may increase volatility in the accounting for financial instruments in future reporting periods. If has estimated that only a limited amount of financial assets will be measured at amortised cost and thus the amount of expected credit losses is minor. The measurement of financial liabilities will not change. The comparative period 2022 will not be restated. Refer to Note 18 for further information regarding main changes in accounting policies.

IFRS 17 Insurance Contracts was adopted by the EU in November 2021 and the Company applies with an effective date and date of initial application of January 1, 2023. IFRS 17 replaces IFRS 4 Insurance Contracts and, unlike its predecessor, contains a complete framework for the measurement and presentation of insurance contracts. When certain criteria are met, insurers may apply a simplified approach, the premium allocation approach (PAA), for measurement of insurance contracts. If has determined that the premium allocation approach will be applied to all insurance business, as well as a full retrospective approach to the transition of the new standard with restated financial statements for the comparative year 2022.

The implementation of IFRS 17 is expected to have a major impact on the presentation and the extent of disclosures in the financial statements. Both assets and liabilities are expected to decrease due to reclassification of premium receivables and deferred acquisition costs from assets to insurance liabilities. Insurance finance income or expenses, as defined by the standard, will be presented fully in the income statement, and thus, the allowed OCI option will not be applied.

Looking at internal processes, If continued its preparation for the new international financial reporting standards IFRS 17 Insurance contracts and IFRS 9 Financial instruments. During 2022, focus has been on developing and refining both actuarial and financial reporting processes to comply with the new standards that are now being implemented in 2023.

Refer to Note 18 Transition effects of changed accounting policies applied from 2023 (IFRS 17 and IFRS 9) for more information regarding key changes in accounting principles and IFRS 17 balance sheet transition effects.

4. Material judgments, estimates and assumptions

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

Valuation of liabilities from insurance contracts

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

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

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

5. Main accounting policies

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

Investments in the subsidiary are recognised in the Company's financial statements at acquisition 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

Premiums written

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

Premiums earned

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

Reinsurance commissions

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

Interest and dividend income

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

e) Expenses

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

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

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

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

f) Cash and cash equivalents

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

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

g) Financial assets

Initial recognition and measurement

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

- loans and receivables (deposits, accounts receivable and other receivables);
- available-for-sale financial assets (all other financial assets, which are determined as available-for-sale assets or which have not been classified to any other category).

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

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

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

Subsequent measurement

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

Available-for-sale financial assets

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

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

Loans and receivables

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

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

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

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

Derecognition of financial assets

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

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

or

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

and either:

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

or

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

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

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

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

Impairment of financial assets

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

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

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

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

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

Financial assets carried at amortised cost

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

Available-for-sale financial investments

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

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

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

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

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

h) Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

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

i) Financial liabilities

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

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

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

j) Deferred acquisition costs

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

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

k) Provision for unearned premiums

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

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

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

l) Provision for claims outstanding

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

The provision for claims outstanding is calculated using a case-by-case valuation method (larger reported claims) as well as statistical methods (small reported claims, IBNR provision). The provision for claims outstanding is not discounted, except motor third party liability annuities that are discounted to their net present value using a discount rate of 2.5% (2021: 0.5%).

m) Reinsurance

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

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

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

n) Lease liabilities

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

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

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

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

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

o) Corporate income tax

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

Current taxes are calculated individually for every unit in accordance with the tax rules of the country of operation. The Company's foreign branch offices are taxed on their results in the country concerned. In Estonia the Company has to pay income tax at the rate of 20% (2021: 20%) only on the income that has not been taxed in the branches and only when profit is distributed into dividends or from incurred expenses such as non-business deemed as profit disribution.

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

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

In Latvia corporate income tax is calculated on distributed profits calculated 20/80 of the net amount payable to the shareholders, and certain expenses deemed as distributed profit, by applying a coefficient of 0.8. Tax rate in Latvia is 20% (2021: 20%).

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

In 2022, the Latvian branch has carried loss and due to that corporate income tax expense and liability have not been recognised.

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

Detailed information on the deferred tax asset and liability of the Lithuanian branch is disclosed in Note 15. Deferred tax assets and liabilities are reported net in those cases where they pertain to the same tax authority and can be offset against each other. For the Lithuanian branch, the corporate income tax rate is 15% (2021: 15%).

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

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 2022) and the date on which the financial statements were authorised for issue (28 February 2023) 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 inherent and essential 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 secure Companyś long-term solvency, to minimise the risk of unexpected financial loss and to give input to business decisions by taking into account the effect on risk and capital and at the same time creating value for the Company's stakeholders. 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 Internal Control System and ensures that all risks are managed.

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

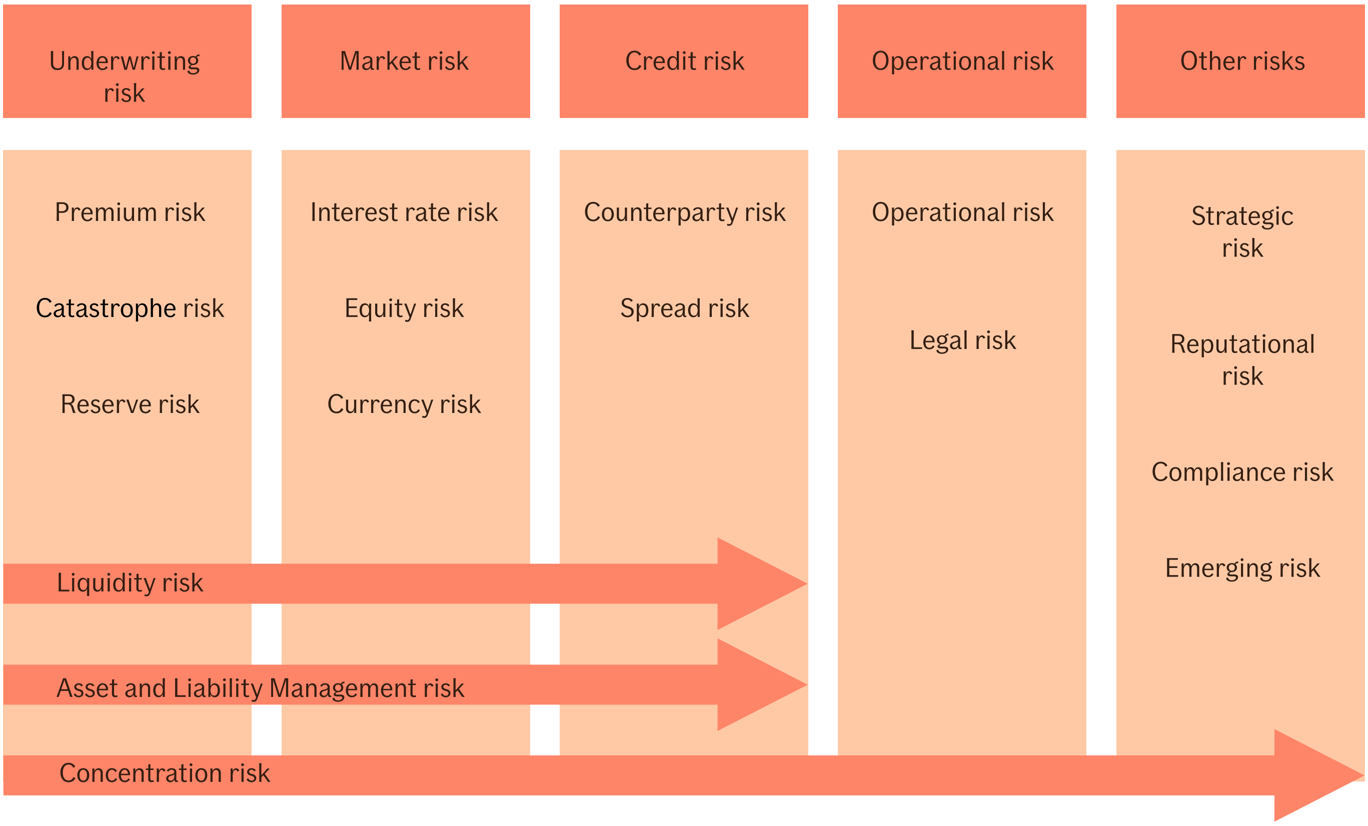
Figure 1. Three lines of defence concept

