If P&C Insurance AS

2015

Annual report

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ANNUAL REPORT

Business name:	If P&C Insurance AS
Registry code:	10100168
Address:	Lõõtsa 8a, 11415 Tallinn
Telephone:	+372 667 1100
E-mail:	info@if.ee
Web page:	www.if.ee
Main field of activity:	non-life insurance services (EMTAK 65121)
Beginning of financial year:	1 January 2015
End of financial year:	31 December 2015
Chairman of the Management Board:	Andris Morozovs
Auditor:	Ernst & Young Baltic AS

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MANAGEMENT REPORT

Organization

If P&C Insurance AS (the Company, If) is wholly owned by the leading Nordic P&C insurance group If P&C Insurance Holding Ltd, which is itself owned by Sampo Plc., a Finnish company listed on the Helsinki Stock Exchange. In addition to the property and casualty insurance operations within If, Sampo Group provides life insurance via Mandatum Life, Sampo Group is also the major shareholder in Nordea banking group.

The Baltic business area covers both private individuals and corporate customers. If has offered property and casualty insurance in the Baltic countries since 1992. If has approximately 335,000 customers in the Baltic countries and is the market leader in Estonia.

The company is registered in Estonia and operates via branches in Latvia and Lithuania. The current corporate structure improves the efficiency of operations and claims handling in the Baltic region. Some of the business functions are common for all three Baltic countries, however each country has its own sales and customer service functions.

Legal structure of the company

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

Branch in Latvia	Branch in Lithuania
If P&C Insurance AS Latvijas filiāle	If P&C Insurance AS filialas
Reg. no. 40103201449	Reg. no. 302279548

Results from operations

RESULTS

Despite uncertainties in the global economy, the Baltics have experienced economic growth. The good result development continued in If.

In 2015, the technical result increased in comparison with the year before to €17.3 million (2014: €15.5 million). Increase in technical result was supported by premium growth and lower operating costs. Claims outcome in 2015 was on an estimated level but higher than the extraordinary low claims outcome in the year before. Large claims outcome was as expected and in Motor lines both average cost per claim and claims frequency increased.

PREMIUM WRITTEN

The Company's gross written premiums increased by €10.6 million to €133.2 million (2014: €122.6 million). Premium volumes increased in Estonia and Lithuania. Premium volume in Latvia was stable. Growth was noted primarily in the motor, large accounts, accident and health segments.

CLAIMS AND OPERATING EXPENSES

Claims cost, including claims handling costs, increased €8.5 million to €75.4 million (2014: € 66.9 million). The loss ratio, including claims handling costs, deteriorated during 2015 and amounted to 59.6% (2014: 56.4%). Loss ratios improved in Property products and Liability due to lower level of large claims and mild winter weather. Motor products deteriorated due to both increased average cost per claim and claims frequency.

Operating expenses, excluding claims handling costs, decreased by €2.4 million to €33.9 million (2014: €36.2 million). The company's expense ratio decreased to 26.8% (2014: 30.5%). The combined ratio decreased to 86.4% (2014: 87.0 %).

NET PROFIT AND TAX

Net profit after tax ended at €19.9 million in 2015 (2014: €17.0 million).Current tax accounted for €0.81 million (2014: €0.93 million).

INVESTMENT RESULT

The total assets increased from €245.2 million at the beginning of the year to €265.1 million as of 31 December 2015. Financial assets (€235.6 million as at 31 December 2015) are €109.6 million higher than the obligations under insurance contracts net of reinsurance, resulting in a strong solvency position.

Earnings from asset management, measured at mark-to-market, amounted to €2.52 million (2014: €4.88 million), and the return on investment was 1.1% (2014: 2.3%). Net investment return amounted to €3.49 million (2014: €2.46 million) in the income statement, and €-0.97 million (2014: €2.42 million) in the other comprehensive income. The average weighted credit rating for the holdings in the investment portfolio as of 31 December 2015 was A using Standard & Poor's scale (2014: A). Portfolio running yield was 0.9% (31.12.2014: 1.0%) and duration was 1.2 years (31.12.2014: 1.7 years).

Three-year summary

Currency: €000	2015	2014	2013
Premiums written, gross	133,200	122,574	116,906
Premiums written, net	126,491	119,596	113,472
Premiums earned, net of reinsurance	126,545	118,647	112,877
Claims incurred, net of reinsurance	75,433	66,947	68,248
Operating expenses[1]	33,862	36,218	32,165
Technical result[2]	17,250	15,482	12,464
Net profit	19,926	17,016	13,241
Combined ratio[3]	86.4%	87.0%	89.0%
Expense ratio[4]	26.8%	30.5%	28.5%
Loss ratio[5]	59.6%	56.4%	60.5%
Solvency ratio[6]	100.2%	95.0%	81.5%
Financial investments	235,574	223,279	198,805
Return on investments[7]	1.1%	2.3%	0.5%
TOTAL ASSETS	265,144	245,166	225,376
OWNER'S EQUITY	126,757	113,598	97,163
Available solvency margin	126,757	113,598	92,514

FORMULAS

[1]Operating expenses	Insurance contract acquisition costs and administrative expenses (+) reinsurance commissions (+) other income
[2]Technical result	Premiums earned, net of reinsurance (-) claims incurred, net of reinsurance (-) operating expenses
[3]Combined ratio	Expense ratio + loss ratio
[4]Expense ratio	Operating expenses / Premiums earned, net of reinsurance
[5]Loss ratio	Claims incurred (incl. Claims handling costs), net of reinsurance / Premiums earned, net of reinsurance
[6]Solvency ratio	Available solvency margin / Premiums written, net
[7]Return on investments	Investment income (-) investment expenses (+) changes in fair value recognized in other comprehensive income / Weighted average volume of financial investments in the period

Solvency capital

The solvency ratio strenghthened and amounted to 100.2% (2014: 95.0%) at year end. Solvency capital or available solvency margin increased to €126.8 million compared with €113.6 million in 2014. All regulatory solvency requirements have been met by the Company.

Objectives and policies for financial risk management

The core of the Company's insurance operations is the transfer of risk from the insured clients to the insurer. The Company's result depends on both the underwriting result and the return on investments. The Company's risk management approach is to ensure that sufficient return is achieved for the risks taken in all business transactions. All risks are taken into account in risk-return considerations and pricing decisions.

The key objectives for risk management are to ensure that the Company has sufficient capital in relation to the risks in the business activities and to limit fluctuations in financial results. This requires all risks to be properly identified and monitored. The Company's risks, exposures and risk management are described in Note 2.

Personnel

The insurance industry is developing rapidly in light of digitalization and changing customer behaviors. As a result, jobs in the insurance industry are evolving and becoming more complex, requiring multifaceted leaders and increasingly competent employees.

The employees are the central speaking partners to our customers in insurance related issues in their different life situations. Thus the motivation and competence of our employees is crucial for customer satisfaction.

The HR strategy of If is based on four core areas: leadership, employeeship, competence development and ensuring the right person in the right place. In 2015, the main focus has been on promoting employeeship – the employees' own responsibility for their development, customer service and performance and developing leadership to support it.

Increasing employee competence and responsibility is also changing the role of the leader. Follow-up and control is still important, but the need for coaching self-regulated employees is growing. Coaching competence among leaders has been developed during the past few years.

To meet customer expectations better the focus of competence development has been on developing sales, underwriting and customer service skills. All newcomers participate in tailor made induction and mentoring program.

The war for talent is increasing in Baltic labor markets and thus employer branding related activities got extra focus in 2015 in order to attract and retain the best employees. Due to that, the result of the bi-annual employee survey Temper continues to be very good – people enjoy working in If and are happy to recommend If as employer.

On 31st December 2015 the number of full time employees in the company was 545 (2014: 544).

The company's expenses for personnel totalled €19.0 million in 2015, an increase of €1.3 million over the year (2014: €17.7 million).

Outlook

The development of the Baltic economies is expected to remain relatively good despite slow economic recovery in Europe and Russia. Growth in coming years is expected mainly from increase in private consumption as a result of solid real wage increases. Inflation is expected to remain relatively low. Recovery in export volumes and investments is expected to be modest and is dependent on the recovery in Europe and Russia. The insurance market volumes in the Baltics are expected to grow in line with the GDP growth.

In 2015, the Baltic insurance market consolidation accelerated, several mergers took place and the number of larger companies on the market was reduced by four. The market consolidation is expected to result in better financial discipline in unprofitable market segments.

Operations

If provides a complete range of P&C insurance products to corporate and private customers in the Baltics. If works directly via salespoints, telephone and internet, as well as through brokers and partners. If has sales and customer service offices in main towns.

If has the second largest insurance portfolio among all P&C insurance providers in the Baltic States. The number of If customers in the Baltics is approximately 335,000 including both private and corporate customers.

One of the fastest growing sales channels is Internet sales. In 2015, Internet sales were over 200,000 policies, which is 9.3% growth compared to 2014. During 2015, If continued to invest into the Internet and is committed to bringing additional customer friendly solutions to customers.

If has continued to develop its partner sales channel by product development and development of systems in 2015.

Volumes from the strategic partnership with Nordea Banking Group continued to develop in 2015. The partnership is benefitting from both Nordea and If strong customer offers and is appreciated by customers.

A key goal for If is to create the best customer experience in all types of contacts, particularly in cases where customers are affected by an insurance claim. Each claim case is monitored and the person reporting the claim is able to grade how he or she was dealt with and comment on the service received. The surveys show that the customers who have had an insurance claim are even more satisfied with If than those who have never reported a claim. If customers' loyalty metric NPS (Net Promoter Score) has risen to +67.3% in 2015 (2014: +62.5%).

As a leading insurance company in the Baltics, If is aware of its social responsibility. Through sponsorships and funding, the company is making consistent contributions to different projects related to claims prevention. If is also raising awareness of insurance products in society, especially in areas where insurance coverage is low or, in many cases, non-existent.

If has continued in its path to improve efficiency and benefit from common IT systems. In 2015 some old national systems were closed and replaced by modern common IT solutions with support for customers' Internet access.

After the successful launch of the euro in Latvia on 1.1.2014, based on experience and knowledge from Estonian and Latvian euro introductions, If managed to combine secure approach and low implementation cost for euro introduction in Lithuania.

Applied accounting principles

The 2015 Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the EU.

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

Heinar Olak
Member of the Management Board

Artur Praun
Member of the Management Board

FINANCIAL STATEMENTS

Statement of comprehensive income

€000	Note	2015	2014
REVENUE			
PREMIUMS EARNED, NET OF REINSURANCE			
Premiums earned		129,531	121,777
Premiums ceded		-2,986	-3,130
TOTAL	3	**126,545**	**118,647**
OTHER INCOME			
Reinsurance commissions		210	203
Return on investments	4	3,485	2,460
Other income		66	132
TOTAL		3,761	**2,795**
TOTAL REVENUE		**130,306**	**121,442**
TOTAL EXPENSES			
CLAIMS INCURRED, NET OF REINSURANCE			
Claims incurred, gross	5	-75,750	-67,316
Reinsurer's share in claims paid	5	316	370
TOTAL		**-75,434**	**-66,946**
EXPENSES			
Insurance contract acquisition costs	6	-22,444	-22,065
Administrative expenses	6	-11,694	-14,488
TOTAL		**-34,138**	**-36,553**
TOTAL EXPENSES		**-109,572**	**-103,499**
NET RESULT BEFORE TAXES		**20,734**	**17,943**
INCOME TAX	14	-809	-927
NET PROFIT FOR THE FINANCIAL YEAR		**19,925**	**17,016**
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT AND LOSS IN SUBSEQUENT PERIODS:			
Change in the value of available-for-sale assets	4	-966	2,419
Exchange differences on translating foreign operations		-	-3
TOTAL		**-966**	**2,416**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**18,959**	**19,432**

The notes to the financial statements set out on pages 13 to 61 form an integral part to the financial statements.

