SEESAM INSURANCE AS

ANNUAL REPORT

2014

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Commercial registry number:	10055752
Financial year:	1 January 2014 - 31 December 2014
Legal address:	Vambola 6 10114 Tallinn Republic of Estonia
Telephone:	+372 6 281 800
Fax:	+372 6 312 109
E-mail:	seesam@seesam.ee
Website:	www.seesam.ee
Core business:	Non-life insurance
Chairman of the management board:	Toomas Abner
Auditor:	KPMG Baltics OÜ

Accompanying documents:

1. Independent auditors' report
2. Profit allocation proposal
3. List of business activities

CONTENTS

REPORT BY THE MANAGEMENT BOARD

Seesam Insurance AS ('Seesam' or 'the company') strives to be a company that is easy to communicate with.
Seesam's mission is to

Offer its customers a sense of security
Be the best employer
Be a reliable partner
Be an ethical and forward-looking company

Seesam Insurance AS is a company incorporated and registered in Estonia, which provides insurance services in Estonia and, through its branches, in Latvia and Lithuania. Seesam has a total of 28 sales and customer services offices across the Baltic countries.

Seesam was founded in 1991 and its sole owner is Pohjola Insurance Ltd (Finland). Seesam is part of the leading Finnish financial services group, OP-Pohjola Group. OP-Pohjola Group offers a diverse range of banking, asset management and insurance services to companies and individuals.

OPERATING ENVIRONMENT AND THE INSURANCE MARKET

Despite the difficulties of their export markets, the Baltic countries have posted relatively strong economic growth rates. This is particularly true about Lithuania whose preliminary 2.9% GDP growth figure is among the highest in the EU. The preliminary GDP growth rates for Estonia and Latvia are 1.8% and 2.4% respectively. Companies are again earning a profit, interest rates are very low, salaries are increasing at a moderate pace and the purchasing power of households has improved. Accelerating domestic consumption is one of the key drivers of the Baltic economies' more solid performance.

The economic forecast for the next few years is quite similar to the one for 2014. Analysts do not expect economic growth to increase substantially, mostly due to geopolitical instability and its impacts on the Baltic countries as well as their export markets. Lithuania's adoption of the euro from the beginning of 2015 will have a positive effect on credit market interest rates and will thus add momentum to the economy of the largest Baltic country.

In 2014, the Baltic non-life insurance market was more volatile than the year before. The period began quite optimistically in Latvia and particularly Lithuania but in the second half-year the growth trends took a nosedive. In Estonia, by contrast, the insurance market grew surprisingly vigorously. Compared to the year before, gross premiums written in 2014 grew by 7.0% in Estonia, 1.3% in Lithuania and 7.7% in Latvia. An important factor in all countries was PZU's acquisition of RSA's assets, a prolonged business combination that caused upheaval in the whole market. The growth aspirations of the new market entrants do not have a good effect on the health of the insurance market – for example, compulsory motor liability insurance has been a source of increasing losses in recent years.

In terms of gross premium income, Seesam's market share was 10.3% in Estonia (market shares have been determined taking into account premiums written by foreign insurers' branches), 6.4% in Latvia and 3.7% in Lithuania.

HIGHLIGHTS OF THE YEAR

Seesam sustains its position as a highly appreciated service provider

Quality service and satisfied customers are very important for Seesam. We strive to maintain high customer satisfaction and work daily to ensure it.

Similarly to previous years, we participated in the Month of Good Service campaigns in Estonia and Latvia and received excellent feedback. In Latvia our branch received The Most Recommended Company 2014 award and in Estonia our head office received the Customers Praise 2014 award.

European Business Awards competition

For the first time, Seesam's Latvian branch participated in the international European Business Awards competition where it was named a National Champion in The Award for Customer Focus category. For Seesam, this title is the first step – we are going to continue competing to be named the best in Europe.

Journey of the song festival flame

Undoubtedly, in Estonia the key event of 2014 was the XXVI Song and XIX Dance Festival that was preceded by the Journey of the Flame ceremony in which local choirs, dance groups and orchestras carried the festival flame from Tartu to Tallinn in a bicycle relay lasting from 15 June to 4 July. Seesam helped ensure the safety of the torch relay by supplying the cyclists with proper song festival helmets. We also drew attention to the safety of cycling by supplying the participants with bicycle bells. The lively undertaking culminated in a raffle held at the end of the Song Festival where the prize was a fine bicycle.

Designated driver campaign

It has become Seesam's tradition to support the designated driver campaign that urges people to be the sober driver for their friends during the Midsummer festivities and to make sure that none of the company drive under the influence of alcohol. In 2014 a total of 2,487 designated friend drivers registered, which is again more than the year before.