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

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

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

Figure 2. Risks encompassed in the Risk Management System



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

Risk management strategy

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

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

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

FIgure 3. Risk management process

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

Risk governance and reporting structure

The Supervisory Board

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

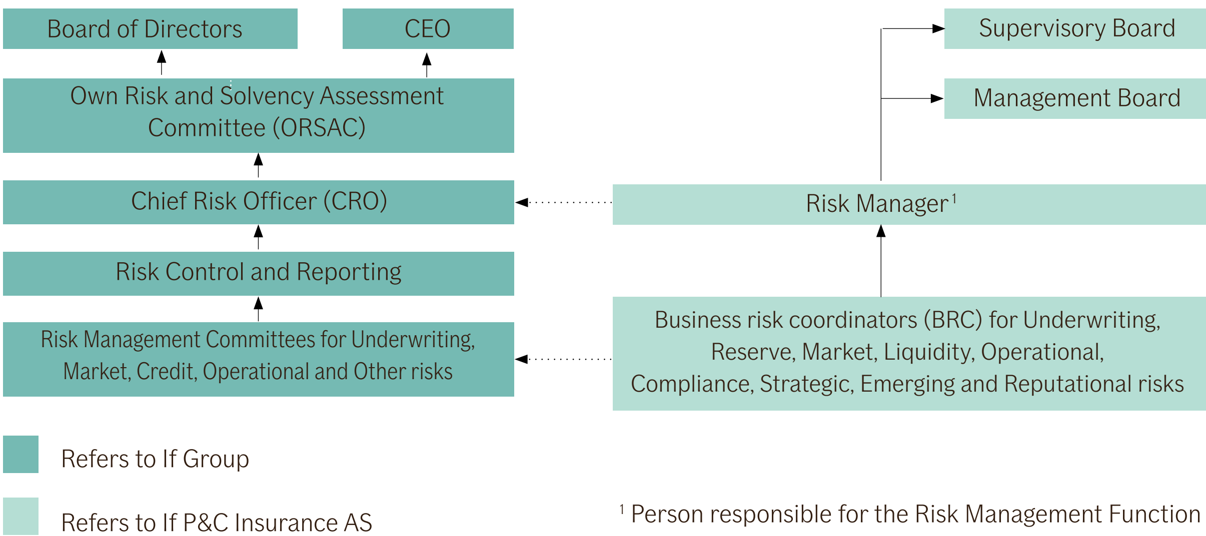
The Management Board

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

The Risk Management Function

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

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



[1] Person responsible for the Risk Management Function

2. Capital Management

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

Capital should be managed to maintain financial strength, mitigate the impact of changes in the economic and business environment as well as to ensure the Companyś growth opportunities and meet other risk management and business objectives.

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

Capital position

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

If does not have subordinated debt or similar own funds items.

In 2022, 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 2022

€000

Parameter	Current level, 2022	Change	Effect on profit before tax 2022	Effect on profit before tax 2021
Combined ratio	90.8%	+/-2% points	+/-3,687	+/-3,121
Premium volume	184,357	+/-2%	+/-339	+/-391
Claims level	122,653	+/-2%	+/-2,453	+/-1,948

TECHNICAL RESERVE RISK

Technical 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.

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

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

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

Risk management and control

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

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

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

Risk exposure

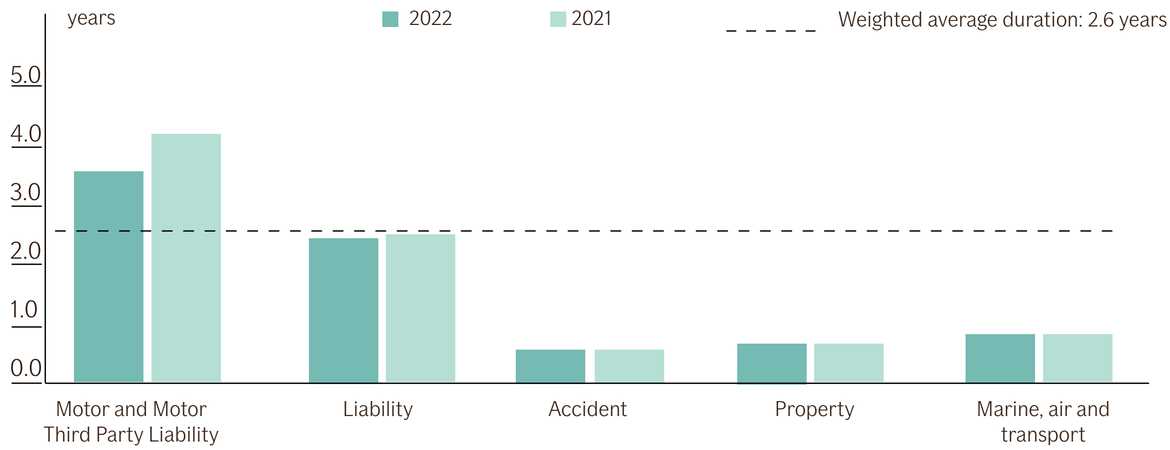
The amount of technical provisions broken down by line of business is shown in Table 2. The Company's technical provisions are dominated by short-tailed business. The contribution of the long-tail annuities related to the compulsory motor third party liability insurance have a relatively small impact.

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

€000						
Line of business	**Gross liabilities related to insurance contracts**		**Reinsurers' share of liabilities**		**Net liabilities**	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
Compulsory MTPL	101,356	89,818	3,045	3,031	98,311	86,787
Motor Own Damage	45,216	34,341	-	-	45,216	34,341
Private Property	18,808	15,783	-	-	18,808	15,783
Corporate Property	29,220	25,646	2,160	721	27,060	24,925
Liability	27,037	29,392	2,010	2,420	25,027	26,972
Personal Accident	3,368	3,493	-	-	3,368	3,493
Health	6,406	4,659	-	-	6,406	4,659
Other	5,843	5,484	105	88	5,738	5,396
TOTAL	**237,254**	**208,616**	**7,320**	**6,260**	**229,934**	**202,356**

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

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



Sensitivity analysis

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

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

€000 Portfolio	Risk	Change in risk parameter	County	Effect on liabilities/ profit before tax 2022	2021
Nominal reserves	Increase in inflation rate	Increase by 1 percentage point	Estonia	2,643	2,810
			Latvia	828	812
			Lithuania	1,433	1,462
			TOTAL	**4,904**	**5,084**
Discounted technical reserves (annuities)	Decrease in discount rate	Decrease by 1 percentage point	Estonia	998	1,350
			Latvia	395	440
			Lithuania	104	166
			TOTAL	**1,497**	**1,956**

Market risk

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

Risk management and control

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

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

Risk exposure

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

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

The Company's investment operations generated a negative return of -8.8% in 2022 (2021: 0%). The investment assets amounted as at the end of the reporting period to €300,170 thousand (2021: €276,198 thousand). See table 4.