Statement of financial position

€000	Note	31.12.2015	31.12.2014
ASSETS			
Cash and cash equivalents		10,115	3,353
Financial investments	9	235,574	223,279
Receivables related to insurance activities	7	12,195	10,762
Accrued income and prepaid expenses	8	3,947	3,682
Reinsurance assets	13	2,308	3,044
Deferred tax asset	14	152	170
Investment in subsidiary	15	88	88
Property, plant and equipment	10	765	788
TOTAL ASSETS		**265,144**	**245,166**
LIABILITIES AND OWNER'S EQUITY			
Liabilities related to insurance activities	11	5,553	5,455
Accrued expenses and prepaid revenues	12	4,517	4,625
Liabilities arising from insurance contracts	13	128,317	121,488
TOTAL LIABILITIES		**138,387**	**131,568**
Share capital		6,391	6,391
Share premium		3,679	3,679
Mandatory reserve		2,362	2,362
Revaluation reserve		1,421	2,387
Retained earnings		92,979	81,763
Net profit for the year		19,925	17,016
TOTAL OWNER'S EQUITY	16	**126,757**	**113,598**
TOTAL LIABILITIES AND OWNER'S EQUITY		**265,144**	**245,166**

The notes to the financial statements set out on pages 13 to 61 form an integral part to the financial statements.

Statement of changes in equity

€000	Share capital	Share premium	Mandatory reserve	Revaluation reserve: Fair value reserve	Revaluation reserve: Foreign currency transla-tion reserve	Retained earnings	Net profit for the year	Total equity
EQUITY AT BEGINNING OF 2014	**6,391**	**3,679**	**2,362**	**-32**	**3**	**84,760**	**-**	**97,163**
Paid dividends	-	-	-	-	-	-3,000	-	**-3,000**
Other comprehensive income	-	-	-	2,419	-3	3	-	**2,419**
Profit for the year	-	-	-	-	-	-	17,016	**17,016**
EQUITY AT END OF 2014	**6,391**	**3,679**	**2,362**	**2,387**	**-**	**81,763**	**17,016**	**113,598**
EQUITY AT BEGINNING OF 2015	**6,391**	**3,679**	**2,362**	**2,387**	**-**	**98,779**	**-**	**113,598**
Paid dividends	-	-	-	-	-	-5,800	-	**-5,800**
Other comprehensive income	-	-	-	-966	-	-	-	**-966**
Profit for the year	-	-	-	-	-	-	19,925	**19,925**
EQUITY AT END OF 2015	**6,391**	**3,679**	**2,362**	**1,421**	**-**	**92,979**	**19,925**	**126,757**

The notes to the financial statements set out on pages 13 to 61 form an integral part to the financial statements.

FINANCIAL STATEMENTS

Statement of cash flows

€000	Note	2015	2014
CASH FLOW FROM OPERATING ACTIVITIES			
Premiums received	3, 7, 11	132,472	123,164
Premiums ceded	3, 11	-2,867	-2,995
Claims paid, incl. claims handling expenses	5, 6, 7	-73,309	-65,969
Cash flow from reinsurance		1,410	963
Employee-related and service-related expenses		-34,480	-30,554
Investments in bonds and other interest-bearing securities		-131,630	-110,422
Proceeds from disposals of bonds and other interest-bearing securities		118,915	85,255
Investments in term deposits		-36,000	-46,400
Proceeds from term deposits		34,700	50,100
Dividends received		2,000	-
Interest received		2,853	2,282
Income tax paid	14	-1,164	-576
CASH FLOW FROM OPERATING ACTIVITIES		**12,900**	**4,848**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10	-344	-1,492
Proceeds from disposal of property, plant and equipment		6	185
CASH FLOW FROM INVESTING ACTIVITIES		**-338**	**-1,307**
CASH FROM FROM FINANCING ACTIVITIES			
Paid dividends		-5,800	-3,000
CASH FLOW FROM FINANCING ACTIVITIES		**-5,800**	**-3,000**
CHANGE IN CASH FLOW		**6,762**	**541**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**3,353**	**2,812**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**10,115**	**3,353**

The notes to the financial statements set out on pages 13 to 61 form an integral part to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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

1. THE COMPANY AND ITS ACTIVITIES

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

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

The financial statements of the Company for the year ended 31 December 2015 were authorized for issue in accordance with a resolution of the Management Board on 23 February 2016.

2. BASIS OF PREPARATION

The 2015 financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Union. The financial statements have been prepared on a historical cost basis, except for certain financial investments which have been measured at fair value.

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

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

Though the Company forms group together with its subsidiary Support Services AS, the Company has elected in accordance with IFRS 10 paragraph 4 not to present consolidated financial statements and to present only separate financial statements. The Company is a wholly–owned subsidiary of If P&C Holding Ltd (Sweden) and the parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards (IFRS) as adopted by the EU. Consolidated financial statements of the parent are available at website www.sampo.com under section *Annual 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 as individuals entities prepare their financial statements for the same period, and use the same accounting principles in all material aspects applied for the Company as a whole. All in-house balances and transactions, unrealised gains and losses resulting from those transactions between the Estonian unit, the branch in Latvia and the branch in Lithuania are eliminated in full.

3. CHANGES IN ACCOUNTING POLICY, ESTIMATES AND DISCLOSURES

The financial statements is composed based on consistency and comparability principles, which means that the Company continually applies same accounting principles and presentation. Changes in accounting policies and presentation take place only if these are required by new or revised IFRS standards and interpretations or if new accounting policy and / or presentation give more objective overview of financial position, financial results and cash flows of the Company.

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

The accounting policies and presentation adopted in preparation of the current financial statements are consistent with those of the previous financial year. In addition, amongst Annual Improvements to IFRS 2011-2013 Cycle the following amended standard IFRS 13 Fair value Measurement has been adopted in the Company during the year.

3.2. New standards and interpretations issued but not yet effective

The Company has not early adopted any IFRS standards or interpretations. The Company considers that Amendments to IAS 1 Presentation of financial statements, amendments to IAS 16 Property, Plant & Equipment, Amendments to IAS 27 Equity method in separate financial statements, the new standards IFRS 9 Financial instruments, IFRS 15 Revenue and IFRS 16 Leases might have significance to the Company's future financial reporting.

Improvements to IFRSs

In December 2013 IASB issued the Annual Improvements to IFRSs 2010 – 2012 Cycle (effective for financial years beginning on or after 1 February 2015):

- IFRS 13 Fair value Measurement;
- IAS 16 Property, Plant and Equipment;
- IAS 24 Related Party Disclosures;

In September 2014 IASB issued the Annual Improvements to IFRSs 2012 – 2014 Cycle (effective for financial years beginning on or after 1 January 2016:

- IFRS 7 Financial Instruments: Disclosures;

The adoption of these amendments may result in changes to accounting policies or disclosures but will not have any significant impact on the financial position or performance of the Company. The Company plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

4. MATERIAL JUDGMENTS, ESTIMATES AND RESOLUTIONS

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

A) EVALUATION OF LIABILITIES FROM INSURANCE CONTRACTS

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

As of the end of 2015, gross insurance technical provisions amounted to €128,317 thousand (2014: €121,488 thousand), of which the reinsurer's share amounted to € 2,308 thousand (2014: €3,044 thousand). Insurance technical provisions have been described in Note 1 section 5.

5. MAIN ACCOUNTING PRINCIPLES

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

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

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

B) TRANSACTIONS IN FOREIGN CURRENCY

The financial statements are presented in euros, which is the functional and reporting currency of the Company and its branches. Starting from the 1 January 2015, Lithuania joined the euro zone and Lithuanian litas (LTL) has been replaced by euro (EUR). From this date the Lithuanian branch accounting has been converted into euro at the official exchange rate 3.4528 LTL/EUR.

Foreign currency transactions are translated into euro on the basis of the exchange rates of the European Central Bank. Monetary assets and liabilities denominated in foreign currency are translated into euro on the basis of the currency exchange rates of the European Central Bank officially valid on the balance sheet date. Foreign exchange gains and losses resulting from the revaluation are recorded in the statement of comprehensive income of the reporting period.

C) REVENUE RECOGNITION

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

Interest income is recorded on an accrual basis, based on the effective interest rate of the asset item. Dividend income is recognized when the respective right of claim arises.

Insurance premiums

The collected insurance premiums are recorded upon entry into force of the insurance policy and adjusted with the changes in prepaid premiums, calculated based on the pro rata method. Premiums written are premiums received and receivable under the insurance contracts or, in case of installment payments, those installment payments with the due date in the accounting period. If the due date of the first installment payment is later than the effective date of the contract, the recognition of insurance premiums will be based on the effective date of the contract. Insurance premiums and installment payments received for contracts whose effective date is later than the balance sheet date, are recognized as a prepayment. There are differences in the recognition of insurance premiums in Estonia comparing to Latvia and Lithuania.

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

Reinsurance commissions

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

D) EXPENSES

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

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

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

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

E) CASH AND CASH EQUIVALENTS

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

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

F) FINANCIAL ASSETS

Initial recognition and measurement

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

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

Financial assets are recognized initially at fair value plus, in case of investments not at fair value through profit or loss, directly attributable transaction costs.
Financial assets at fair value through profit or loss were assets held for trading except for certificates of deposits which were designated upon initial recognition at fair value through profit or loss.

The Company has classified time deposits as loans and receivables.

The Company has not classified any financial assets as "investments held to maturity" in the reporting or comparative period. The Company had no derivative instruments.
Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

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

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are assets which held for trading except for certificates of deposit which are designated upon initial recognition at fair value through profit or loss. For investments designated as at fair value through profit or loss, the following criteria are met:

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

These investments are initially recorded at fair value. Subsequent to initial recognition, they are remeasured at fair value on the balance sheet date. Gains and losses arising from changes in fair value, or realized on disposal, together with the related interest income, are recognized under “Return on investments” in the statement of comprehensive income. The Company evaluates its financial assets at fair value through profit and loss (held for trading) whether the intent to sell them in the near term is still appropriate.

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

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

Available-for-sale financial assets

Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses recognised in other comprehensive income in the available-for-sale reserve (equity). Where the insurer holds more than one investment in the same security that they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale investments is reported as interest income using the effective interest rate (EIR).When the asset is derecognised the cumulative gain or loss is recognised in return of investments, or determined to be impaired, or the cumulative loss is recognised in the statement of comprehensive income and removed from the available-for-sale reserve.

Loans and receivables

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

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

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

Derecognition of financial assets

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

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

Or

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

  and either:

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

  Or

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.
In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Impairment of financial assets

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

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

When there is objective evidence of impairment of a financial asset carried at amortized cost, the amount of the loss is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows discounted at the receivable's original effective interest rate. The difference is recognized as an impairment loss in profit or loss. The impairment is assessed individually.

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

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

Financial assets carried at amortised cost

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

Available-for-sale financial investments

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income.

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

G) PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

H) FINANCIAL LIABILITIES

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

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

I) INSURANCE CONTRACTS

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

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

J) DEFERRED ACQUISITION COSTS

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

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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, depending on which share of the collected insurance premium has been received for the future insurance service.