Traffic safety campaign

In October, Seesam joined the Estonian Road Administration's traffic safety campaign, which is aimed at improving the visibility of pedestrians in the dark by using reflectors, reflective vests and similar items and reducing accidents involving pedestrians. Seesam supported the campaign with 10,000 reflectors. In addition to insurance companies, the initiative was endorsed by the Police and Border Guard Board that supported it through its representatives and various activities. The campaign is scheduled to last all through the dark season and will thus continue in the first months of 2015.

Farmer insurance

Inspired by the popularity of Seesam's farmer insurance in Latvia, in 2014 we participated not only in the Latvian agricultural fairs but also in the Estonian rural fair "Maamess" and the Lithuanian farmers fair "Ka pasesi 2014", where we introduced various agriculture-related products and services in partnership with Pohjola bank and Pohjola leasing.

Giving back to community

In the second half of the year, we began working with the Latvian charity organisation Ziedot.lv. By purchasing beautiful hand-made souvenirs we support people in need.

During the period, we also began cooperating with the team of balticmarathons.com and supported a series of Latvian marathons: running, cycling and roller skating. By supporting these events, we could introduce Seesam's products to a broad audience and directly communicate with a target group.

In Lithuania, we continued to support the traditional Culture Night festival and the concerts of the Bel Canto choir by helping with online and printed advertising and assisting during the events.

We also participated in the career day event of Vilnius University, the largest higher education establishment in Lithuania, which was aimed at informing students about labour market opportunities. In the framework of the event, students visited our office where they were informed about employment options available in the insurance sector.

Seesam had its own stand also at the Estonian Career Fair where we provided information about jobs at Seesam.

In November, Seesam's Lithuanian claims handling department was visited by the students of Mykolas Romeris University who were interested in claims handling and the insurance business.

KEY PERFORMANCE INDICATORS

In millions of euros	2014	2013
Gross premiums written	56.6	53.5
Net earned premiums	52.4	49.3
Claims and claims handling costs incurred	33.1	30.6
Net claims and claims handling costs incurred	33.3	29.8
Net profit for the year	3.9	2.6
Insurance contract liabilities (net of reinsurance)	42.9	41.6
Investments in financial instruments	69.3	64.7
Operating expenses	17.2	18.0
Net loss ratio[1] (%)	63.6	60.5
Net expense ratio[2] (%)	32.3	32.9
Combined ratio[3] (%)	95.9	93.4

FINANCIAL PERFORMANCE

Seesam Insurance AS ended 2014 with a net profit of 3.9 million euros. Compared with the year before, the loss ratio rose noticeably while the expense ratio was kept low and investment income almost doubled.

Premium income

Seesam's main classes of insurance are compulsory motor liability, comprehensive motor vehicle, individuals' and legal persons' property, health, travel, accident and liability insurance. Less significant classes include guarantee, goods in transit and small boat insurance.

In the reporting period, motor liability and comprehensive vehicle insurance accounted for 54.0% of Seesam's insurance portfolio. Legal persons' property and construction risks insurance with

[1] Net claims and claims handling costs incurred / net earned premiums

[2] (acquisition costs and administrative expenses – reinsurance commissions and profit participation) / net earned premiums

[3] Net expense ratio + net loss ratio

individuals' home insurance accounted for 25.5%, short-term health insurance with travel and accident insurance accounted for 15.7% and other classes for 4.8% of the portfolio.

In 2014, gross premiums written by Seesam in the three Baltic countries totalled 56.6 million euros (6% up on 2013). Gross premium income earned in Estonia accounted for 48% of Seesam's insurance portfolio while the respective contributions of Lithuania and Latvia were 25% and 27%.

Claims

Claims and handling costs paid in 2014 totalled 33.3 million euros (2013: 29.6 million euros). Motor liability insurance and comprehensive vehicle insurance accounted for 60.7% of claims paid while legal persons' property and construction risks insurance with individuals' home insurance accounted for 22.7%, short-term health, travel and accident insurance accounted for 14.2% and other classes accounted for a total of 2.4% of claims paid. The ratio of claims paid and claims handling costs to gross premiums written was 58.9%.

Claims incurred and claims handling costs (net of reinsurance) totalled 33.3 million euros (2013: 29.8 million euros) and the net loss ratio rose to 63.6% (2013: 60.5%).

Expenses

Seesam's operating expenses for the year totalled 18.1 million euros. The net expense ratio was 32.3% and the combined ratio was 95.9% (2013: 32.9% and 93.4% respectively). The expense ratio for 2013 has been determined excluding the exceptional impairment loss on the building at Vambola 6 in Tallinn.