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. Investment assets

€000	31 Dec 2022	31 Dec 2021
Bonds and other interest-bearing securities	300,170	276,198

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 2022 and as at 31 December 2021 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 2022		2021	
	100 basis points up	100 basis points down	100 basis points up	100 basis points down
Effect on financial results	-9,182	9,554	-7,985	8,293

Risk exposure

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

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

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

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

The duration of bonds and other interest-bearing investments was 2.8 years at the end of 2022 (2.8 years at the end of 2021). 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

	2022			2021		
€000	**Carrying amount**	**%**	**Duration in years**	**Carrying amount**	**%**	**Duration in years**
Euro credit (excl. Scandinavian)	125,047	41.6%	3.7	146,609	53.0%	2.9
Scandinavian credit	87,827	29.3%	2.8	76,502	27.7%	2.7
US credit	34,427	11.5%	3.0	9,261	3.4%	3.0
Short-term fixed income (incl. Scandinavian)	40,030	13.3%	2.9	28,091	10.2%	0.0
Global credit	10,538	3.5%	3.0	13,679	5.0%	1.8
EU government bonds	2,301	0.8%	3.1	2,056	0.7%	4.4
TOTAL	**300,170**	**100%**	**2.8**	**276,198**	**100%**	**2.8**

EQUITY RISK

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

Risk exposure

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

CURRENCY RISK

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

Risk exposure

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

Credit risk

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

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

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

CREDIT RISK IN INVESTMENT OPERATIONS

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

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

Risk management and control

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

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

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

Risk exposure

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

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

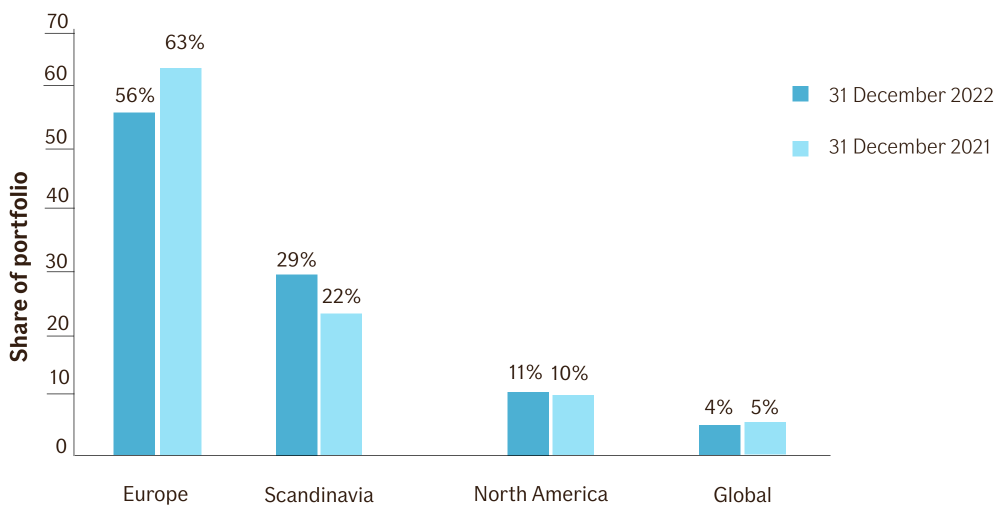
Table 7. Credit risk exposures by sectors, asset classes and ratings as at 31 December

2022 €000	**AAA**	**AA+- AA-**	**A+ - A-**	**BBB+- BBB-**	**BB+ - C**	**Non-rated**	**Fixed income total**
Basic Industry	-	-	992	5,803	-	5,405	**12,200**
Capital Goods	-	-	3,178	7,334	-	940	**11,452**
Consumer Products	-	955	3,093	16,487	-	-	**20,535**
Covered Bonds	5,919	-	-	-	-	-	**5,919**
Energy	-	-	6,957	-	-	-	**6,957**
Financial Institutions	-	18,081	86,775	39,827	-	-	**144,683**
Government Guaranteed	-	2,301		-	-	-	**2,301**
Health Care	-	-	1,938	3,984	-	1,370	**7,292**
Insurance	-	-	3,884	3,989	-	-	**7,873**
Media	-	-	-	-	-	1,923	**1,923**
Others	-	-	-	-	-	-	**-**
Packaging	-	-	-	-	3,306	-	**3,306**
Real Estate	-	-	-	13,762	-	11,484	**25,246**
Services	-	-	896	7,750	-	3,873	**12,519**
Technology and Electronics	-	927	6,263	860	-	956	**9,006**
Telecommunications	-	-	1,819	11,393	-	-	**13,212**
Transportation	-	-	970	-	-	-	**970**
Utilities	-	-	1,495	4,427	2,773	6,081	**14,776**
TOTAL	**5,919**	**22,264**	**118,260**	**115,616**	**6,079**	**32,032**	**300,170**

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

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

Figure 6. Division of interest bearing securities by geographical areas



CREDIT RISK IN INSURANCE OPERATIONS

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

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

Risk management and control

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

Risk exposure

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

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

€000 Rating (S&P)	**2022**	**%**	**2021**	**%**
AA	5,925	78.9%	1,028	15.7%
A	1,005	13.4%	4,997	76.3%
NR	575	7.7%	526	8.0%
TOTAL	**7,505**	**100%**	**6,551**	**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.

Risk exposure

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

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

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

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

31 Dec 2022	Carrying amount		Cash flows							
€000	Carrying amount	Without maturity	With contractual maturity	2023	2024	2025	2026	2027	2028-2037	2038-
Financial assets	389,174	43,488	345,686	76,364	79,195	50,644	73,856	58,221	51,208	-
Financial liabilities	17,807	-	17,807	17,807	-	-	-	-	-	-
Lease liabilities	3,811	-	3,811	1,021	623	631	640	622	397	-
Net technical provisions	229,933	-	229,933	143,967	25,890	15,014	10,104	7,130	19,401	8,427

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

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 as at 31 December

2022 €000	Total
Swedbank	13,904
Danske Bank CPH	12,499
OP Yrityspankki Oyi	10,369
SEB	7,957
Societe Generale S.A.	7,676
Total top five exposures	**52,405**

2021 €000	Total
OP Yrityspankki Oyi	11,190
Tornator Oyi	8,285
Toronto DOM Bank	8,133
Swedbank STO	8,045
Neste Oil OYJ	7,664
Total top five exposures	**43,317**

The five largest exposures amount to €52,405 thousand (2021: €43,317 thousand), representing 17.5% (2021: 15.7%) 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 in each country. The test, actual crisis and business interruptions results are analysed and improved actions are included in the IT Disaster Recovery Plans and Business Continuity Plans. An overview of continuity management exercises and their results is presented to the Management and Supervisory Boards regularly.

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

Risk exposure

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

Other risks

COMPLIANCE RISK

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

Risk management and control

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

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

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

REPUTATIONAL RISK

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

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

Risk management and control

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

Since operational and other risks may evolve into reputational risks if not handled correctly, the communication department continuously works to ensure that all employees are aware of the importance of appropriate management of operational and other risks and understand how to deal with potential reputational risks. Customer feedback and complaints are closely followed and instantly handled.

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 for the Company are reported twice a year as a part of the regular risk report.