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

L) PROVISION FOR CLAIMS OUTSTANDING

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

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

M) REINSURANCE

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

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

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

N) ACCOUNTING FOR LEASE

Lease transactions, where all material risks and rewards from ownership of an asset are transferred to the lessee, are treated as finance lease. All other lease transactions are treated as operating lease.

The Company as the lessee
Assets acquired on finance lease terms are recognized in the balance sheet as assets and liabilities at their fair value or the net present value of the minimum lease payments, whichever is lower. Lease payments are divided into financial expenses (interest expenses) and reduction of the net book value of the liability. Financial expenses are divided over the lease period so that the interest rate of the net book value of the liability would be the same at any given moment. Assets leased under finance lease terms are depreciated similarly to non-current assets, whereas the depreciation period is the estimated useful life of the asset item, or the lease period, whichever is shorter.

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

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

Assets leased out on operating lease terms are recognized in the balance sheet pursuant to standard procedure, similarly with other PPE. Leased-out assets are depreciated based on the depreciation principles applied by the Company for assets of similar type. Operating lease payments are recorded during the rental period as income based on the straight-line method.

O) CORPORATE INCOME TAX

Pursuant to the Estonian Income Tax Act, Estonian companies are not subjected to pay income tax on the profit since 1 January 2000. Rather, they are subjected to income tax on the paid dividends. The established tax rate is 20/80 of the net dividend paid in 2015 (2014: 21/79 of the net dividend paid).

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

The Company tax expense is calculated in accordance with IAS 12 Income taxes. This entails that current as well as deferred tax is calculated and reported. Current taxes are calculated for every unit in accordance with the tax rules in each country. Branch offices are taxed on their results in the country concerned. In Estonia the company is liable for taxation only on the income not taxed in branches and only when dividends will be paid out. For Latvian branch tax rate is 15% (2014: 15%) and for Lithuanian branch 15% (2014: 15%).

Deferred tax attributable to temporary differences between the amounts reported and the equivalent actual taxation is reported in the company's accounts. For income reported in the income statement for the period but which is not taxed until a later period, a deferred tax cost is charged, which results in a corresponding liability item, deferred tax liabilities. Similarly, costs that will not result in tax deductions until a later period give rise to a deferred tax revenue and a corresponding deferred tax asset. Deferred tax assets and liabilities are not reported net because they pertain to different countries tax authorities. Current and deferred tax disclosure is made in Note 14.

P) EVENTS AFTER THE BALANCE SHEET DATE

Material circumstances that have an effect on the valuation of assets and liabilities and became evident between the balance sheet date (31 December 2015) and the date of approving the financial statements (23 February 2016), but are related to transactions that took place in the reporting period or earlier periods, are recorded in the financial statements.

Note 2. Risks and risk management

A) DEVELOPMENTS DURING THE YEAR

During 2015 no major changes in the Company's risk profile has occurred. The Company main risks are related directly to usual insurance activity as underwriting premium and reserve risks, in addition to the risks stemming from conservative investments. During a year the risk exposures have increased due to the natural growth of business volumes and due to the increase of invested assets as a result of the retained profits from previous periods.

In 2015 the Company has continued with the Risk Management development activities to provide sufficient information on the risks and their exposures for decision making and to ensure compliance with the forthcoming Solvency II regime.

B) OVERVIEW OF COMPANY'S RISK MANAGEMENT

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

Risk is an essential and inherent element of the company´s business activities and operating environment. A high quality risk management is a prerequisite for running the business and for assuring stable earnings while delivering on the long term return requirements, which are:

- A combined ratio of less than 95%;
- A return on equity that exceeds 17.5%.

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

- Ensure that risks affecting the profit and loss account and the balance sheet are identified, assessed, managed and monitored;
- Ensure that the riskiness of the insurance business is reflected in the pricing;
- Ensure adequate long term investment returns within set risk levels;
- Ensure that risk buffers, in the form of capital and foreseeable profitability, are adequate in relation to the current risks inherent in business activities and existing market environment;
- Limit fluctuations in the economic values;
- Ensure the overall efficiency, security and continuity of operations.

The Company's Risk Strategy is set by the Supervisory Board and follows the If Group Risk Strategy.

Risk Appetite Framework
The bases for the risk management is the company level overall risk appetite set by the Company's Supervisory Board by adopting Risk Management Policy. The risk appetite framework defines the risk tolerance levels for what risk the Company is willing to accept in the pursuit of its objectives. Risk tolerance levels for different risk categories are implemented by the relevant Policies adopted by the Company Supervisory Board.

The link between the risk strategy, the risk profile and the capital is ensured through the risk appetite statement, the financial planning process, regular risk monitoring and reporting and the Own Risk and Solvency Assessment (ORSA) process.

Risk Management System and Reporting
The Risk Management System within the Company forms a part of the larger Internal Control System and covers all risks the Company is exposed.

The Company's Risk Management System is linked with the If Group Risk Management System and incorporates the strategy, risk appetite, governance, processes, requirements and reporting on important risks of the Company. The Risk Management function set-up and reporting lines are showed in Figure 1.

The Management Board of the Company has the ultimate responsibility for the effective implementation of the Risk Management System by ensuring appropriate risk management set-up and promoting the sound risk culture within the Company.

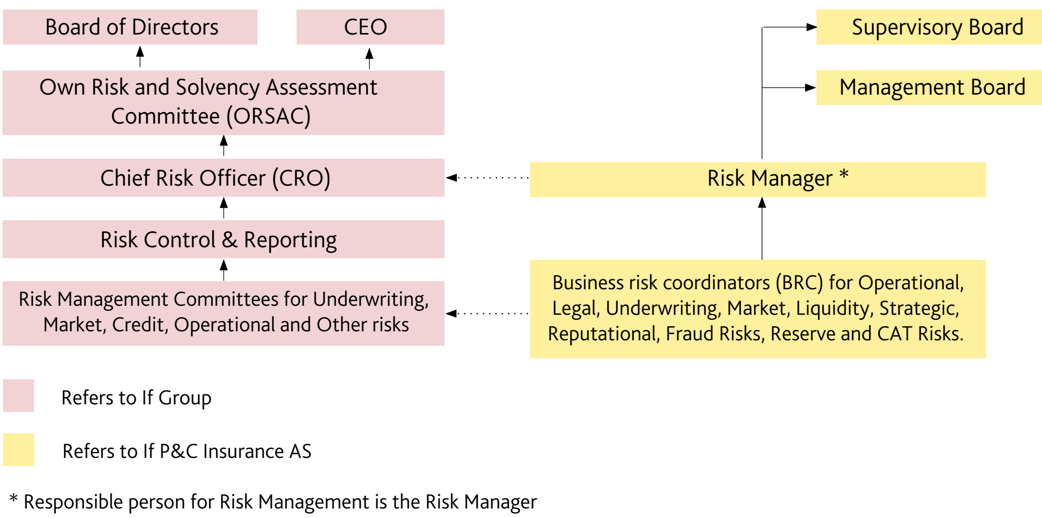
For effective implementation of the Risk Management System within the Company, the three lines of defence concept is used.

First line of defence
The Heads of Unit own the risk and implement the risk mitigation actions in their day to day operations and they are regarded as the first line of defence in the Risk Management System. In each risk category the Business Risk Coordinators are appointed by the Head of Unit to support the risk management activities including reporting to the Risk Manager.

Second line of defence
The Risk Manager performs second line of defence duties by assessing, analysing and monitoring the Company level risks independently from the business operations. Additionally, the second line of defence supports the business in risk assessment, gives advice on risk mitigation actions, promotes a sound risk culture and reports regularly risk exposures to the Management Board, Supervisory Board and to the Chief Risk Officer of If Group.

Third line of defence
The Internal Audit performs third line of defence duties by giving assurance to the Supervisory Board on the effective implementation of the Risk Management System within the Company.

Figure 1. Risk management function set-up and reporting structure



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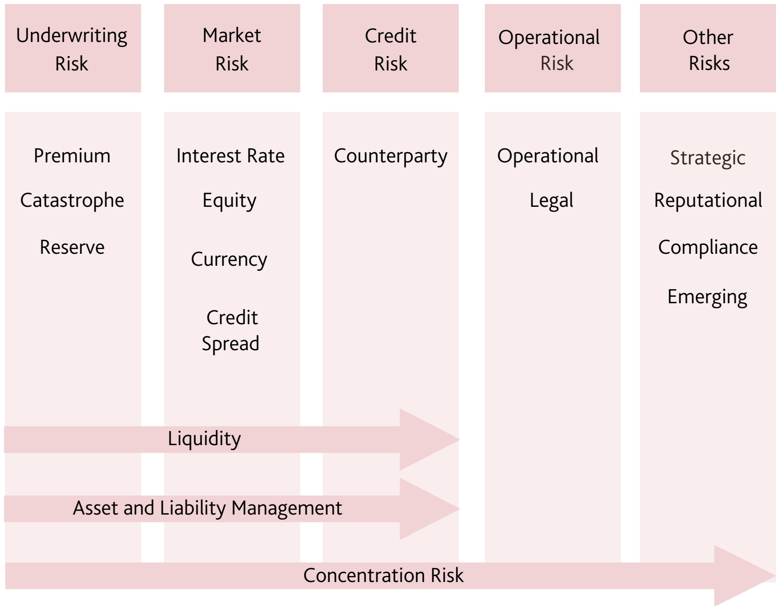
The main risk categories the Company is exposed are: Underwriting; Market; Credit and Operational Risks which are covered by the Risk Management System along with the Other Risks (Figure 2).

Figure 2. Categorization of risks



C) CAPITAL MANAGEMENT

Risk management focuses on both capital efficiency and sound risk management by keeping its capital resources at an appropriate level in relation to the risks taken over the business planning horizon. This means ensuring that available capital exceeds the internal and regulatory capital requirements.

The company's risk profile, required capital and available capital are measured, analysed and reported to the Management Board and to the Supervisory Board quarterly bases, or more often when necessary.

Capital position
The capital position is the relationship between available capital and required capital. To fulfill requirements from supervisory authority, regulatory capital measures are used to describe the capital position.

Regulatory measures
The Insurance Activities Act defines the rules for calculating required solvency margin (required capital), which is the minimum capital amount the company needs to hold to ensure fulfilment of the liabilities arising from insurance contracts. The Company's available solvency margin (available capital) exceeds more than five times (Solvency I ratio was 5.9 as of the end of 2015) the required solvency margin (required capital) and as such, the Company is very well capitalised.

Solvency is reported regularly to the supervisory authority and the Company has the principle that capitalization should meet the minimum statutory capital requirements at each time.

Table 1. Capital position

€000	31.12.2015	31.12.2014
Owner's equity/ available solvency margin	126,757	113,598
Required solvency margin	21,495	21,008
SURPLUS OF SOLVENCY MARGIN	**105,262**	**92,590**

D) UNDERWRITING RISKS

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

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 balance 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
The Company manages the underwriting risk on a day-to-day basis based on internal Underwriting policies and guidelines, which sets the principles for risk selection, pricing and cover. A crucial factor affecting the profitability and risk of P&C insurance operations is the ability to accurately estimate future claims and administrative costs and thereby correctly price insurance contracts. The pricing of private segment risks and smaller corporate segment risks are set through tariffs and detailed risk selection rules. The underwriting of bigger and more complex corporate segment risks is based to a greater extent on general principles and individual underwriting. In general, pricing is based on statistical analyses of historical claims data and assessments of the future development of claims frequency and claims inflation.