Insurance contract acquisition costs amounted to 11.6 million euros and the ratio of acquisition costs to gross premiums written was 20.6%. (2013: 11.1 million euros and 20.7% respectively). Administrative expenses totalled 5.4 million euros and investment management expenses amounted to 0.1 million euros (2013: 6.7 million euros including the impairment loss on the building of 1.5 million euros and 0.1 million euros respectively).

Investments in financial instruments

At 31 December 2014, the carrying amount of Seesam's investments in financial instruments was 69.3 million euros, 4.6 million euros up on the end of 2013 when the figure was 64.7 million euros. The investments comprised government bonds (24.4%), debt securities issued by companies (13.4%) and financial institutions (43.4%), equities and fund units (18.5%) and other investments (0.3%).

Investments cover Seesam's insurance contract liabilities (net of reinsurance) 1.6-fold and the minimum solvency margin requirement is satisfied 3.9-fold (2013: 1.6-fold and 3.7-fold respectively). Seesam's investment income for 2014 amounted to 2.0 million euros (2013: 1.0 million euros).

PEOPLE

Through the years, Seesam's success has been underpinned by its competent and friendly staff. To maintain excellent service quality and first-rate employee competencies, the period's main focus was on developing our people's insurance-related expertise.

One of the tools by which we support continuous employee development is our sales staff training programme that was updated two years ago. In 2014 we focused mostly on legal persons' property and liability insurance solutions. A lot of attention was also paid to improving the insurance knowledge and risk management skills of our sales support teams.

Seesam's human resource activities are designed to support the business and help achieve the company's strategic objectives. As an employer, we wish to be flexible and offer our staff the best possible working conditions. By this we can maintain and increase employee satisfaction with all aspects of work.

In 2014, employee satisfaction was assessed slightly differently. The primary difference lay in the scope of the survey and the number of times it was performed. A simpler but more specific pulse survey was carried out twice. Seesam's overall pan-Baltic employee satisfaction index for 2014 was 4.2 on a 5-point scale. The highest points were awarded to support received from colleagues and direct supervisors.

We think about our internal climate already during the recruitment process where a lot of attention is paid to prospective employees' personal qualities and willingness to engage in customer service. Seesam has put in place an induction programme that helps new staff adjust smoothly to both the organisation and their responsibilities.

At the end of 2014, Seesam had a total of 352 employees across the Baltics.

In Estonia, the year-end headcount was 160 including 97 sales staff. Seesam has 12 offices in 11 cities across Estonia. Most of the staff (around 63%) work in Tallinn.

The Latvian branch employs 96 people including 44 sales staff. In Latvia, Seesam has five customer service offices, which are located in Riga, Liepaja, Daugavpils, Valmiera and Ventspils.

In Lithuania, two customer services offices were closed in the preceding year. At the end of 2014, the remaining ten customer service offices employed 96 people including 48 sales staff.

Women account for 73% of Seesam's personnel and the proportion is similar in all three countries. The average age of the staff is 38, being the highest in Estonia where it is 43 while in both Latvia and Lithuania the figure is 34. The average length of employment is 6.4 years. By country, respective figures are 8.3 years in Estonia, 5.0 years in Latvia and 4.8 years in Lithuania.

MANAGEMENT

In 2014, Seesam's supervisory board had the following members:

Mr Olli Ilmari Lehtilä, member of the supervisory board from 24 October 2014, chairman of the supervisory board from 3 November 2014
Mr Jouko Markku Kalevi Pölönen
Mr Vesa Tapio Aho
Mr Jorma Juhani Alanne

In 2014, Seesam's management board had the following members:

Mr Toomas Abner – chairman of the management board
Mr Aigars Freimanis
Mr Andri Püvi
Ms Brigita Elona Blavaščiūnienė

OUTLOOK FOR 2015

We expect that in the next few years, premiums written in the Baltic non-life insurance market will grow by 4-6% on average. Market growth will be faster in Latvia and Lithuania and slightly slower in Estonia. The rise will be supported by growth in the Baltic GDPs, which we expect to be driven by domestic consumption and to a lesser extent by exports. It is likely that growth in premiums written will also result from a price increase in some insurance classes.

We expect claims paid to increase in proportion to sales growth. A relatively mild winter, which has a direct impact on the frequency of losses incurred in different classes of motor and property insurance, provides grounds for such a forecast.

Competition in the Baltic insurance markets will intensify. Compensa will sustain its aggressive pricing of property insurance in the Latvian and Lithuanian markets and will launch it also in the Estonian market. The merger of PZU and RSA could subdue competition somewhat but this will probably remain a theoretical scenario only.