Risk exposure

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

4. Solvency II

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

Note 3. Premiums earned, net of reinsurance

€000	2022	2021
Premiums written, gross	205,708	168,756
Change in the provision for unearned premiums	-16,939	-8,330
Premiums earned, gross	**188,769**	**160,426**
Reinsurance premiums	-4,526	-4,513
Change in the provision for unearned premiums	114	149
Premiums ceded	**-4,412**	**-4,364**
TOTAL	**184,357**	**156,062**

Note 4. Investment result

€000	2022	2021
INTEREST INCOME/EXPENSE ON:		
Available-for-sale financial assets		
Bonds and other interest-bearing securities	3,976	2,974
Loans and receivables		
Cash and cash equivalents	22	1
Lease liabilities (Note 12)	-16	-8
TOTAL	**3,982**	**2,967**
RESULT FROM THE DISPOSAL OF:		
Available -for-sale financial assets		
Bonds and other interest-bearing securities	-89	506
TOTAL	**-89**	**506**
OTHER INVESTMENT EXPENSES:		
Exchange rate changes	-66	-67
Investment expenses	-456	-884
TOTAL	**-522**	**-951**
TOTAL INVESTMENT RESULT	**3,371**	**2,521**

Reconciliation of the fair value reserve of available-for-sale financial assets		
Opening balance, available-for-sale financial assets	**4,710**	**7,268**
Changes in fair value during the year, recognised in other comprehensive income	-28,632	-2,052
Realised gain recognised in profit or loss as a reclassification adjustment	-89	-506
Closing balance, available-for-sale financial assets	**-24,011**	**4,710**
Change in the fair value reserve of available-for-sale financial assets during the year	-28,721	-2,558

Note 5. Claims incurred, net of reinsurance

€000	2022	2021
Gross		
Claims paid related to the reporting period	-90,946	-77,063
Claims paid related to previous periods	-27,676	-22,030
Amounts recovered from salvage and subrogation	11,815	9,900
Change in the provision for claims outstanding	-11,698	-4,142
Claims handling expenses (Note 6)	-5,338	-4,681
TOTAL	**-123,843**	**-98,016**
Reinsurers' share		
Claims paid related to the reporting period	29	104
Claims paid related to previous periods	216	181
Change in the provision for claims outstanding	945	326
TOTAL	**1,190**	**611**
Net		
Claims paid related to the reporting period	-90,917	-76,959
Claims paid related to previous periods	-27,460	-21,849
Amounts recovered from salvage and subrogation	11,815	9,900
Change in the provision for claims outstanding	-10,753	-3,816
Claims handling expenses (Note 6)	-5,338	-4,681
TOTAL	**-122,653**	**-97,405**

Note 6. Expenses

€000	2022	2021
Salaries and remuneration	-21,641	-19,496
Social security costs	-4,534	-4,073
Other personnel expenses	-2,153	-1,522
Total personnel expenses	**-28,328**	**-25,091**
Commissions to intermediaries	-11,125	-9,301
Data processing	-2,664	-2,999
Expenses on premises	-2,007	-1,976
Office expenses (incl. communication expenses)	-1,126	-671
Other operating expenses	-5,186	-4,124
TOTAL	**-50,436**	**-44,162**
Division of costs on the basis of function		
Insurance contract acquisition costs	-27,742	-24,569
Administrative expenses	-17,356	-14,912
Claims handling expenses (Note 5)	-5,338	-4,681
TOTAL	**-50,436**	**-44,162**

Note 7. Receivables related to insurance activities and bad debts

€000	31 Dec 2022	31 Dec 2021
Receivables related to direct insurance activities, incl.	45,116	35,849
- policyholders	38,980	30,658
- intermediaries	3,378	2,776
- subrogation with significant recoverability	2,095	1,680
- salvages	386	331
- other	277	404
Receivables related to reinsurance	185	291
- incl. from related parties (Note 19)	13	29
Other receivables	214	127
TOTAL	**45,515**	**36,267**

€000	31 Dec 2022	31 Dec 2021
Maturity analysis of receivables		
Neither past-due nor impaired:		
- not due yet (due within 1 year)	43,701	34,889
Past due but not impaired:		
- past due for 0-3 months	1,485	1,113
- past due for 3-6 months	42	123
- past due for 6-12 months	63	34
- past due for over 1 year	224	108
TOTAL	**45,515**	**36,267**

CHANGE IN BAD DEBT PROVISION

€000	Individually impaired	Collectively impaired	Total
At 1 January 2021	**-151**	**-46**	**-197**
Realised losses during the year	128	-	128
Unused amounts reversed during the year	277	-	277
Additions	-302	-	-302
Change in general provisions	-	2	2
At 31 December 2021	**-48**	**-44**	**-92**
Realised losses during the year	15	7	22
Unused amounts reversed during the year	35	-	35
Additions	-13	-	-13
Change in general provisions	-	-18	-18
At 31 December 2022	**-11**	**-55**	**-66**

Note 8. Accrued income and prepaid expenses

€000	31 Dec 2022	31 Dec 2021
Deferred acquisition costs (including reinsurers' share)	4,606	3,794
Prepaid expenses	1,063	709
Corporate income tax (Note 15)	-	48
TOTAL	**5,669**	**4,551**

DEFERRED ACQUISITION COSTS

€000	Deferred acquisition costs (gross)	2022 Reinsurers' share of acquisition costs	Deferred acquisition costs (net)
Balance as at January 1	**3,887**	**-93**	**3,794**
Acquisition costs deferred during the year	11,832	-278	11,554
Amortisation of previously deferred acquisition costs	-11,001	259	-10,742
Balance as at December 31	**4,718**	**-112**	**4,606**

DEFERRED ACQUISITION COSTS

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

Note 9. Financial investments

€000	31 Dec 2022	31 Dec 2021
Available-for-sale financial assets		
Bonds and other interest-bearing securities		
- listed	300,170	267,599
- unlisted	-	8,599
Incl. with a floating interest rate	4,192	8,224
Incl. with a fixed interest rate (0.0-6.99%)	295,978	267,974
TOTAL FINANCIAL INVESTMENTS	**300,170**	**276,198**

AVAILABLE-FOR-SALE FINANCIAL ASSETS

€000	2022	2021
Balance at 1 January	**276,198**	**291,490**
Bonds and other interest-bearing securities		
Purchase	116,846	18,907
Sale	-65,124	-31,572
Change in fair value recognised in other comprehensive income	-28,721	-2,558
Change in accrued interest	971	-69
Balance at 31 December	**300,170**	**276,198**

BONDS AND OTHER INTEREST-BEARING SECURITIES BY MATURITY TERMS

€000	31 Dec 2022	31 Dec 2021
Up to 1 year	25,754	20,184
1-2 years	71,245	62,109
2-5 years	158,521	160,957
5-10 years	44,650	32,948
TOTAL	**300,170**	**276,198**

BONDS WITH A FIXED INTEREST RATE, BY INTEREST RATES

€000	31 Dec 2022	31 Dec 2021
Interest rate: 0.0-0.99%	85,714	121,538
Interest rate: 1.0-1.99%	121,619	127,069
Interest rate: 2.0-2.99%	27,428	18,423
Interest rate: 3.0-3.99%	12,081	944
Interest rate: 4.0-6.99%	49,136	-
TOTAL	**295,978**	**267,974**

THE CLASSIFICATION OF FINANCIAL INVESTMENTS IN ACCORDANCE WITH IAS 39

	31 Dec 2022		31 Dec 2021	
€000	Fair value	Acquisition cost	Fair value	Acquisition cost
Available-for-sale financial assets				
Bonds and other interest-bearing securities	300,170	321,255	276,198	269,533
TOTAL FINANCIAL ASSETS	**300,170**	**321,255**	**276,198**	**269,533**

FINANCIAL INVESTMENT ASSETS AT FAIR VALUE

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

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

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

Table 11. Determination of the hierarchy of fair value

€000 At 31 December 2022	Level 1	Level 2	Total fair value
Available-for-sale financial assets			
Debt securities	282,747	17,423	300,170

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

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

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

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

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

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

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

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

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

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

Level 3 comprises unquoted instruments and distressed assets.