The insurance portfolio is well diversified, given the fact that the Company has a large customer base and its business is underwritten in different geographical areas and across several lines of business.

Despite this diversified portfolio, risk concentrations and consequently severe claims may arise through, for example, exposures to natural catastrophes such as storms and floods. Also single large claims can potentially have a significant impact on the result. The economic impact of natural disasters and single large claims is mitigated using reinsurance.

A Nordic-wide reinsurance program has been in place in If Group and applicable for the Company since 2003. In 2015, retention levels for the Company were €3.5 million per risk and €3.5 million per event.

Risk profile
There is a risk, given the inherent uncertainty of property and casualty insurance, that losses due to claims may be higher than expected and taken into account in rates. Examples of such events include large fires, natural catastrophes such as severe storms, floods or unforeseen increases in the frequency or the average size of small and medium-sized claims.

A sensitivity analysis of the aggregated underwriting risk is presented in Table 2.

Table 2. Sensitivity analysis of premium risk, December 31, 2015

€000 Parameter	Current level, 2015	Change	Effect on pretax profit	
			2015	2014
Combined ratio	86.4%	+/-2% points	+/-2,531	+/-2,373
Premium volume	126,545	+/-2%	+/-344	+/-307
Claims level	75,433	+/-2%	+/-1,509	+/-1,339

E) RESERVE RISK

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

Reserve risk includes revision risk, which is defined as the risk of loss, or of adverse change in the value of insurance and reinsurance liabilities, resulting from fluctuations in the level, trend, or volatility of revision rates applied to annuities, due to changes in the legal environment or in the state of health of the person insured. Technical provisions always include a certain degree of uncertainty since the provisions are based on estimates of the size and the frequency of future claim payments.

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

Risk Management and Control

The Management Board of the Company decides on the guidelines governing the calculation of technical provisions (Baltic Reserving Guidelines). The Company's Responsible Actuary is responsible for developing and presenting guidelines on how the technical provisions are to be calculated and for assessing whether the level of the total provisions is sufficient. The more detailed document describing methodologies of calculation of technical provisions is Technical reserves methodology, which is maintained by Responsible Actuary and updates presented to the Management Board as well as to the Estonian FSA. In order to ensure transparent sharing of information from reserving area within the company the Reserve Steering Committee has been established. The Responsible Actuary is responsible to provide relevant details on planned reserve methods' or assumptions' changes to the members of the Reserves Steering Committee as well as be able to explain the basis of existing methods or assumptions. This is done on purpose to secure a comprehensive view and additional control over reserve risk, as part of the risk management system. The Reserve Steering Committee has regular meetings throughout the year.

The Company's reserving actuaries analyze the uncertainty of technical provisions. The actuaries continuously monitor the level of provisions to ensure that they are adequate or find out the segments where reserves‘ deficit or surplus is present.The actuaries also develop methods and systems to support these processes.

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, legislative amendments, case law, economic conditions and product cover specific changes. When setting provisions, the Chain Ladder and Bornhuetter-Fergusson methods are generally used, combined with projections of risk ratio in areas where claims development data is not sufficient.

The anticipated inflation trend is implicitly taken into account when calculating all provisions and is of the utmost importance for claims settled over a long period of time, such as MTPL and Liability.

Inflation risk in the technical provisions is an important consideration taken into account in the investment strategy.

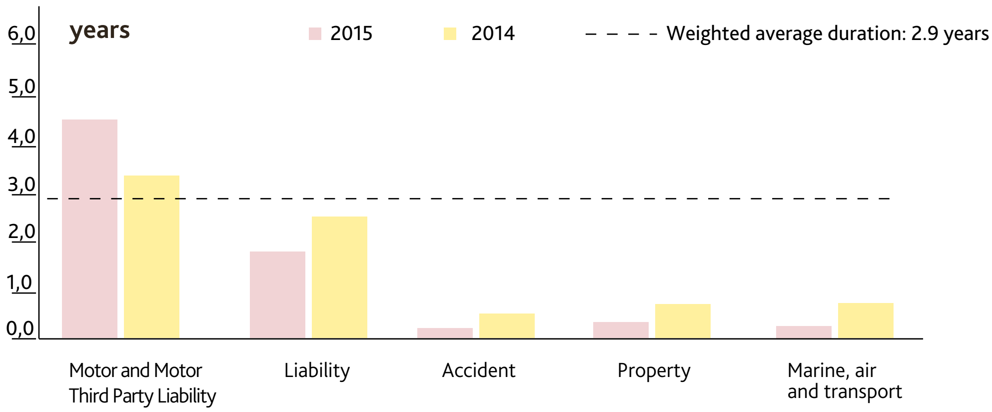
Risk profile

Table 3. Technical provisions per product, 31 December

€000 Type of insurance	Gross liabilities related to insurance contracts		Reinsurers' share of liabilities		Net liabilities	
	2015	2014	2015	2014	2015	2014
Compulsory Motor TPL	50,201	45,376	262	928	49,939	44,448
Motor Own Damage	19,884	19,460	-	-	19,884	19,460
Private Property	7,678	8,476	-	-	7,678	8,476
Corporate Property	15,151	15,253	193	411	14,958	14,842
Liability	22,969	21,538	1,759	1,520	21,210	20,018
Personal Accident	1,976	1,991	-	-	1,976	1,991
Health	4,399	3,193	-	-	4,399	3,193
Other	6,059	6,201	94	185	5,965	6,016
TOTAL	**128,317**	**121,488**	**2,308**	**3,044**	**126,009**	**118,444**

The durations of technical provisions for various products are shown in Figure 3.

Figure 3. Duration of technical provisions per product, 31 December



For several lines of business, technical provisions are sensitive to changes in inflation. The sensitivity of the inflation assumptions differs between countries due to different national rules. A sensitivity analysis of the reserve risk on 31 December is presented in Table 4.

Table 4. Sensitivity analysis, reserve risk, 31 December 2015

€000 Portfolio	Risk	Change in risk parameter	Country	Effect on liabilities/pretax profit 2015	2014
			Estonia	1,015	1,044
Nominal	Inflation	Increase by	Latvia	179	178
reserves	increase	1%-point	Lithuania	401	407
			TOTAL	**1,595**	**1,629**
Discounted			Estonia	1,216	930
reserves	Decrease in	Decrease	Latvia	128	39
(annuities)	discount rate	by 1%-point	Lithuania	109	58
			TOTAL	**1,453**	**1,027**
			Estonia	111	87
Annuities	Decrease in	Mortality rates	Latvia	13	4
	mortality	decrease by 20%	Lithuania	4	2
			TOTAL	**128**	**93**

F) FINANCIAL ASSETS AND LIABILITIES

The recognition of financial assets and liabilities depends on their classification. The classification of assets and liabilities categorized in accordance with IAS 39 is shown in Table 5.

Table 5. Financial assets and financial liabilities

€000	31.12.2015	31.12.2014
Financial assets measured at fair value through profit and loss:		
Classified as held for trading		
Bonds and other interest-bearing securities	41,621	42,631
Available-for-sale financial assets		
Bonds and other interest-bearing securities	169,438	157,441
TOTAL FINANCIAL ASSETS AT FAIR VALUE	**211,059**	**200,072**
Financial assets measured at amortised cost:		
Loans and receivables		
Term deposits	24,515	23,207
Other assets		
Receivables related to direct insurance activities	12,015	10,453
Receivables from reinsurance	69	162
Other receivables	111	146
Cash and cash equivalents	10,115	3,353
Accrued income	786	804
TOTAL FINANCIAL ASSETS	**258,670**	**238,197**
Financial liabilities valued at amortised cost:		
Liabilities related to direct insurance activities	4,056	4,174
Liabilities related to reinsurance	1,198	1,023
Other liabilities	299	258
Accrued expenses	4,517	4,625
TOTAL FINANCIAL LIABILITIES	**10,070**	**10,080**

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

Different valuation methods are used to determine the fair value depending on the type of financial instruments and to what extent they are traded on active markets. The valuation of bonds is usually based on prices from Bloomberg. For a limited portion of assets, the value is determined using other techniques. The fair value of unlisted financial assets is determined on the basis of similar market transactions or, if no such transactions have been made, on the basis of the value determined by using the generally accepted valuation techniques. Certificates' of deposit fair value has been determined through annualized discount factors which are in the range 1.00027 – 1.00081 (2014: 0.99821 – 1.00000).

Financial instruments measured at fair value have been classified into three hierarchy levels depending on their liquidity and valuation methods. The control of hierarchy levels is done quarterly and if conditions have changed for the existing level, the holding in question is moved to the correct hierarchy level. The valuation of financial assets is shown in Table 6.

Table 6. Determination of hierarchy of fair value

€000

31.12.2015	Level 1	Level 2	Level 3	Total fair value
Financial assets at fair value through profit or loss				
Debt securities	41,621	-	-	**41,621**
Available-for-sale financial assets				
Debt securities	145,329	24,109	-	**169,438**
TOTAL	**186,950**	**24,109**	**-**	**211,059**

31.12.2014	Level 1	Level 2	Level 3	Total fair value
Financial assets at fair value through profit or loss				
Debt securities	42,630	-	-	**42,630**
Available-for-sale financial assets				
Debt securities	96,193	61,249	-	**157,442**
TOTAL	**138,823**	**61,249**	**-**	**200,072**

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

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

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

Instruments which are valued at level 2 include interest-bearing assets where the market is not active enough like corporate bonds and certificates of deposit.

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

Level 3 comprises unquoted instruments and distressed assets encountering financial difficulties.

Table 7. Reconciliation of movements in Level 3 financial instruments measured at fair value

€000

Financial assets at fair value through profit or loss	At 1 January 2015	Total gains in income statement	Sales	Transfers from level 1 and level 2	At 31 December 2015
Debt securities	-	250	-250	-	-
TOTAL	**-**	**250**	**-250**	**-**	**-**

Financial assets at fair value through profit or loss	At 1 January 2014	Total gains in income statement	Sales	Transfers from level 1 and level 2	At 31 December 2014
Debt securities	-	4	-4	-	-
TOTAL	**-**	**4**	**-4**	**-**	**-**

G) MARKET RISKS

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

Risk Management and Control
The investment strategy of the Company, given the financial market environment, is to maximize long term investment returns within the levels of risk appetite and the capital allocation while meeting solvency requirements. The Investment Policy and Baltic Investment Policy adopted by the Supervisory Board annually defines the limits for asset allocation. The structure of the Company's technical provisions, risk-bearing capacities, regulatory requirements and rating targets is taken into account when deciding limits and when setting return and liquidity targets. The Investment Policies also define mandates and authorizations.

Risk profile
The Company's investments operations generated a return of 1.1% in 2015 (2014: 2.3%). The investment assets amounted as at the end of the reporting period to €235,574 thousand (2014: €223,279 thousand).

The major market risks comprise interest rate risk, credit risk and credit spread risk. The exposure towards market risk can be described through the allocation of investment assets and the sensitivity of values to changes in key risk factors.

Table 8. Allocation of investment assets

€000	31.12.2015	%	31.12.2014	%
Bonds and other interest-bearing securities	211,059	90%	200,072	90%
Loans and receivables (term deposits)	24,515	10%	23,207	10%
TOTAL	**235,574**	**100%**	**223,279**	**100%**

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

SENSITIVITY ANALYSIS

The below table brings out some of the key assumptions indicating the effect of potential changes, other factors remaining constant. The analysis is based on the investment portfolio as of 31.12.2015 with comparative as of 31.12.2014 and is calculated before taxes.