Stiff competition will keep insurance prices low, both as regards products designed for individuals and those offered to companies. Price competition is further escalated by the large proportion of policies sold through brokerage channels. Nevertheless, we expect a certain price increase in motor liability and comprehensive vehicle insurance where the insurance result for the market as a whole has been weak in recent years.

Seesam's priorities have not changed – in 2015 we will do our best to maintain a high level of customer service both in claims handling and sales. We expect to achieve certain sales growth but the main focus will be on risk selection, pricing and ensuring moderate profitability.

For years, Seesam's claims handling has been recognised as one of the best in the market. In 2015 we intend, at the minimum, to maintain the standard achieved.

ANNUAL FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

	Note	2014	2013
Gross premiums written	4	56,600,600	53,478,264
Written premiums ceded to reinsurers	4	-2,996,894	-2,974,717
Change in the provision for unearned premiums	4	-1,194,545	-1,178,339
Reinsurers' share of change in the provision for unearned premiums	4, 17	1,971	2,545
Net earned premiums		**52,411,132**	**49,327,753**
Investment income, net	5	1,967,568	997,460
Other operating income	6	218,066	242,623
Total income		**54,596,766**	**50,567,836**
Claims and claims handling costs incurred	7	-33,083,522	-30,649,641
Reinsurers' share of claims and claims handling costs incurred	7	-225,409	828,746
Net claims and claims handling costs incurred		**-33,308,931**	**-29,820,894**
Acquisition costs	8	-11,656,230	-11,068,562
Administrative expenses	8	-5,364,316	-6,741,597
Investment management expenses	8	-143,532	-143,532
Total operating expenses		**-17,164,078**	**-17,953,691**
PROFIT BEFORE INCOME TAX		**4,123,757**	**2,793,251**
INCOME TAX EXPENSE	22	**-219,417**	**-150,600**
NET PROFIT FOR THE YEAR		**3,904,340**	**2,642,651**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,904,340**	**2,642,651**

The notes on pages 14 to 53 are an integral part of these financial statements.

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STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	2014	2013
ASSETS			
Property and equipment	10	3,136,125	3,250,204
Intangible assets	11	671,649	669,824
Intangible insurance assets	11	2,310,619	2,246,089
Investments in financial instruments			
Equities and fund units at fair value through profit or loss	12, 13	12,844,687	9,597,228
Debt securities at fair value through profit or loss	12, 13	56,277,915	54,961,829
Available-for-sale financial assets	13	35,000	35,000
Term deposits	13	140,110	141,198
Total investments in financial instruments		**69,297,712**	**64,735,255**
Other receivables	15	1,595,139	1,130,056
Prepaid taxes		49,584	52,676
Reinsurance assets	15	3,185,416	3,476,624
Receivables from reinsurers	15	1,111	112,997
Receivables from policyholders and insurance brokers	15	3,886,406	3,718,420
Cash and cash equivalents	14	3,043,705	3,032,987
Deferred tax assets	22	30,574	0
TOTAL ASSETS		**87,208,040**	**82,425,132**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	3,000,000	3,000,000
Statutory capital reserve	16	1,009,886	1,009,886
Retained earnings (prior years)		29,144,622	26,501,971
Profit for the year		3,904,340	2,642,651
Total equity		**37,058,848**	**33,154,508**
Liabilities			
Insurance contract liabilities	17	46,068,596	45,113,698
Payables to reinsurers	15	189,030	143,352
Other insurance payables	18	2,071,578	1,878,156
Payables to suppliers and other payables	19	1,032,878	1,344,898
Other provisions	19	517,675	505,876
Taxes payable	19	261,734	267,147
Deferred tax liabilities	22	7,701	17,497
Total liabilities		**50,149,192**	**49,270,624**
TOTAL EQUITY AND LIABILITIES		**87,208,040**	**82,425,132**

The notes on pages 14 to 53 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Note	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Insurance premiums received		54,617,187	51,742,478
Reinsurance premiums paid		-2,494,369	-2,747,842
Claims and claims handling costs paid		-31,580,339	-27,505,266
Paid in operating expenses		-17,104,859	-16,368,763
Interest received		1,614,497	1,683,412
Purchases and sales of equities and fund units, net		-2,562,080	0
Cash flows from debt instruments and term deposits		-1,908,247	-6,166,818
Investment management expenses paid	8	-143,532	-143,532
Net cash from operating activities		**438,258**	**493,669**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment and intangible assets		-415,341	-658,708
Net cash used in investing activities		**-415,341**	**-658,708**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of finance lease liabilities including initial down payments		-12,199	-20,644
Net cash used in financing activities		**-12,199**	**-20,644**
NET CASH INFLOW/OUTFLOW		**10,718**	**-185,683**
Cash and cash equivalents at beginning of year		3,032,987	3,218,670
Cash and cash equivalents at end of year	14	3,043,705	3,032,987
INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		**10,718**	**-185,683**