There were no level 3 financial instruments measured at fair value in the portfolio as at 31 December 2022 and 2021.

The classification of financial investment assets in accordance with IFRS 9

In accordance with the requirements of IFRS 4, insurance companies that have decided to delay the implementation of IFRS 9 until 2023 must provide certain disclosures regarding fair value and changes in fair values.

In 2022, If has made a review of how IFRS 9 will affect the reporting of financial instruments and the main changes are presented in Note 18.

Based on decided categorisation according to IFRS 9, the fair value of financial assets at the end of the reporting period have been classified in category financial assets measured at fair value through profit or loss.

The new IFRS 9 classification requirements will not have a material impact on the total equity but the existing fair value reserve in amount €24 011 thousand will be transferred into retained earnings on 1 January 2023.

€000

At 1 January 2023

Investment asset	**Category**	**IAS 39**	**Reclassifi-cations**	**Remeasure-ments**	**IFRS 9**
Bonds and other fixed income securities	AFS, Available-for-sale	300,170	-300,170	-	-
Bonds and other fixed income securities	FVPL, Fair value through profit and loss	-	300,170	-	300,170
		-	**300,170**	**-**	**300,170**

Note 10. Property, plant and equipment

€000	Right-of-use: Buildings	Other PPE	Total
Net book value as at 31 December 2020	**2,768**	**392**	**3,160**
Acquisition	1,936	60	1,996
Write-off	-	-365	-365
Disposal	-	-12	-12
Acquisition cost as at 31 December 2021	7,325	1,262	8,587
- incl. fully depreciated items	-	947	947
Depreciation charge for the year	-1,227	-151	-1,378
Depreciation charge of sales and disposals	-	240	240
Accumulated depreciation as at 31 December 2021	-3,848	-1,098	-4,946
Net book value as at 31 December 2021	**3,477**	**164**	**3,641**
Acquisition	1,370	574	1,944
Reclassification	-45	-	-45
Write-off	-	-83	-83
Acquisition cost as at 31 December 2022	8,650	1,753	10,403
- incl. fully depreciated items	-	878	878
Depreciation charge for the year	-996	-102	-1,098
Depreciation charge of sales and disposals	-	81	81
Accumulated depreciation as at 31 December 2022	-4,844	-1,119	-5,963
Net book value as at 31 December 2022	**3,806**	**634**	**4,440**

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

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

The Company leases premises for its own use. The expected lease term varies from 1 to 6 years. Some contracts include an option to extend the contract at the end of the term for up to 3 years.

Variable lease payments are linked to consumer price indexes.

Expenses relating to lease contracts not recognized in the statement of financial position amount to €482 thousand in 2022 (€360 thousand in 2021).

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 2022	31 Dec 2021
Liabilities related to direct insurance activities, incl.	**5,695**	**5,653**
- policyholders	3,174	3,845
- intermediaries	2,333	1,670
- others	188	138
Liabilities related to reinsurance	2,035	1,917
- incl. from related parties (Note 19)	1,277	913
Other liabilities	382	135
TOTAL	**8,112**	**7,705**
Terms of liabilities related to insurance activities		
Up to 12 months	8,112	7,705

Note 12. Lease liabilities

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

€000	2022	2021
Opening balance	**3,471**	**2,779**
Cash flows - Repayment of lease liabilities	-985	-1,244
Cash flows - Interest paid on lease liabilities	-16	-8
Non-cash changes - modifications to existing lease contracts	1,325	1,936
Non-cash changes - Interest expense (Note 4)	16	8
Closing balance [1]	**3,811**	**3,471**

[1] of which €978 thousand (€989 thousand in 2021) matures within 12 months and €2,833 thousand (€2,482 thousand in 2021) matures later than 12 months after the reporting date.

The total cash outflow for leases amounted to €1,483 thousand (€1,612 thousand in 2021), 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 2022	31 Dec 2021
Variable compensation reserve (incl. taxes)	4,063	3,198
Unused vacation pay liability (incl. taxes)	1,570	1,284
Employee-related liabilities	848	770
Taxes payable	1,227	529
- incl. corporate income tax	745	-
Other accrued expenses	1,870	2,066
TOTAL	**9,578**	**7,847**

Terms of accrued expenses and deferred income		
Up to 12 months	9,578	7,847

Note 14. Liabilities arising from insurance contracts and reinsurance assets

€000	31 Dec 2022	31 Dec 2021
Gross		
Provision for incurred and reported claims and claims handling expenses	108,866	107,640
Provision for incurred but not reported claims	38,562	28,089
Provision for unearned premiums	89,826	72,887
TOTAL	**237,254**	**208,616**
Reinsurers' share		
Provision for incurred and reported claims and claims handling expenses	5,830	4,889
Provision for incurred but not reported claims	275	270
Provision for unearned premiums	1,215	1,101
TOTAL	**7,320**	**6,260**
Net		
Provision for incurred and reported claims and claims handling expenses	103,036	102,751
Provision for incurred but not reported claims	38,287	27,819
Provision for unearned premiums	88,611	71,786
TOTAL	**229,934**	**202,356**

€000		2022	
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	**135,729**	**-5,159**	**130,570**
Change in the provision for claims outstanding for claims incurred but not yet settled, related to current year	37,641	-1,835	35,806
Change in the provision for claims outstanding for claims incurred but not yet settled, related to previous years	-29,087	894	-28,193
Change in the provision for claims incurred but not reported, related to current year	11,358	-59	11,299
Change in the provision for claims incurred but not reported, related to previous years	-8,613	54	-8,559
Change in the provision for claims handling expenses	399	-	399
Balance as at December 31	**147,427**	**-6,105**	**141,322**

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

€000	2022		
Provision for unearned premiums	**Liabilities arising from insurance contracts**	**Reinsurers' share of liabilities**	**Net**
Balance as at January 1	**72,887**	**-1,101**	**71,786**
Premiums written during the year	205,708	-4,531	201,177
Premiums earned during the year	-188,769	4,412	-184,357
Translation difference	-	5	5
Balance as at December 31	**89,826**	**-1,215**	**88,611**

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

The development of claims: 2013 - 2022

The overview of claims 2013-2022 has been provided in the below tables. The claims have been presented separately for each year. The tables provide an overview of the accumulated estimates of claims development (claims paid, incl. recourses and salvages, provision for incurred and reported loss, and IBNR provision) on the gross basis. The information on the claims paid is presented in the last table of claims development disclosure. The tables do not include information on actual claims handling expenses and the provision for claims handling expenses.

At 31 December 2022 the gross provision for claims outstanding for earlier accident years amounted to €9 127 thousand (at 31 December 2021 €7 338 thousand).

Various factors affect claims estimates changing over time, and it more often happens for lines with longer tail. While the information in the table discloses historical perspective of the adequacy of claims outstanding estimates, it alone would not be sufficient basis to conclude on the adequacy of estimates of claims outstanding as at the end of 2022. The Company believes that the estimate of provision for outstanding claims as at the end of 2022 is adequate to cover claims incurred till the 31.12.2022 (irrespective of whether these claims have been reported or not). It is clear, however, that final amounts paid by the Company will differ from the estimates due to inherent uncertainty, though company targets having those differences as little as possible.