Table 9. Sensitivity analysis of the fair value of financial assets

Company's investment portfolio on 31 December 2015

€000	**1 % Parallel shift in the interest curve**	
Market risk sensitivity analysis	Up	Down
Effect on financial results	-2,848	2,968

Company's investment portfolio on 31 December 2014

€000	**1 % Parallel shift in the interest curve**	
Market risk sensitivity analysis	Up	Down
Effect on financial results	-3,751	3,922

There is no exposure to equity price risk because there are no equity instruments in the portfolio. According to the Investment Policy, it is not allowed to invest in equity instruments. Equity risk relates to fully owned subsidiary (Support Services AS) and not subject to market movements in equities.

Exposure to operational currency risk is insignificant. 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.The majority of the insurance liabilities and all financial investments of the Company are in euro.

H) 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
According to the Company’s Investment Policy, the nature of the insurance commitments, with respect to interest rate risk and inflation risk is taken into account in the composition of investment assets. The interest rate risk is managed by sensitivity limits for instruments sensitive to interest rate changes.

Since the technical provisions are predominantly stated in nominal terms in the balance sheet, the Company is mainly exposed to changes in future inflation. However, the economic value of these provisions, meaning the present value of future claims payments, is exposed to changes in interest rates. Furthermore, the provisions for annuities in Estonia, Lithuania and Latvia are discounted and potential changes in the discount rates will to some extent affect the level of technical provisions in the company’s balance sheet.

The discount rates vary between countries mainly due to legislative differences, but also due to the prevailing interest rate environment.

Risk profile
The duration of technical provisions and thus sensitivity to changes in interest rates are analyzed in greater detail in Table 4 and Figure 3 in the section concerning reserve risk. The cash flows of financial assets and liabilities are presented by maturities in Table 13, in the section concerning liquidity risks.

The duration of bonds and other interest-bearing investments was 1.2 years at year end 2015 (1.7 years in 2014). The duration of those investments is shown in Table 10.

Table 10. Duration and breakdown of bonds and other interest-bearing investments per instrument type, 31 December

	2015			2014		
€000	**Carrying amount**	**%**	**Duration years**	**Carrying amount**	**%**	**Duration years**
Scandinavian credit	78,133	33.2%	1.1	55,126	24.7%	1.9
Euro governments	-	-	-	29,212	13.1%	1.1
Euro credit (excl. Scandinavian)	89,180	37.9%	2.1	58,522	26.2%	3.6
US credit	31,341	13.3%	0.2	-	-	-
Short-term fixed income (incl.Scandinavian short)	36,920	15.7%	0.4	80,419	36.0%	0.6
TOTAL	**235,574**	**100%**	**1.2**	**223,279**	**100%**	**1.7**

The duration of newly bought bonds and other interest-bearing investments is shorter than the duration of instruments consisted in the portfolio a year before.

I) CREDIT RISK INCLUDING CREDIT SPREAD RISK

Credit risk means the risk of loss or of adverse change in financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which insurance undertakings are exposed in the form of counterparty default risk, spread risk or market risk concentrations.

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

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

Credit Risk in Investments Operations
The main credit risk for the company is stemming from the investments. Credit risk in the investment operations can be measured as counterparty default risk and spread risk. In most cases part of the credit risk is already reflected by higher spread and thereby the asset has a lower market value, even in the case of no default. Therefore, the spread is in essence the market price of credit risk and therefore spread risk is categorized as a market risk.

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

Risk Management and Control

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

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

The development of the portfolios with respect to credit risk is monitored at the Company level, as well as at the If Group level, and reported to the Investment Control Committee on a regular basis. Credit exposures are reported by ratings, instruments and the industry sectors.

Risk profile

The Table 11 below shows the maximum exposure to credit risk for the components of the statement of financial position.

Table 11. Assets exposure to credit risk

€000	31.12.2015	31.12.2014
Cash and cash equivalents	10,115	3,353
Financial investments	235,574	223,279
Receivables related to insurance activities	12,195	10,762
Reinsurance assets	2,308	3,044
Total credit risk exposure	**260,192**	**240,438**

The most significant credit risk exposures in the Company arise from investments in bonds and other interest-bearing investments. The exposures are shown by sectors, asset classes and rating category in Table 12.

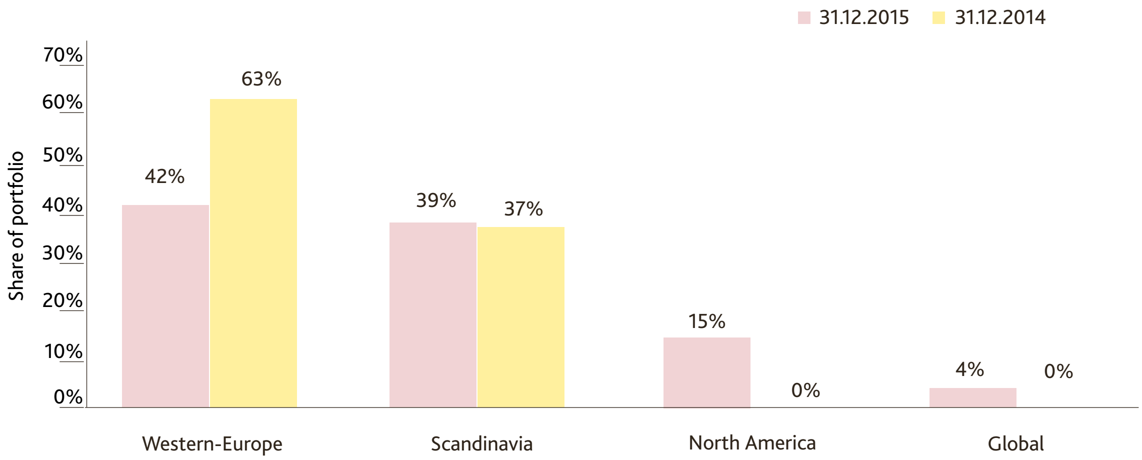
Table 12. Exposures by sectors, asset classes and rating, 31 December 2015

€000	AAA	AA+- AA-	A+ - A-	BBB+- BBB-	BB+ - C	Non-rated	Fixed income total
Basic Industry	-	4,973	-	-	1,163	2,044	**8,180**
Capital Goods	-	-	9,924	6,248	-	-	**16,172**
Consumer Products	-	5,984	3,789	4,491	-	-	**14,264**
Covered Bonds	15,600	-	-	-	-	-	**15,600**
Energy	-	-	-	4,406	-	-	**4,406**
Financial Institutions	-	83,573	41,342	4,486	-	-	**129,401**
Health Care	-	-	-	1,991	-	5,288	**7,279**
Services	-	-	-	12,683	-	4,065	**16,748**
Telecommunications	-	-	5,183	2,646	-	2,108	**9,937**
Transportation	-	-	2,649	-	-	-	**2,649**
Utilities	-	-	-	10,938	-	-	**10,938**
TOTAL	**15,600**	**94,530**	**62,887**	**47,889**	**1,163**	**13,505**	**235,574**

2014 €000	AAA	AA+- AA-	A+ - A-	BBB+- BBB-	BB+ - C	Non- rated	Fixed income total
Basic Industry	-	-	-	-	1,173	2,065	**3,238**
Capital Goods	-	-	-	6,413	-	-	**6,413**
Consumer Products	-	-	-	4,505	-	-	**4,505**
Covered Bonds	15,847	5,039	-	-	-	-	**20,886**
Energy	-	-	-	4,454	-	-	**4,454**
Financial Institutions	-	70,866	22,481	23,207	-	-	**116,554**
Governments	29,213	-	-	-	-	-	**29,213**
Health Care	-	-	-	-	-	5,278	**5,278**
Services	-	-	-	4,820	-	4,036	**8,856**
Telecommunications	-	-	5,256	2,664	-	2,010	**9,930**
Transportation	-	-	2,672	-	-	-	**2,672**
Utilities	-	-	-	11,280	-	-	**11,280**
TOTAL	**45,060**	**75,905**	**30,409**	**57,343**	**1,173**	**13,389**	**223,279**

The distribution of bonds and other interest bearing securities related to credit risks according to geographic region is presented in detail in the Figure 4 below.

Figure 4. Division of bonds and other interest-bearing securities by geographical areas.



The credit risk in the Company´s investment portfolio is mainly associated with banks in the Nordic region.

Credit Risk in Insurance Operations
In addition to the credit risk associated with investment assets, credit risk arises from insurance operations through ceded reinsurance. Credit risk related to reinsurers arises through reinsurance receivables and through the reinsurers' portion of claims outstanding. The company's credit risk is related to the solvency of the insured persons and payers of recourses, insurance intermediaries, but exposure towards policyholders is very limited, because non-payment of premiums generally results in the cancellation of insurance policies.

Risk Management and Control
Reinsurance contracts of the Company are concluded mainly with If P&C Insurance Ltd. (Sweden), which is rated by Standard & Poor's as A. Every individual reinsurance contract is concluded on the basis of an analysis of the reinsurer's solvency and credibility and according to the list of allowed counterparties approved by Supervisory Board of the Company.

The company has operational debtors handling regulations and is actively dealing with hedging credit risk. The terms and conditions for the validity of insurance cover are set forth in the general insurance terms and conditions. Contracts concluded with insurance intermediaries specify payment terms and compliance with these is systematically checked.

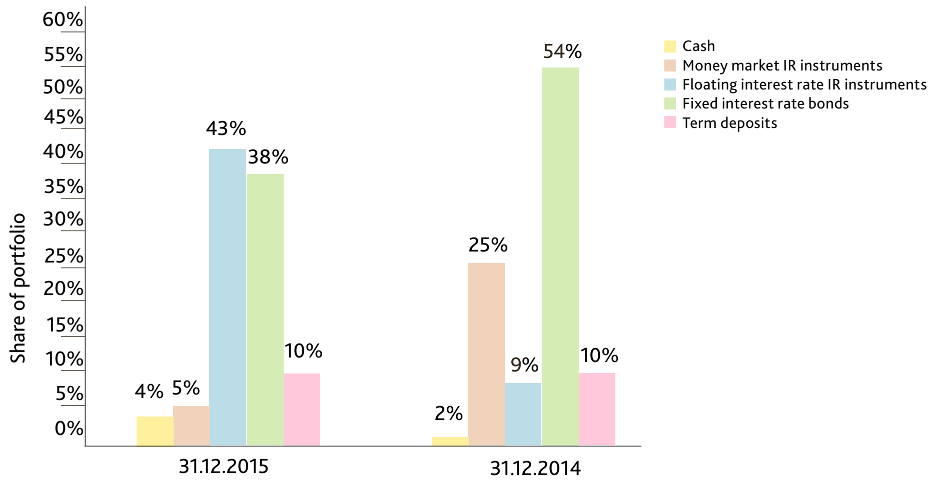
K) LIQUIDITY RISK

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

Risk Management and Control
In P&C insurance, the premiums are collected in advance and large claims payments are usually known long before they fall due, thus limiting the liquidity risk. Additionally, the investment portfolio duration is kept short.

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. In order to maintain an adequate level of liquidity, the Company keeps some of its assets in liquid instruments such as overnight deposits, short-term deposits, certificates of deposit and bonds and other interest-bearing instruments. Liquidity risk is reduced by having investments that are readily marketable in liquid markets.
A more detailed classification of financial assets is presented in Figure 5 below.

Figure 5. Financial investments



Risk profile
The maturities of cash flows for technical provisions, financial assets and liabilities are presented in Table 13. In the table, financial assets and liabilities are divided into contracts with an exact contractual maturity profile. In addition, the table shows expected cash flows for net technical provisions, which are inherently associated with a degree of uncertainty.