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STATEMENT OF CHANGES IN EQUITY

	Share capital	Statutory capital reserve	Retained earnings	Total
At 31 December 2012	**3,000,000**	**1,009,886**	**26,501,971**	**30,511,857**
Profit for the year	0	0	2,642,651	**2,642,651**
Total comprehensive income for the year	0	0	2,642,651	**2,642,651**
At 31 December 2013	**3,000,000**	**1,009,886**	**29,144,622**	**33,154,508**
Profit for the year	0	0	3,904,340	**3,904,340**
Total comprehensive income for the year	0	0	3,904,340	**3,904,340**
At 31 December 2014	**3,000,000**	**1,009,886**	**33,048,962**	**37,058,848**

For further information on share capital and equity, please refer to note 16.

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Note 1. Significant accounting policies

Seesam Insurance AS is a company incorporated and registered in Estonia, which provides insurance services in Estonia and, through its branches, in Latvia and Lithuania. The annual financial statements of Seesam Insurance AS for 2014 comprise the figures of Seesam Insurance AS's Estonian entity and the figures of its Latvian and Lithuanian branches.

1. Statement of compliance and basis of preparation

1.1. Statement of compliance

These financial statements for 2014 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU). The accounting policies set out below have been applied consistently to all periods presented in these financial statements unless indicated otherwise.

Under the Estonian Commercial Code, final approval of the annual report including the financial statements, which has been prepared by the management board and approved by the supervisory board, rests with the general meeting. Shareholders may decide not to approve the annual report that has been prepared and submitted by the management board and may demand preparation of a new annual report.

The management board authorised these financial statements for issue on 17 March 2015.

1.2. Basis of preparation

The financial statements of Seesam Insurance AS have been prepared under the historical cost convention, except for the following assets that are measured at fair value:

- financial assets at fair value through profit or loss;
- available-for-sale financial assets, except for those financial assets whose fair value cannot be determined reliably.

Several International Financial Reporting Standards as adopted by the European Union require management to use judgements, estimates and assumptions. Although the estimates are based on management's best judgement, actual results may differ from these estimates. Revisions to accounting estimates are recognised in profit or loss in the period in which the estimate is revised. Further information on estimates and assumptions is disclosed in note 2 and measurement of investments in financial instruments is described in note 12.

1.3. Branches

A branch is an economic entity established for offering services on behalf of a company. A branch is not an independent legal person. The company is liable for the obligations arising from the activities of its branch. The accounts of foreign branches are maintained separately. Branches prepare their financial statements for the same periods and using the same accounting policies as the company except for the policy for the recognition of gross premiums (see policy 4.1). Any balances, income and expenses and gains and losses arising from intra-company transactions are eliminated in full.

2. Functional and presentation currency

The company's presentation currency is the euro (EUR). Each entity determines its own functional currency and records items in its financial statements using that functional currency. Accordingly, the assets and liabilities of foreign branches, including fair value adjustments, are translated to euros at foreign exchange rates ruling at the reporting date.

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At 31 December 2014, the exchange rate of the Lithuanian litas was: EUR 1 = LTL 3.4528
On 1 January 2014, the Republic of Latvia joined the euro area and the Latvian lats (LVL) was replaced by the euro. Accordingly, as from that date the company's Latvian branch converted its accounting into euros and its financial reporting for 2014 and subsequent years is and will be prepared in euros.

The official exchange rate for the adoption of the euro was 0.702804 Latvian lats to 1 euro.

A transaction in a foreign currency is recorded in the functional currency by applying the exchange rate quoted by the European Central Bank at the date of the transaction. In the statement of financial position, monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rates of the European Central Bank ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in profit or loss in the period in which they arise.

In these financial statements all figures are presented in euros unless indicated otherwise.

3. Cash and cash equivalents

In the statement of financial position and the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits with banks. The statement of cash flows is prepared using the direct method.

4. Insurance contracts

Contracts under which the company 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 are classified as insurance contracts. The company issues short-term insurance contracts which mostly provide cover against damage to or loss of property, the liability of persons or short-term damage to health. All contracts issued by the company in 2014 and 2013 qualify as insurance contracts under IFRS 4.