Development of claims, gross

€000	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
At 31 December										
Accident year	70,894	69,821	76,735	87,509	81,838	90,703	86,608	93,406	107,839	131,642
1 year later	73,242	70,326	77,744	90,643	81,990	93,017	85,349	93,204	109,306	
2 year later	73,562	71,256	78,427	87,020	81,160	93,522	84,890	91,911		
3 year later	72,272	71,629	78,548	86,495	80,135	91,445	82,663			
4 year later	72,579	70,588	78,575	85,310	78,206	89,356				
5 year later	73,131	69,099	77,172	83,709	75,615					
6 year later	72,781	70,004	75,334	82,898						
7 year later	72,963	69,078	74,814							
8 year later	70,051	68,574								
9 year later	67,174									
Provision for outstanding claims (incl IBNR) as at 31 December 2022	4,532	5,997	5,569	4,210	4,911	16,828	8,831	16,045	17,865	49,287

Claims paid, subrogation and salvages (cumulatively), gross

€000	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
At 31 December										
Accident year	46,648	46,600	53,052	60,231	53,199	55,821	57,352	58,489	70,637	82,355
1 year later	59,474	59,494	66,451	75,190	67,702	69,930	71,503	73,541	91,441	
2 year later	60,675	60,633	67,693	77,037	69,610	71,563	73,260	75,866		
3 year later	61,269	61,592	68,329	77,637	70,373	72,333	73,832			
4 year later	61,679	61,898	68,903	77,820	70,537	72,529				
5 year later	62,316	61,968	69,041	78,658	70,703					
6 year later	62,407	62,474	69,216	78,687						
7 year later	62,542	62,512	69,245							
8 year later	62,599	62,577								
9 year later	62,626									

Note 15. Corporate income tax

(A) INCOME TAX EXPENSE

€000	2022	2021
Current tax	-4,331	-3,934
Deferred tax	-76	35
TOTAL INCOME TAX EXPENSE	**-4,407**	**-3,899**
Specification of income tax expense		
Estonia [1]	-3,258	-3,635
Latvia [2]	-36	-24
Lithuania	-1,113	-240
TOTAL	**-4,407**	**-3,899**

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

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

€000	2022	2021
Profit of the branches	**7,026**	**2,568**
Tax at 15%/20%	**-1,054**	**-436**
Permanent differences	-35	-31
Temporary differences	-26	-
Prior year tax adjustment	2	-1
Tax cost decrease due to previous year loss in LV branch	-	204
TOTAL TAX CHARGE FOR THE YEAR	**-1,113**	**-264**

[2] In 2022 Latvian branch has resulted in loss and not subject to corporate income tax charge. In the tax charge reconciliation table only Lithuanian branch information disclosed. The tax charge is only related to the non-deductable expenses deemed as profit distribution according to corporate income law.
See more information in Note 1 section o) Corporate income tax.

(C) DEFERRED TAX

€000	31 Dec 2022	31 Dec 2021
Deferred tax liability		
Provision for amounts recoverable by subrogation	-131	-103
TOTAL DEFERRED TAX LIABILITY	-131	-103
Deferred tax asset		
Vacation pay reserve and other accruals	24	60
Doubtful debts	5	3
Asset depreciation	-14	-
TOTAL DEFERRED TAX ASSET	**15**	**63**
NET DEFERRED TAX ASSET/LIABILITY (-)	**-116**	**-40**

SPECIFICATION OF LITHUANIAN BRANCH DEFERRED TAXES

€000	31 Dec 2022	31 Dec 2021
Deferred tax liability	-131	-103
Deferred tax asset	29	63
Net deferred tax asset/liability (-)	**-102**	**-40**

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

€000	2022	2021
At 1 January	**48**	**-132**
Calculated	-4,331	-3,934
Paid	3,538	4,114
At 31 December	**-745**	**48**

Note 16. Investment in the subsidiary

The subsidiary Support Services AS, located in Tallinn, Estonia.

€000	31 Dec 2022	31 Dec 2021
Acquisition cost of shares	**88**	**88**
Number of shares	25,000	25,000
Ownership interest	100%	100%
Total equity	**1,405**	**1,399**
Share capital	25	25
Share premium	63	63
Mandatory capital reserve	3	3
Retained earnings	1,308	1,301
Profit for the year	6	7
Investment in the parent company's statement of financial position	**88**	**88**

Note 17. Equity

Share capital

As at 31 December 2022 the number of issued shares was 6,391,165 with the nominal value of €1 (2021: 6,391,165).

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 2022, share premium amounted to €3,679 thousand (31 December 2021: €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 2022, the mandatory capital reserve amounted to €2,362 thousand (31 December 2021: €2,362 thousand).

Retained earnings

In the reporting period the sole shareholder resolved that the Company should pay out a dividend of €18,100 thousand and the carry forward earnings after the dividend payments of €142,411 thousand.

Dividends paid and proposed

€000	2022	2021
Dividend declared and paid	18,100	18,200
Final equity dividend per ordinary share	€2.8320	€2.8477

Contingent income tax liability

As at 31 December 2022 the Company's retained earnings amounted to €158,335 thousand (2021: €160,511 thousand). Undistributed profit from Estonian activities amounts to €152,381 thousand (2021: €159,170 thousand).

The maximum possible income tax liability in Estonia related to the distribution of the Company's retained earnings, including Latvian branch's year to date loss and excluding the retained earnings of Lithuanian branch as dividends is €29,332 thousand (2021: €31,081 thousand). The Company could thus pay a total of €129,003 thousand (2021: €129,430 thousand) as a net dividend including the profit of the Lithuanian branch of €5,954 thousand (2021: €1,341 thousand) which have already been taxed in Lithuania.

The maximum possible income tax liability has been calculated based on the assumption that the net dividends to be paid and the related total income tax expense to be recorded in the statement of profit or loss and other comprehensive income in 2022 may not exceed retained earnings as at 31 December 2022.

The profit available for distribution may be further limited by regulatory capital requirements and effects of new standards IFRS 9 and IFRS 17 accounting policies changes.

Note 18. Transition effects of changed accounting policies applied from 2023 (IFRS 17 and IFRS 9)

Transition to IFRS 17 Insurance contracts

IFRS 17 Insurance Contracts replaces IFRS 4 Insurance contracts and takes effect on January 1, 2023. IFRS 17, unlike its predecessor, contains a complete framework for the measurement and presentation of insurance contracts. The transition to the new standard is recognised as a change in accounting policy, with a retrospective application from January 1, 2022.

IFRS 17 introduces a general measurement model applicable to all insurance contracts and reinsurance contracts to measure the insurance liabilities and the reinsurance assets. When certain criteria are met a simplified approach, the premium allocation approach (PAA), may be applied. The premium allocation approach will be applied for all insurance business in If, as the coverage period for the main part of the insurance and reinsurance contracts is one year or less, and as longer-term contracts have been assessed to fulfil the eligibility criteria.

Significant changes in accounting policies: Insurance and reinsurance contracts issued

Liability for remaining coverage (LRC)

IFRS 17 stipulates that on initial recognition of an insurance contract, the carrying amount of the liability for remaining coverage (LRC) is measured at premiums received less insurance acquisition cash flows. This is a change compared to the current measurement of the provision for unearned premiums which is intended to cover anticipated claims costs and operating expenses during the remaining coverage period of the contract. Both assets and liabilities will consequently be reduced at the transition to IFRS 17, mainly due to reclassification of both premium receivables as well as deferred acquisition costs to insurance liabilities.

Subsequent of initial recognition, the carrying amount is decreased by the amount recognised as insurance revenue for services provided in the period. Insurance revenue is recognised based on the expected premium receipts allocated to the period, which for most products will be the passage of time i.e. calculated on a pro rata temporis basis consistent with the current accounting policy.