Table 13. Maturities of cash flows for financial assets, liabilities and net technical provisions, 31 December 2015

€000	Carrying amount			Cash flows						
	Carrying amount	Without maturity	With contractual maturity	2016	2017	2018	2019	2020	2021-2030	2031-
Financial assets	**258,670**	**10,901**	**247,769**	59,618	45,556	9,043	51,051	71,527	6,741	-
Financial liabilities	**10,070**	**-**	**10,070**	10,070	-	-	-	-	-	-
Net technical provisions	**126,009**	**-**	**126,009**	71,862	15,627	9,806	6,750	4,730	13,285	3,949

L) CONCENTRATION RISK

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

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

Concentration risks for the Company are mainly market and credit risks related to the individual counterparties' investment in the portfolio.

Risk profile
Investments are mainly concentrated to the financial sector in the Scandinavian countries. Concentrations are illustrated in Table 12 Credit exposures by sectors, asset classes and rating, 31 December 2015 which are shown in Credit Risk section (i).

The largest market and credit risk concentrations related to individual counterparties are shown in Table 14.

Table 14. Concentration of market and credit risks in individual counterparties and asset classes, 31 December

2015 €000	Term Deposits	Certificates of Deposit	FRN and bonds	**Total**
Nordea Finland Plc and branches	24,515	-	10,017	**34,532**
Raiffeisen-Boerenleenbank BA/Netherlands	-	-	16,307	**16,307**
Danske Bank A/S and branches	-	5,903	4,518	**10,421**
Swedbank AB	-	-	10,050	**10,050**
General Electric Co	-	-	9,924	**9,924**
TOTAL	**24,515**	**5,903**	**50,816**	**81,234**

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€000 2014	Term Deposits	Certificates of Deposit	FRN and bonds	Total
Danske Bank A/S and branches	23,207	4,694	4,658	**32,559**
Nordea Finland Plc and branches	-	21,094	10,038	**31,132**
Svenska Handelsbanken AB	-	18,782	3,283	**22,065**
Netherlands government	-	-	19,208	**19,208**
Pohjola Pankki	-	12,642	5,026	**17,668**
TOTAL	**23,207**	**57,212**	**42,213**	**122,632**

M) OPERATIONAL RISK

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

The definition includes legal risk that can be described as the risk of loss due to unpredictable or unknown legal development or uncertain interpretations of regulations and defective documentation.

Risk Management and Control
The Company identifies operational risks through different processes:

- Operational and Compliance Risk Assessment process. A Self-assessments, identifying operational risks are performed at least twice a year by the each unit. Based on this assessment the second line is assessing the operational risks from the company perspective. The risk levels are monitored on continuous basis and reported regularly to the Management and Supervisory Board of the Company;
- Business and strategic risks are assessed at least twice a year to identify trends and their impact to the Company;
- Operational incidents are reported via a web-based system. The incidents are analysed by the risk function to determine the areas needing improvements. Information on the incidents trend and the severe impacts are part of the regular risk report;
- In order to secure the sustainable business operations, the business continuity management is implemented. To increase the awareness and preparedness for limiting the potential negative impact the crises situations continuity tests are carried out.

The main internal guidelines to manage the operational risks are Operational Risk Policy, Security Policy, Outsourcing Policy, Complaints Handling Policy and Claims Handling Policy.

The Legal Unit is responsible for identifying legal risks within the Company. In addition, the Legal Unit is responsible for being updated on legislation, case law and products in relation to the insurance business.

N) OTHER RISK

COMPLIANCE RISK

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or loss to reputation an undertaking may suffer as a result of not complying with laws, regulations and administrative provisions as applicable to its activities. A compliance risk could be a consequence of a legal or operational risk.

Risk Management and Control
The line organization owns and manages their compliance risks in the daily activities and reports to the second line of defence.

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

Identified risks are assessed from a severity perspective, encompassing likelihood and impact and reported quarterly to the Management Board and Supervisory Board as well as to the If Group Chief Risk Officer.

REPUTATIONAL RISK

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

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

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

STRATEGIC RISK

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

Risk Management and Control
In the assessment of strategic risk, internal characteristics are evaluated against the potential impact of competitive economic, regulatory, and other external factors. If`s position is compared with peers, business partners and customers, and opportunities of entry for new competitors, products or technologies. If´s strategy process includes setting strategic high-level objectives and translating these into detailed short-term business plans.

EMERGING RISK

Emerging risks are newly developing or changing risks that are difficult to quantify and which may have a major impact on the undertaking. The risks that are under extra observations are nano-technology, climate change and electric magnetics fields.

Risk Management and Control
Due to the large accumulation of potential emerging risks and thus the risk to the long-term solvency of the company, If Group Risk Management has established a forum with representatives from business with the aim of adopting a Group level perspective on emerging risk exposures.

O) PREPARATION FOR SOLVENCY II

On the 1st January 2016, the Solvency II Directive (SII) enters into force. Compared with Solvency I, the regulatory capital requirements under SII will more closely reflect the specific risk profile of each undertaking.

Having prepared for the implementation over a number of years, the Company is confident to meet challenges and opportunities presented in the new regulatory framework, which contains a number of provisions in relation to insurer's capital requirements, governance and reporting.

The company has made many improvements in its risk management system, system of governance and related reporting in order to be well prepared for the new regime. The company has submitted the SII Pillar 3 annual and quarterly reports as well as submitted its second own risk and solvency assessment results as If Group ORSA (FLAOR) to the Financial Supervisory Authority.

Note 3. Premiums earned, net of reinsurance

€000	2015	2014
Premiums written, gross	133,200	122,574
Change in the provision for unearned premiums	-3,669	-797
Premiums earned, gross of reinsurance	**129,531**	**121,777**
Reinsurance premiums	-3,040	-2,978
Change in the provision for unearned premiums	54	-152
Premiums earned, ceded	**-2,986**	**-3,130**
TOTAL	**126,545**	**118,647**

Note 4. Return on investments

€000	2015	2014
INTEREST INCOME/EXPENSE		
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other interest-bearing securities	1,306	1,231
Available-for-sale financial assets		
From bonds and other interest-bearing securities	1,366	1,345
Loans and receivables		
From deposits	31	66
From cash and cash equivalents	1	2
TOTAL	**2, 704**	**2,644**

€000	2015	2014
PROFIT FROM DISPOSALS		
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other interest-bearing securities	215	9
Available -for-sale financial financial assets		
From bonds and other interest-bearing securities	154	72
TOTAL	**369**	**81**
LOSS FROM DISPOSALS		
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other interest-bearing securities	-1	-497
TOTAL	**-1**	**-497**
PROFIT/LOSS FROM CHANGE IN FAIR VALUE		
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other interest-bearing securities	-975	798
TOTAL	**-975**	**798**
Dividend from shares in subsidiary (Note 15)	**2,000**	**-**
Investment expenses	**-612**	**-566**
TOTAL RETURN ON INVESTMENTS	**3,485**	**2,460**

Reconciliation of fair value reserve of available-for-sale financial assets	2015	2014
Opening balance, available-for-sale financial assets	2,387	-32
Changes in fair value during the year, recognized in comprehensive income	-966	2,419
CLOSING BALANCE, AVAILABLE-FOR-SALE FINANCIAL ASSETS	**1,421**	**2,387**

Note 5. Claims incurred, net of reinsurance

€000	2015	2014
Gross		
Claims paid during the year related to that year	-59,474	-50,191
Claims paid related to previous years	-17,615	-17,162
Amounts recovered from salvage and recourses	8,443	5,368
Change in the provision for claims outstanding	-3,159	-1,266
Claims handling costs	-3,945	-4,065
TOTAL	**-75,750**	**-67,316**
Reinsurer's share		
Claims paid during the year related to that year	2	45
Claims paid related to previous years	1,104	503
Change in the provision for claims outstanding	-790	-178
TOTAL	**316**	**370**

€000	2015	2014
Net		
Claims paid during the year related to that year	-51,029	-44,778
Claims paid related to previous years	-16,511	-16,659
Claims handling costs	-3,945	-4,065
Change in the provision for claims outstanding	-3,949	-1,444
TOTAL	**-75,434**	**-66,946**

Note 6. Operating expenses

€000	2015	2014
Personnel expenses	-19,016	-17,662
Commissions to intermediaries	-10,279	-9,764
Data processing	-2,563	-7,148
- incl. impairment charge of intangible assets	-	-4,537
Expenses on premises	-2,083	-2,257
Office expenses (incl. communication expenses)	-1,030	-1,046
Other operating expenses	-3,112	-2,741
TOTAL	**-38,083**	**-40,618**
Division of costs on the basis of functions		
Insurance contract acquisition costs	-22,444	-22,065
Administrative expenses	-11,694	-14,488
Claims handling expenses	-3,945	-4,065
TOTAL	**-38,083**	**-40,618**

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

€000	31.12.2015	31.12.2014
Receivables related to direct insurance activities, incl.	12,015	10,453
- policyholders	7,485	6,906
- intermediaries	2,685	2,453
- recourses with significant recoverability	1,310	714
- salvages	412	247
- other	123	133
Receivables from reinsurance	69	162
- incl. from related parties (Note 18)	1	11
Other receivables	111	147
- incl. from related parties (Note 18)	85	135
TOTAL	**12,195**	**10,762**

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€000	31.12.2015	31.12.2014
Term of the receivables		
Neither past-due nor impaired:		
- not due yet *	11,431	9,590
Past-due but not impaired:		
- due for 0-3 months	642	977
- due for 3-6 months	43	43
- due for 6-12 months	32	39
- due for over 1 year	47	113
TOTAL	**12,195**	**10,762**

*Receivables are due within 1 year

SPECIFICATION OF CHANGE IN BAD DEBT PROVISION

€000	Individually impaired	Collectively impaired	Total
At 1 January 2014	**-284**	**-183**	**-476**
Realized losses during the year	15	-	15
Unused amounts reversed during the year	532	-	532
Additions	-520	-	-520
Change in general provisions	-	28	28
At 31 December 2014	**-257**	**-155**	**-412**
Realized losses during the year	125	-	125
Unused amounts reversed during the year	325	-	325
Additions	-418	-	-418
Change in general provisions	-	57	57
At 31 December 2015	**-225**	**-98**	**-323**

Note 8. Accrued income and prepaid expenses

€000	31.12.2015	31.12.2014
Net deferred acquisition costs	3,313	3,049
Prepaid expenses	634	633
TOTAL	**3,947**	**3,682**

DEFERRED ACQUISITION COSTS	**2015**		
€000	**Share of acquisition costs (gross)**	**Reinsurer's share of acquisition costs**	**Share of acquisition costs (net)**
Balance as of January 1	**3,092**	**-43**	**3,049**
Acquisition costs deferred during the year	10,125	-209	9,916
Reversal of previously deferred acquisition costs	-9,853	201	-9,652
Balance as of December 31	**3,364**	**-51**	**3,313**

DEFERRED ACQUISITION COSTS	2014		
€000	Share of acquisition costs (gross)	Reinsurer's share of acquisition costs	Share of acquisition costs (net)
Balance as of January 1	**2,967**	**-61**	**2,906**
Acquisition costs deferred during the year	9,503	-198	9,305
Reversal of previously deferred acquisition costs	-9,378	216	-9,162
Balance as of December 31	**3,092**	**-43**	**3,049**