4.1. Insurance premiums

Gross premiums written comprise premiums and premium instalments received and receivable that fall due in the reporting period. If the due date of a premium or the first premium instalment is later than the effective date of the insurance contract, premium income is recognised by reference to the effective date of the contract.

At the Latvian and Lithuanian branches, the total amount of gross premiums receivable under an insurance contract is recognised as income when the contract is signed, regardless of whether some or all of the instalment payments fall due during the reporting period.

Where a contract does not enter into force, premium income and receivables from policyholders are reduced by the amounts already recorded for the contract. In the case of cancellation, premium income is recognised until the date of expiry (cancellation) of the contract.

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4.2. *Claims*

When a claim incurred from an insured event is settled, the payment is recognised in claims incurred in the statement of comprehensive income.

Until the settlement decision is made, the estimated amount of claims incurred is reported in the provision for claims outstanding. Changes in the provision for claims outstanding are reported in the statement of comprehensive income. When a settlement decision has been made, the claim is reclassified from the provision for claims outstanding to *Other insurance payables*. See also note 2.2 for salvage and subrogation receivables, which are recognised as a reduction of claims incurred.

4.3. *Insurance provisions*

4.3.1. *Provision for unearned premiums*

The provision for unearned premiums is established for covering the costs of the insured events of contracts in force that have not occurred by the reporting date and for related contract management expenses. The unearned premiums provision is calculated in all lines of business under the 365-day *Pro Rata Temporis* method. An unearned premium provision of an individual policy represents the same percentage of the gross premium of the policy as the duration of the policy after the reporting date represents of the total duration of the policy.

4.3.2. *Provision for claims outstanding*

The provision for claims outstanding consists of three components.

a) The provision for claims reported but not settled is set up to cover the final or estimated costs of claims that have been reported before the reporting date but are still being handled.
b) The provision for claims incurred but not reported (IBNR) is set up separately for each insurance class to indemnify claims that have been incurred before the reporting date but have not been reported to the insurance company. The methods of estimating IBNR depend on the insurance class. IBNR is calculated using statistical methods, taking into account the length of the notification period, the estimated amount of the claim, the loss ratio, premiums earned and other parameters.
c) The provision for indirect claims handling costs is designed to cover the indirect handling costs of claims reported but not settled and claims incurred but not reported before the reporting date.

The provision for claims outstanding is not discounted except for the portion relating to the annuities arising from the Motor Insurance Act. The provision for claims outstanding is not reduced by the value of probable salvage and subrogation recoveries, except for Lithuania where the provision for claims outstanding is reduced by the weighted average value of subrogation receivables that are expected to be recoverable in connection with claims that have not yet been fully settled.

4.3.3. *Unexpired risk provision*

Provision is made for unexpired risks where estimates indicate that the unearned premiums provision or the provision for claims outstanding is not sufficient for covering the claims incurred after the reporting date in respect of insurance contracts that entered into force before the reporting date and associated contract management expenses. Where the liability adequacy test (LAT) indicates that the liabilities are inadequate, the unexpired risk provision is created without reducing deferred acquisition costs.

5. *Reinsurance commissions*

Reinsurance commissions are recognised based on the amounts fixed in the contracts made with reinsurers. Reinsurance commissions receivable are recognised in the statement of financial position when the contractual right to demand payment is established, i.e. when an insurance contract has been signed with the customer in conformity with the agreed terms and conditions and the related reinsurance premium has been recognised. Reinsurance commissions receivable are initially

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Date/kuupäev.......19.03.2015.........
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recognised at their fair value together with any directly attributable transaction costs and are measured thereafter at their amortised cost.

6. *Receivables from reinsurance contracts*

Reinsurers' share of an insurance provision (a receivable under a reinsurance contract) is calculated based on the proportion of the insured amount that exceeds risk retention. In the case of unearned premiums, a receivable from a reinsurance contract makes up the same percentage of the reinsurance premium as the unexpired portion of the reinsurance contract makes up of the total effective term of the reinsurance contract of the underlying insurance contract. If a claim in the provision for claims outstanding exceeds the company's retention level, the portion that exceeds the retention is recognised as a reinsurance receivable. Estimated reinsurance receivables are also recognised for unreported claims.

Receivables arising under reinsurance contracts that are related to insurance provisions are recognised in the statement of financial position in *Reinsurance assets*.

Any impairment losses are recognised in profit or loss.

7. *Financial assets*

Financial assets comprise cash and cash equivalents, deposits with credit institutions, receivables and investments in securities.

Purchases and sales of financial assets are recognised at the trade date i.e. at the date the company commits itself (e.g. signs a contract) to purchase or sell a financial asset. Financial assets that are transferred are derecognised on the trade date.