The insurance acquisition cash flows reducing the carrying amount of LRC relates to commissions expenses as well as personnel expenses for internal sales units. The acquisitions cash flows are deferred over the coverage period of the contracts, generally one year .

The carrying amount of LRC is not discounted as the time between providing services and the related premium due date generally is not more than a year.

Liability for incurred claims (LIC)

The liability for incurred claims (LIC) is measured at the total of the fulfilment cash flows which consists of estimated future cash flows adjusted for time value of money (discounting) and a risk adjustment.

According to IFRS 17 all the estimated future cash flows are discounted with market-based yield curves, compared to the current accounting policy of only discounting the provisions for annuities (including annuity IBNR). The current discount rates are determined with a flat EUR discount rate. These will be replaced by IFRS 17 compliant yield curves.

The yield curves that will be applied after transition to IFRS 17 are constructed based a risk-free rate and an illiquidity premium for each of the main currencies. The risk-free rate is derived based on swap rates deducted with a credit risk adjustment, currently aligned with the methodology to derive EIOPA's risk-free interest rates applied for Solvency II reporting. This also comprises the last liquid point and the extrapolation method and assumptions, which includes the ultimate forward rate. The risk-free interest rate is adjusted with an illiquidity premium, which is derived based on a basket of high-rated bonds for each currency, up until the last liquid point and thereafter extrapolated with the same assumptions as the risk-free rate.

The effect from changes in discounting, is according to the current accounting policy presented in the income statement as Change in provision for claims outstanding. IFRS 17 requires changes in the time value of money and changes in financial risk to be presented in the income statement as Insurance finance income or expenses unless the allowed OCI option is applied. If will not apply the OCI option. Therefore, the effect from changes in interest rates as well as interest expense is presented in its entirety as Insurance finance income or expenses. Potential changes in the indexation of annuities are considered to meet the definition of a financial risk. Consequently, changes in indexation will be presented within Insurance finance income or expenses after the transition to IFRS 17.

IFRS 17 introduces an explicit risk adjustment, which reflects the uncertainty about the amount and timing of cash flows arising from non-financial risk. The risk adjustment will be derived through a confidence level technique whereby management has determined the appropriate quantile reflecting the compensation required for bearing non-financial risk and the degree of risk aversion. The confidence level applied in calculating the risk adjustment has been set to 85 percent. The risks considered when determining the risk adjustment are reserve risk, longevity risk and inflation risk. The change in risk adjustment, including related discounting effects, is presented within the income statement as Insurance service expenses.

Significant changes in accounting policies: Reinsurance contracts held

The same changes in accounting policies as for measuring the insurance contracts issued will be applied when measuring the reinsurance contracts held. The additional requirement to account for the effect of the risk of non-performance by the issuer of the reinsurance contract has had an insignificant impact at transition to IFRS 17.

Transition approach and transition effects 1 January 2022

IFRS 17 will be applied retrospectively in its entirety at the transition date (a full retrospective approach). Consequently, groups of insurance contracts are identified, recognised and measured as if IFRS 17 had always been applied at the transition date groups, and any existing balances that would not exist if IFRS 17 had always been applied are derecognised. The resulting net difference is recognised as retained earnings in equity.

The changes in accounting policies affect several line items in If's balance sheet at transition. The table below presents the transition effects to the opening balances per 1 January 2022.

Transition table per 1 January 2022

€000

Balance sheet per IFRS 4	**IFRS 4 31 Dec 2021**	**Reclassifi-cation**	**Remea-surement**	**IFRS 17 31 Dec 2021**	**Balance sheet per IFRS 17**
Cash and cash equivalents	78,327	-	-	78,327	Cash and cash equivalents
Financial investments	276,198	-	-	276,198	Financial investments
Receivables related to insurance activities	36,267	-33,389	-	2,878	Debtors
Accrued income and prepaid expenses	4,551	-3,886	-	665	Accrued income and prepaid expenses
Reinsurance assets	6,260	-1,108	152	5,304	Reinsurance assets
Investment in subsidiary	88	-	-	88	Investment in subsidiary
Property, plant and equipment	3,641	-	-	3,641	Property, plant and equipment
Deferred tax asset	-	-	525	525	Deferred tax asset
TOTAL ASSETS	**405,332**	**-38,383**	**677**	**367,626**	**TOTAL ASSETS**
Liabilities related to insurance activities	7,705	243	-	7,948	Liabilities related to insurance activities
Lease liabilities	3,471	-	-	3,471	Lease liabilities
Accrued expenses and deferred income	7,847	-1,539	-	6,308	Accrued expenses and deferred income
Deferred tax liability	40	-	-	40	Deferred tax liability
Liabilities arising from insurance contracts	208,616	-37,087	4,793	176,322	Insurance liabilities
Shareholders equity					**Shareholders equity**
Share capital	6,391	-	-	6,391	Share capital
Share premium	3,679	-	-	3,679	Share premium
Mandatory capital reserve	2,362	-	-	2,362	Mandatory capital reserve
Other restricted reserves	4,710	-	-	4,710	Other restricted reserves
Retained earnings	142,341	-	-4,116	138,225	Retained earnings
Net profit for the year	18,170	-	-	18,170	Net profit for the year
TOTAL LIABILITIES AND EQUITY	**405,332**	**-38,383**	**677**	**367,626**	**TOTAL LIABILITIES AND EQUITY**

The key measurement changes decreasing the Liability for incurred claims relate to changes in discounting effect with an amount of 6,093 thousand EUR relating to both changed scope and yield curve, and an effect from recognising an explicit discounted risk adjustment compared to implicit prudence under current accounting policies.

The key measurement changes impacting the Liability for remaining coverage relate to changes in acquisition cash flows amounting to -1,512 thousand EUR, relating to changed scope, definition and calculation method. The Liability for remaining coverage is also impacted by the recognition of a loss component in amount of 212 thousand EUR for the limited number of onerous groups identified. At transition 1 January 2022 the equity effect amounted to negative 4,116 thousand EUR.

The company estimates, but has not yet finally concluded, that the effect on net profit in 2022 will offset the transition effect and lead to a total equity effect per 1 January 2023 being close to zero.

Transition to IFRS 9 Financial instruments

IFRS 9 Financial Instruments became effective on January 1, 2018 and superseded IAS 39 Financial Instruments: Recognition and Measurement. However, as described in Note 1 the Company has met the relevant criteria and has applied the temporary exemption from IFRS 9 for annual periods before January 1, 2023. Consequently, the Company will apply IFRS 9 for the first time on January 1, 2023. The IFRS 9 comparative period 2022 will not be restated.

IFRS 9 changes the principles of classification and measurement of financial assets and includes a new impairment model based on expected, rather than incurred, credit losses.

Significant changes in accounting policies: Classification and measurement

Financial assets

A significant change in IFRS 9 compared to IAS 39 is how financial assets are classified into different measurement categories. Under IFRS 9, financial assets are classified as being subsequently measured either at fair value through profit or loss (FVPL), at fair value through other comprehensive income (FVOCI) or at amortised cost (AMC). The Company will not have any financial assets classified as fair value through OCI at transition to IFRS 9. The current IAS 39 categories held-to-maturity, available-for-sale and loans and receivables cease to exist under IFRS 9.

Debt instruments are according to IFRS 9 classified based on a combination of the Company's business model for managing the financial assets and if the contractual cash flow characteristics consists of solely payments of principal and interest (SPPI). The business model is assessed at a portfolio level, reflecting how the financial assets are managed together to achieve a particular business objective. Factors assessed in determining the business model includes how the performance of the portfolio is evaluated and reported to management; how risks are assessed and managed and the frequency, volume, reasons, and timing of sales. When assessing the SPPI criteria, the principal is defined as the fair value at initial recognition which can subsequently change if there are repayments of principal. Interest is assessed if being consistent with compensation per a basic lending arrangement which includes time value of money, credit risk, other basic lending risks and profit margin.