Note 9. Financial investments

€000	31.12.2015	31.12.2014
Financial assets measured at fair value through profit and loss		
Classified as held for trading		
Bonds and other interest-bearing securities		
- listed	41,621	42,631
incl. with a fixed interest rate (2.375-5.5%, 31.12.2014: 2.375-5.5%)	41,621	42,631
TOTAL	**41,621**	**42,631**
Available-for-sale financial assets		
Bonds and other interest-bearing securities		
- listed	150,438	98,219
- unlisted	19,000	59,222
incl. with a floating interest rate	106,638	21,077
incl. with a fixed interest rate (0.03-3.75%, 31.12.14:0.0-3.75%)	62,800	136,364
TOTAL	**169,438**	**157,441**
Loans and receivables		
Term deposits	24,515	23,207
TOTAL	**24,515**	**23,207**
FINANCIAL INVESTMENTS TOTAL	**235,574**	**223,279**

Term deposits earn an annual interest 0.18-0.25% (as of 31.12.2014: 0.11-0.14%)

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS

€000	2015	2014
Balance at Jan.1	**42,631**	**82,440**
Classified as held for trading		
Bonds and other interest-bearing securities		
Sale	-	-40,391
Change in fair value through profit and loss	-975	642
Change in accrued interest	-35	-60
Balance at Dec. 31	**41,621**	**42,631**

AVAILABLE-FOR-SALE FINANCIAL ASSETS

€000	2015	2014
Balance at Jan.1	**157,441**	**89,448**
Bonds and other interest-bearing securities		
Purchase	131,630	110,422
Sale	-118,545	-45,280
Change in fair value recorded in other comprehensive income	-966	2,419
Change in accrued interest	-122	432
Balance at Dec. 31	**169,438**	**157,441**

LOANS AND RECEIVABLES

€000	2015	2014
Balance at Jan.1	**23,207**	**26,917**
Term deposits		
Purchase	36,000	46,400
Maturity	-34,700	-50,100
Change in accrued interest	8	-10
Balance at Dec. 31	**24,515**	**23,207**

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

€000	31.12.2015	31.12.2014
up to 1 year	32,546	72,256
1-2 years	43,843	34,470
2-5 years	122,602	81,175
5-10 years	12,068	12,171
TOTAL	**211,059**	**200,072**

DEPOSITS BY MATURITY TERMS	31.12.2015	31.12.2014
Up to 6 months	13,015	23,207
6-12 months	11,500	-
TOTAL	**24,515**	**23,207**

	31.12.2015		31.12.2014	
€000	Fair value	Acquisition cost	Fair value	Acquisition cost
Financial assets measured at fair value through profit or loss				
Classified as held for trading				
Bonds and other interest-bearing securities	41,621	38,895	42,630	38,895
Available-for-sale financial assets				
Bonds and other interest-bearing securities	169,438	167,440	157,442	154,355
TOTAL	**211,059**	**206,335**	**200,072**	**193,250**
Loans and receivables				
Term deposits	24,515	24,500	23,207	23,200
FINANCIAL ASSETS TOTAL	**235,574**	**230,835**	**223,279**	**216,450**

BONDS WITH A FIXED INTEREST RATE, BY INTEREST RATES

Interest rate €000	31.12.2015	31.12.2014
Interest rate: 0.0-1.9%	36,560	98,313
Interest rate: 2.0-2.9%	41,371	54,102
Interest rate: 3.0-3.9%	15,303	20,951
Interest rate: 4.0-4.9%	10,024	4,455
Interest rate: 5.0-6.0%	1,163	1,173
TOTAL	**104,421**	**178,994**

Note 10. Property, plant and equipment

€000	Land	Buildings	Other PPE	TOTAL
Net book value 31.12.2013	**2**	**77**	**602**	**681**
Acquisition	-	-	541	**541**
Write-off	-	-	-415	**-415**
Disposal	-2	-142	-331	**-475**
Acquisition cost 31.12.2014	-	-	3,045	**3,045**
-incl. fully depreciated	-	-	1,783	**1,783**
Depreciation charge for the year	-	-2	-330	**-332**
Depreciation charge of sales and disposals	-	67	722	**789**
Accumulated depreciation 31.12.2014	-	-	-2,257	**-2,257**
Net book value 31.12.2014	**-**	**-**	**788**	**788**
Acquisition	-	-	347	**347**
Write-off	-	-	-411	**-411**
Disposal	-	-	-75	**-75**
Acquisition cost 31.12.2015	-	-	2,906	**2,906**
-incl. fully depreciated	-	-	1,639	**1,639**
Depreciation charge for the year	-	-	-340	**-340**
Depreciation charge of sales and disposals	-	-	455	**455**
Accumulated depreciation 31.12.2015	-	-	-2,141	**-2,141**
Net book value 31.12.2015	**-**	**-**	**765**	**765**

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Note 11. Liabilities related to insurance activities

€000	31.12.2015	31.12.2014
Liabilities related to direct insurance activities, incl.	**4,056**	**4,174**
-policyholders	2,961	2,976
-intermediaries	978	1,062
-others	117	136
Liabilities related to reinsurance	1,198	1,023
- incl. from related parties (Note 18)	682	549
Other liabilities	299	258
- incl. from related parties (Note 18)	141	132
TOTAL	**5,553**	**5,455**

All above mentioned liabilities are current liabilities.

Note 12. Accrued expenses and deferred income

€000	31.12.2015	31.12.2014
Taxes payable	433	760
Employee-related liabilities	545	517
Vacation and social tax reserve	919	837
Performance pay reserve (incl. wage-based taxes)	2,154	1,955
Other accrued expenses	466	556
TOTAL	**4,517**	**4,625**
Terms of liabilities		
Up to 12 months	4,517	4,625
Taxes payable are divided into the following categories		
Value added tax	59	40
Personal income tax	266	244
Social tax	23	22
Unemployment insurance	15	14
Funded pension	21	18
Corporate income tax	47	421
Other taxes	2	1
TOTAL	**433**	**760**

FINANCIAL STATEMENTS

Note 13. Liabilities related to insurance contracts and reinsurance assets

€000	31.12.2015	31.12.2014
Gross		
Provision for incurred and reported claims and claims handling expenses	58,488	56,320
Provision for incurred but not reported claims	26,087	25,096
Provision for unearned premiums	43,742	40,072
TOTAL	**128,317**	**121,488**
Reinsurer's share		
Provision for incurred and reported claims and claims handling expenses	1,448	2,252
Provision for incurred but not reported claims	274	260
Provision for unearned premiums	586	532
TOTAL	**2,308**	**3,044**
Net		
Provision for incurred and reported claims and claims handling expenses	57,040	54,068
Provision for incurred but not reported claims	25,813	24,836
Provision for unearned premiums	43,156	39,540
TOTAL	**126,009**	**118,444**

€000		2015	
Provision for incurred and reported claims,claims incurred but not yet reported (IBNR)and provision for claims handling expenses	**Liabilities arising from insurance contracts**	**Reinsurer's share of liabilities**	**Net**
Balance as of January 1	**81,416**	**-2,512**	**78,904**
Change in the provision for claims incurred but not yet settled, related to current year	14,909	-29	14,880
Change in the provision for claims incurred but not yet settled, related to previous years	-12,654	833	-11,821
Change in the provision for claims incurred but not reported, related to current year	8,774	-28	8,746
Change in the provision for claims incurred but not reported, related to previous years	-7,783	14	-7,769
Change in the provision for claims handling expenses	-87	-	-87
Balance as of December 31	**84,575**	**-1,722**	**82,853**

€000	2014		
Provision for incurred and reported claims,claims incurred but not yet reported (IBNR)and provision for claims handling expenses	**Liabilities arising from insurance contracts**	**Reinsurer's share of liabilities**	**Net**
Balance as of January 1	**80,150**	**-2,696**	**77,454**
Change in the provision for claims incurred but not yet settled, related to current year	15,118	-364	14,754
Change in the provision for claims incurred but not yet settled, related to previous years	-8,857	538	-8,319
Change in the provision for claims incurred but not reported, related to current year	8,103	-31	8,072
Change in the provision for claims incurred but not reported, related to previous years	-12,708	34	-12,674
Change in the provision for claims handling expenses	-390	-	-390
Translation difference	-	7	7
Balance as of December 31	**81,416**	**-2,512**	**78,904**

€000	2015		
Provision for unearned premiums	**Liabilities arising from insurance contracts**	**Reinsurer's share of liabilities**	**Net**
Balance as of January 1	**40,072**	**-532**	**39,540**
Premiums written in the year	133,200	-3,040	130,160
Premiums earned during the year	-129,530	2,986	-126,544
Balance as of December 31	**43,742**	**-586**	**43,156**

€000	2014		
Provision for unearned premiums	**Liabilities arising from insurance contracts**	**Reinsurer's share of liabilities**	**Net**
Balance as of January 1	**39,275**	**-687**	**38,588**
Premiums written in the year	122,574	-2,978	119,596
Premiums earned during the year	-121,777	3,130	-118,647
Translation difference	-	3	3
Balance as of December 31	**40,072**	**-532**	**39,540**

The development of claims: 2006 - 2015

The overview of claims 2006-2015 has been provided in the below tables. The claims have been presented separately for each year. For accident years older than 2006 only claim developments since 2006 are shown. The tables provides an overview of the accumulated estimates of claims development (claims paid, incl. recourses and salvages, provision for incurred and reported loss, and IBNR provision) on the gross and net basis. The information on the claims paid is presented in the last 2 tables of claims development disclosure. The tables do not include information on actual claims handling expenses and the provision for claims handling expenses.

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 2015. The company believes that the estimate of provision for outstanding claims as at the end of 2015 is adequate to cover claims incurred till the 31.12.2015 (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	...-2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
At 31 December										
Accident year*	80,389	85,252	94,668	78,364	71,683	66,946	68,357	72,737	69,821	76,735
1 year later	74,421	79,899	87,122	74,913	71,690	69,644	67,616	75,086	70,326	
2 years later	73,485	78,154	86,555	72,158	70,102	69,248	67,390	75,405		
3 years later	76,426	77,191	82,891	69,665	69,012	66,545	65,884			
4 years later	70,827	75,720	80,397	68,301	69,259	65,645				
5 years later	60,765	73,433	78,852	67,096	68,905					
6 years later	58,825	72,848	78,018	65,979						
7 years later	56,750	72,515	77,769							
8 years later	53,276	71,951								
9 years later	52,297									
Provision for outstanding claims (incl. IBNR) as of 31.12.2015	5,062	2,230	2,885	2,181	5,973	5,180	10,173	12,871	10,833	23,683

Development of claims, net

€000	...-2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
At 31 December										
Accident year*	62,111	82,518	89,978	77,294	71,365	66,527	68,032	72,110	69,381	76,676
1 year later	56,090	76,774	83,860	74,021	71,390	69,179	67,323	74,374	69,831	
2 years later	55,837	75,010	83,139	71,252	69,847	68,781	67,098	73,965		
3 years later	55,341	74,646	79,915	69,118	68,764	66,112	65,649			
4 years later	49,208	73,284	77,313	67,793	69,026	65,212				
5 years later	45,505	70,867	76,134	66,588	68,674					
6 years later	43,684	70,300	75,413	65,485						
7 years later	41,484	69,570	75,250							
8 years later	38,401	69,538								
9 years later	37,255									
Provision for outstanding claims (incl. IBNR) as of 31.12.2015	4,777	2,211	2,850	2,145	5,922	5,154	10,136	11,829	10,699	23,626