Based on the purpose of their acquisition and management's intentions, all investments in securities have been classified as financial assets at fair value through profit or loss or available-for-sale financial assets.

7.1. *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading (i.e. assets acquired principally for the purpose of selling or repurchasing in the near term, assets that are part of a portfolio of financial instruments that are managed together; or derivative instruments that are not hedging instruments) as well as other financial assets that are designated as at fair value through profit or loss upon initial recognition. Financial assets belonging to this category are initially recognised at fair value excluding the transaction costs. After initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss (in *Investment income*).

7.2. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised initially at fair value plus any transaction costs. After initial recognition, loans and receivables are measured at their amortised cost using the effective interest rate method. The method is used to calculate interest income on the assets in subsequent periods. Any impairment losses are recognised in profit or loss.

7.3. *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified to any other category of financial assets. After initial recognition available-for-sale financial assets are measured at fair value. Any changes in fair value are recognised in other comprehensive income. If the fair value of equity instruments cannot be measured reliably, the instruments are measured at cost.

In the reporting period, the company had no financial assets that were classified as held-to-maturity investments.

8. *Offsetting*

A financial asset and a financial liability are offset only when there is a legally enforceable right to set off the recognised amounts, and there is an intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

9. *Financial liabilities*

All financial liabilities (trade payables, other short- and long-term financial liabilities, loans received, debt securities issued) are initially recognised at their fair values less the transaction costs and are subsequently measured at their amortised cost using the effective interest rate method. As a rule, the amortised cost of a short-term financial liability equals its nominal value. Therefore short-term financial liabilities are measured in the statement of financial position in the amount payable. Long-term financial liabilities are initially recognised at their fair value less the transactions costs and are subsequently measured at their amortised cost using the effective interest rate method.

10. *Statutory capital reserve*

The capital reserve has been set up in line with the requirements of the Estonian Commercial Code. Each financial year, the company has to transfer at least one-twentieth of net profit for the period to the capital reserve until the reserve reaches one-tenth of share capital. The capital reserve may be used to cover losses or to increase share capital. It cannot be distributed to shareholders. Transfers to the capital reserve are made from the net profit reported in the annual financial statements that have been approved by the general meeting.

11. *Foreign currency transactions*

Transactions in foreign currencies are recorded using the exchange rates of the central banks at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to euros at the central bank exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income as income and expenses respectively in the period in which they arise.

12. *Intangible assets*

12.1. *Intangible assets*

An intangible asset is initially recognised at cost. The cost of an intangible asset comprises its purchase price and any directly attributable acquisition costs. After initial recognition, an intangible asset is carried at cost less any accumulated amortisation and impairment losses. Intangible assets are amortised using the straight-line method. Amortisation rates are determined by reference to the useful life of the asset. As a rule, useful lives extend from 3 to 5 years. Amortisation expense is recognised within administrative expenses.

12.2. *Intangible insurance assets (deferred acquisition costs)*

The costs of acquiring insurance contracts whose premiums will be collected in subsequent accounting periods are capitalised as deferred items and recognised in deferred acquisition costs. Only direct acquisition costs are capitalised. Direct acquisition costs that are accounted for on a contract-by-contract basis, such as brokerage fees and other intermediation charges, are capitalised on a contract-by-contract basis. The acquisition costs of compulsory motor liability insurance that are not accounted for on a contract-by-contract basis are capitalised based on the ratio of the provision for unearned premiums to gross premiums written.

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Signature/allkiri..............................
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Acquisition costs are amortised on a straight-line basis over the term of the insurance contract. Acquisition costs that do not qualify for classification as direct acquisition costs are recognised as an expense in the period in which they are incurred.

13. *Property and equipment*

Items of property and equipment are tangible assets with a useful life of over one year. An item of property and equipment is initially recognised at its cost. The cost of an item of property and equipment comprises its purchase price (including customs duties and other non-recoverable taxes) and any costs directly attributable to bringing the asset to the location and condition necessary. Items of property and equipment are carried at cost less any accumulated depreciation and impairment losses.

Depreciation is charged using the straight-line method. Each class of property and equipment is assigned a depreciation rate that corresponds to its useful life. Useful lives assigned to asset classes are as follows:

Buildings	50 years
Computers and equipment	4 years
Vehicles	5 years
Office equipment and fixtures	5 years
Furniture	10 years

Only the difference between the cost and residual value of an item of property and equipment is depreciated over its useful life. Depreciation rates, depreciation methods and the residual values assigned to assets are reviewed at each reporting date. When an asset's residual value increases above its carrying amount, depreciation is discontinued.