Fair value through profit or loss: Debt instruments are mandatorily classified in this category when the business model reflects the assets being managed and evaluated on a fair value basis or is held for trading, alternatively if the contractual cash flows do not consist of solely payments of principal and interest. At transition to IFRS 9, the main part of the Company's financial assets will be classified at fair value through profit or loss instead of previous classification as available for sale under IAS 39. Consequently, for future reporting periods, the fair value changes will be recognised in the statement of profit or loss, which is expected to increase earnings volatility.

Amortised cost: Debt instruments are classified in this category when the objective of the business model is to hold the financial asset in order to collect contractual cash flows, and the contractual cash flows meet the SPPI criteria. The carrying amount is calculated using the effective interest rate method, and adjusted for a loss allowance, which per IFRS 9 is based on expected credit losses (ECL). At transition to IFRS 9 the Company does not have investment assets, classified as Loans and receivables.

Equity instruments are classified as fair value through profit or loss. IFRS 9 introduces an irrevocable option which can be made at initial recognition to classify equity instruments (not held for trading) at fair value through other comprehensive income. At transition the Company do not have any equity instruments.

Financial liabilities

The transition to IFRS 9 is not changing the measurement of the Company's financial liabilities.

Significant changes in accounting policies: Impairment

IFRS 9 introduces impairment requirements based on a forward-looking 'expected credit loss (ECL)' model, which replaces the model applied under IAS 39 based on incurred losses. The new impairment model will apply to the Company's financial assets classified as amortised cost. The impairment requirements do not apply to equity instruments or other financial instruments measured at FVPL.

IFRS 9 introduces a general approach for impairment in which a loss allowance is based on a three staged model and calculated either for "12-month expected credit losses" (Stage 1) or "lifetime expected credit losses" (Stage 2 and 3) and the changes in expected credit losses are recognised in profit or loss. In stage 1 the credit risk has not increased significantly, in stage 2 the credit risk has increased significantly since initial recognition and stage 3 the financial asset is assessed to be credit-impaired (at default).

The general approach will be applied in the Company, with a model based on three components: probability of default (PD), loss given default (LGD) and exposure at default (EAD). The PD is determined based on each investment's individual rating and thereto related default rate tables. The LGD is the estimated portion of notional that may not be recovered in the event of default.

Transition approach and transition effects

IFRS 9 will be applied retrospectively in its entirety at the transition date 1 January 2023. The comparative period 2022 will not be restated.

The implementation of IFRS 9 does not have a material impact on the Company's balance sheet, as the main part of financial assets are reported at fair value under IAS 39 in the balance sheet, which is the measurement principle also under IFRS 9. Debt instruments currently classified as available for sale, will on transition to IFRS 9 be classified at fair value through profit or loss. The new classification requirements will therefore not have a material impact on the total equity however the existing fair value reserve in amount €24 011 thousand will be transferred into retained earnings on 1 January 2023.

At transition to IFRS 9 only a limited amount of financial assets will be classified as amortised cost, generally those currently classified as Loans and receivables under IAS 39. The financial assets in scope for expected credit losses is consequently limited.

Refer to Note 9 for additional information regarding Classification of other financial investment assets in accordance with IFRS 9.

Note 19. 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 the Companyś partner Luminor Bank AS until the end of August 2022.

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.

The Company previously had concluded an agreement with Sampo plc's prior subsidiary Mandatum Life Insurance Baltic SE regarding the marketing and sales of products. But as Mandatum has sold its Baltic business as of July 1, 2022, then only until that time Mandatum Baltic can be considered as related party to If P&C Insurance AS.

Relations with Nordea

Until April 2022 Nordea was a company associated with Sampo. Sampo has sold its shares in Nordea in April 2022 and therefore is no longer related to If.

Other related parties

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

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

The Management Board members received a total of €1,637 thousand in remuneration in 2022, including social tax (2021: €1,335 thousand). During the reporting period, no termination benefit was paid to members of the Management Board (2021:€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 2022 and 2021. Insurance contracts of €13 thousand were concluded with the Management Board members in the reporting period (2021: €9 thousand).

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

3. Transactions with other group or related companies

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

	Calculated reinsurance premiums		Indemnifications and commissions received	
€000	**2022**	**2021**	**2022**	**2021**
If P&C Insurance Ltd (publ)	2,827	2,307	53	43

Receivables and payables related to the above transactions:

€000	31 Dec 2022	31 Dec 2021
Receivables		
If P&C Insurance Ltd (publ) (Note 7)	13	29
Payables		
If P&C Insurance Ltd (publ) (Note 11)	1,277	913

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

	Services purchased		Services rendered	
€000	**2022**	**2021**	**2022**	**2021**
Mandatum Life Insurance Baltic SE	-	-	1	12
Nordea Bank AB	25	96	-	-
If P&C Insurance Ltd (publ)	239	86	238	232
Sampo plc	-	436	-	-
If IT Services A/S	571	497	-	-
Total	**835**	**1,115**	**239**	**244**

There are only payables related to the above transactions:

€000	**31 Dec 2022**	**31 Dec 2021**
Payables		
If P&C Insurance Ltd (publ)	67	68
If IT Services A/S	53	57
Total	**120**	**125**

Signatures to Annual Report 2022

The Management Board of If P&C Insurance AS has prepared the management report and financial statements for 2022

Signatures:

Tiit Kolde	Member of the Management Board		28.02 2023
Martin Mark	Member of the Management Board		28.02 2023

AS Deloitte Audit Eesti
Tornimäe 5
10145 Tallinn
Estonia

Tel: +372 640 6500
Fax: +372 640 6503
www.deloitte.ee

Reg.no. 10687819

[Translation from Estonian original]

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of If P&C Insurance AS:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of If P&C Insurance AS (hereinafter also „the Entity"), which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements presented fairly, in all material respects, the financial position of the Entity as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of the provision for claims outstanding	
As at 31 December 2022 the Entity has recognized liabilities arising from insurance contracts in the amount of EUR 237,254 thousand, which as described in the Note 14 "*Liabilities arising from insurance contracts and reinsurance assets*" to the financial statements, includes among others (a) provision for incurred and reported claims in the amount of EUR 108,866 thousand, and (b) provision for incurred but not reported claims in the amount of EUR 38,562 thousand (hereinafter collectively also referred to as "the provision for claims outstanding").	Our audit procedures included, among others: We have walked through the provisioning process of claims outstanding and analyzed the actuarial reporting focusing on applied assumptions and models its consistency with financial reporting framework.

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

Other Information

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor

We were appointed as the statutory auditor by the Entity's Shareholder's General Meeting on 28 March 2022 for one year. The length of our total uninterrupted engagement as the statutory auditor is two years.

Consistency with the Additional Report to the Audit Committee

Our audit opinion expressed herein is consistent with the additional report prepared for the Audit Committee, which we issued on 28 February 2023.

Independence

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

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

28 February 2023

M. Akkermann

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

Proposal for the Distribution of Profit

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

Profit carried forward	€142,410,772
Net profit for 2022	€15,924,170
Total profit available for distribution as at 31 December 2022:	**€158,334,942**

The Management Board proposes:

To make a dividend distribution to the sole shareholder	€23,100,000
To recognise as retained earnings	€135,234,942

Heinar Olak
Member of the Management Board

Tiit Kolde
Member of the Management Board