Claims paid, recourses and salvages (accumulated), gross

€000	...-2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
At 31 December										
Accident year*	59,588	52,815	57,927	48,947	46,732	47,296	43,432	46,648	46,600	53,052
1 year later	78,373	67,627	72,218	60,598	60,916	57,908	54,967	59,474	59,494	
2 years later	81,454	68,750	73,306	62,964	60,951	59,997	56,077	60,675		
3 years later	86,592	69,272	74,722	63,806	61,871	60,355	56,727			
4 years later	88,035	69,541	74,944	63,872	62,660	60,533				
5 years later	88,366	69,666	74,973	64,006	63,098					
6 years later	88,446	69,675	75,121	64,026						
7 years later	88,648	69,636	75,222							
8 years later	88,706	69,730								
9 years later	88,725									

Claims paid, recourses and salvages (accumulated), net

€000	...-2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
At 31 December										
Accident year*	52,095	52,455	57,528	48,744	46,548	47,285	43,273	46,574	46,555	53,050
1 year later	66,050	65,358	69,974	59,992	60,727	57,657	54,771	59,083	59,131	
2 years later	67,242	66,332	70,985	62,359	60,773	59,743	55,880	60,277		
3 years later	67,700	66,651	72,399	63,190	61,692	59,940	56,530			
4 years later	67,930	66,878	72,616	63,255	62,479	60,117				
5 years later	67,564	67,002	72,636	63,390	62,918					
6 years later	67,631	67,005	72,785	63,409						
7 years later	67,742	66,966	72,732							
8 years later	67,779	66,864								
9 years later	67,367									

Note 14. Corporate income tax

(A) INCOME TAX EXPENSE

€000	**2015**	**2014**
Current tax	791	975
Deferred tax	18	-48
TOTAL INCOME TAX EXPENSE	**809**	**927**
Specification of income tax expense		
Latvia	103	321
Lithuania	706	606
TOTAL	**809**	**927**

(B) RECONCILIATION OF TAX CHARGE

€000	2015	2014
Profit of Branches	**5,797**	**6,556**
Tax at 15%	**870**	**983**
Permanent differences	-24	-21
Temporary differences	-3	-1
Prior year tax adjustment	-29	-8
Donation	-5	-6
Differences arising from unrealized gains and losses	-	-20
TOTAL TAX CHARGE FOR THE YEAR	**809**	**927**

(C) DEFERRED TAX

€000	31.12.2015	31.12.2014
Deferred tax liability		
Accelerated capital allowances	22	24
Provision for amounts recoverable by subrogation	43	24
TOTAL DEFERRED TAX LIABILITY	**65**	**48**
Deferred tax asset		
Vacation reserve and other accruals	-167	-167
Doubtful debts	-48	-61
Asset valuation allowance for doubtful receivables	7	10
TOTAL DEFERRED TAX ASSET	**-208**	**-218**
NET DEFERRED TAX ASSET	**-143**	**-170**

SPECIFICATION OF DEFERRED TAXES

€000	2015	2014
Deferred tax liability		
Latvia	22	24
Lithuania	43	24
TOTAL	**65**	**48**
Deferred tax asset		
Latvia	-158	-148
Lithuania	-59	-70
TOTAL	**-217**	**-218**
Net deferred tax asset		
Latvia	-136	-124
Lithuania	-16	-46
TOTAL	**-152**	**-170**

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

€000	31.12.2015	31.12.2014
At 1 January	**421**	**24**
Calculated	790	973
Paid	-1,164	-576
At 31 December	**47**	**421**

Note 15. Investment into subsidiary

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

€000	31.12.2015	31.12.2014
Acquisition cost of shares	**88**	**88**
Number of shares	25,000	25,000
Participation	**100%**	**100%**
Total owner's equity	**254**	**2,656**
Share capital	25	25
Share premium	63	63
Mandatory reserve	3	401
Retained earnings	565	2,144
Profit for the period	-402	22
Investment in the company's statement of financial position	**88**	**88**

On 23 October 2015, the sole shareholder resolved the dividend to be paid out in amount of €2,000 thousand. Legal reserve was reduced by €398,707 to the level required by the Commercial Code of Estonia.

As of 1 January 2015 the number of issued shares was 25,000 shares with nominal value 1 EUR.

Note 16. Owner's equity

Share capital
As of 1 January 2015 the number of issued shares was of 6,391,165 with nominal value 1 EUR.

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

As of 31.12.2015, share premium amounted to €3,679 thousand (31.12.2014: €3,679 thousand).

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

As of 31.12.2015, mandatory reserve amounted to €2,362 thousand (31.12.2014: €2,362 thousand).

Retained earnings
On 25 March 2015, the sole shareholder resolved the dividend to be paid out in amount of €5,800 thousand and earnings after dividend's payment in amount of €92,979 thousand to be carried forward.

Dividends paid and proposed

€000	2015	2014
Declared and paid during the year	5,800	3,000
Final equity dividend per ordinary share	€0.9075	€0.4694

The company's potential income tax liability
As of 31.12.2015 the company's retained earnings amounted to €112,904 thousand (2014: €98,779thousand). Undistributed profit from Estonian activities amounts to €106,402 thousand (2014: €91,673 thousand).

The maximum possible income tax liability in Estonia related to the payment of the company's retained earnings, excluding retained earnings of Latvian and Lithuanian branches, as dividends is €21,183 thousand (2014: €18,335 thousand). The company could thus pay total €91,721 thousand (2014: €78,967 thousand) in net dividends including profits of branches in amount of €4,988 thousand (2014: €5,629 thousand) taxed already in Latvia and Lithuania and already taxed in subsidiary dividend in amount of 2,000 thousand.

The maximum possible income tax liability has been calculated based on the assumption that the net dividends to be paid, and the related total income tax expenses to be recorded in the statement of comprehensive income in 2016, would not exceed the retained earnings as of 31.12.2015.

The profit available for distribution may be further limited by the solvency margin requirements.

Note 17. Operating lease

The company leases office space and passenger cars under operating lease terms. Total rental expenses carried in the Company's income statement amount to €1,664 thousand (2014: €808 thousand).

As of 31.12.2015, the company had the following deferred liabilities arising from operating lease contracts:

- up to 1 years	€1,439	thousand	(as of 31.12.2014	€585 thousand)
- 1 to 5 years	€1,472	thousand	(as of 31.12.2014	€1,248 thousand)

Note 18. Related party transactions

1. Information about related companies

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

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

The holding company owns also If IT Services A/S which is located in Copenhagen, Denmark, and its line of business is to purchase IT operation services for the If Group's companies in the Nordic and Baltic area.

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

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

The Company concluded agreements with such Sampo subsidiaries operating in life insurance as Mandatum Life Insurance Baltic SE, located in Estonia, Mandatum Life Insurance Baltic SE, Latvian branch and Mandatum Life Insurance Baltic SE, Lithuanian branch regarding the marketing and sales of products through its own distribution channels. The compensation takes the form of commission.

Relations with Nordea
Nordea is a company associated with Sampo, so is a company realted to If. Nordea distributes If's P&C insurance products through its banking offices in Sweden, Finland and the Baltics. The compensation takes the form of commission.

Nordea is a banking partner of the Company and agreements have been concluded covering the management of bank accounts and related services.

In asset management, investments are made by the Company in floating rate notes and deposits issued by companies in the Nordea Group.

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

2. Transactions with members of the Management Board and members of the Supervisory Board

The Management Board members received a total of €1,294 thousand in remuneration in 2015, including social tax (2014: €1,085 thousand). No termination benefits were paid to members of the Management Board during 2015 (2014:0). According to the conditions of the contract concluded with the members of the Management Board, termination benefit up to 12 months shall be paid if the contract is terminated. No remuneration was paid to members of the Supervisory Board in 2015 and 2014.
Insurance contracts with total premiums of € 12 thousand were concluded with the Management Board members in the financial period (2014: €9 thousand).

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

3. Transactions with other group or related companies

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

€000	Calculated reinsurance premiums 2015	Calculated reinsurance premiums 2014	Indemnifications and commissions received 2015	Indemnifications and commissions received 2014
If P&C Insurance Ltd (Sweden)	1,994	1,806	1,099	17
If P&C Insurance Company Ltd (Finland)	37	135	3	10

Receivables and payables related to the above transactions as of 31.12.2015 and 31.12.2014:

€000	31.12.2015	31.12.2014
Receivables		
If P&C Insurance Ltd (Sweden)	1	11
Payables		
If P&C Insurance Ltd (Sweden)	682	549

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

€000	Services purchased 2015	Services purchased 2014	Services rendered 2015	Services rendered 2014
Mandatum Life Insurance Baltic SE	-	-	16	25
Nordea Group companies	455	424	559	559
If P&C Insurance Ltd (Sweden)	-	-	144	306
If P&C Insurance Company Ltd (Finland)	-	-	-	9
Sampo plc.	463	423	-	-
If IT Services	97	-	24	79
Support Services AS	1	3	36	36

Receivables and payables related to the above transactions as of 31.12.2015 and 31.12.2014:

€000	31.12.2015	31.12.2014
Receivables		
Mandatum Life Insurance Baltic SE	-	3
Nordea Group companies	48	43
If P&C Insurance Ltd (Sweden)	36	89
Support Services AS	1	-
Payables		
Nordea Group companies	21	21
Sampo Plc.	120	111

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

€000	31.12.2015	31.12.2014
Financial assets		
Nordea Group companies	34,532	31,132

€000	2015	2014
Investment income/expense		
Nordea Group companies	32	140

Building a better
working world

Ernst & Young Baltic AS
Rävala 4
10143 Tallinn
Eesti

Tel: +372 611 4610
Faks: +372 611 4611
Tallinn@ee.ey.com
www.ey.com

Äriregistri kood: 10877299
KMKR: EE 100770654

Ernst & Young Baltic AS
Rävala 4
10143 Tallinn
Estonia

Phone: +372 611 4610
Fax: +372 611 4611
Tallinn@ee.ey.com
www.ey.com

Code of legal entity: 10877299
VAT payer code: EE 100770654

Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of If P&C Insurance AS

We have audited the accompanying financial statements of If P&C Insurance AS, which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of If P&C Insurance AS as at 31 December 2015, 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.

Tallinn, 23 February 2016

Ivar Kiigemägi
Authorised Auditor's number 527
Ernst & Young Baltic AS
Audit Company's Registration number 58

Tiina Leif
Authorised Auditor's number 441

PROPOSAL FOR THE DISTRIBUTION OF THE PROFIT

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

Profit carried forward	€ 92,978,186
Net profit for the financial year 2015	€ 19,925,533
Total profit available for distribution as of 31.12.2015:	**€ 112,903,719**

The Management Board proposes:

to distribute as dividends to the sole shareholder	€ 6,900,000
to carry forward	€ 106,003,719

Andris Morozovs
Chairman of the Management Board

Dace Ivaska
Member of the Management Board

Sanita Ķēniņa
Member of the Management Board

Žaneta Stankevičienė
Member of the Management Board

Heinar Olak
Member of the Management Board

Artur Praun
Member of the Management Board

Jukka Tapani Laitinen
Member of the Management Board

Ville Valtteri Haapalinna
Member of the Management Board

Tiit Kolde
Member of the Management Board

SIGNATURES TO THE ANNUAL REPORT 2015

The Management Board of If P&C Insurance AS has prepared the management report and financial statements for 2015.

Signatures:

Heinar Olak	Member of the Management Board		23.02. 2016
Artur Praun	Member of the Management Board		23.02. 2016