The company assesses the compliance of an asset's carrying amount with its recoverable amount on a regular basis (or whenever there is any indication that an asset may be impaired). If the recoverable amount of an asset (i.e. the higher of its fair value less costs to sell and its value in use) is less than its carrying amount, the carrying amount of the asset is written down to its recoverable amount.

14. *Impairment of assets*

14.1. *Financial assets measured at amortised cost*

The company assesses at each reporting date whether there is any indication that a financial asset or group of financial assets may be impaired. A financial asset or a group of financial assets is impaired and an impairment loss is recognised only if there is objective evidence of impairment as a result of one or more events with an adverse effect that have occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be estimated reliably. Objective indications that a financial asset or a group of financial assets may be impaired include, for example:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default in settlement;
- it becoming probable that the debtor will enter bankruptcy;
- the disappearance of an active market for the financial asset because of financial difficulties;
- information indicating that there is a significant decrease in the estimated future cash flows of the financial asset or group of financial assets although the decrease cannot yet be measured reliably.

If there is objective evidence that loans and receivables or held-to-maturity investments carried at amortised cost are impaired, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding any future impairment losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through an allowance account and the amount of the impairment loss is recognised in profit or loss.

If there is any indication that an impairment loss recognised in prior periods no longer exists or has decreased and the indication can be objectively related to an event occurring after the impairment loss was recognised (such as an improvement in the debtor's credit rating), the originally recognised impairment loss is reversed. The reversal is recognised in profit or loss.

14.2. Non-financial assets

An asset with an indefinite useful life is not depreciated or amortised. Instead, it is tested for impairment annually, by comparing its carrying amount to its recoverable amount. Depreciable and amortisable assets are reviewed for impairment whenever there is any indication that their carrying amount may not be recoverable. If there is such indication, the recoverable amount of the asset is estimated and compared to its carrying amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The recoverable amount is determined for an individual asset or the smallest identifiable group of assets that generates cash flows that are largely independent of the cash flows from other assets.

15. Corporate income tax

According to currently effective legislation, in Estonia corporate profit is not subject to tax. Therefore, deferred tax assets and liabilities do not arise. In place of profit, income tax is levied on dividends distributed from retained earnings. In 2014, the amount of tax payable was calculated as 21/79 (2013: 21/79) of the amount distributed as the net dividend. From 2015, the amount of tax payable is calculated as 20/80 of the amount distributed as the net dividend.

The income tax payable on the distribution of dividends is recognised as the expense of the period in which the dividend is declared, irrespective of the period for which the dividend is declared or the period in which the dividend is ultimately distributed. Because of the specific nature of the taxation system, companies registered in Estonia do not acquire deferred tax assets or incur deferred tax liabilities on temporary differences between the carrying amounts and tax bases of their assets and liabilities.

The maximum income tax liability that could arise on a dividend distribution is disclosed in note 22.

The profit earned in Latvia and Lithuania is subject to income tax. Before taxation, profit is adjusted for permanent and temporary differences as permitted by local tax laws.

Corporate income tax rates	2014	2013
Lithuania	15%	15%
Latvia	15%	15%

At foreign branches, deferred tax is recognised using the liability method by which the deferred tax assets and liabilities arising from temporary differences between the carrying amounts and tax bases of assets and liabilities are recognised in the statement of financial position. The deferred tax liability is recognised in the statement of financial position.

16. Finance and operating leases

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee is recognised as a finance lease. Assets being acquired with finance leases are carried at the lower of their fair value and the present value of the minimum lease payments less any accumulated depreciation and any impairment losses.

16.1. The company as a lessee

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

16.2. The company as a lessor

Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

17. Other provisions and contingent liabilities

Provisions are made for liabilities of uncertain timing or amount. A provision is recognised when the company has a present obligation (legal or constructive) arising from a past event or the company's operating practice, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are recognised by reference to management's best estimates regarding the amount and timing of the expected outflows. A provision is recognised in the statement of financial position in the amount which, according to management's estimates, is necessary at the reporting date to settle the obligation or to transfer it to a third party. Where it is probable that an obligation underlying a provision should be settled later than 12 months after the reporting date, the provision is recognised at its discounted value (the present value of expected outflows), unless the effect of discounting is immaterial. Expenditures on provisions are recognised as an expense as incurred.

Promises, guarantees and other commitments whose realisation is uncertain or amount cannot be estimated sufficiently reliably but which may transform into obligations under certain circumstances are disclosed in the notes to the financial statements as contingent liabilities.

18. Vacation pay liability

Payables to employees include the accrued year-end vacation pay liabilities calculated in accordance with employment contracts and the requirements of the Estonian, Latvian and Lithuanian legislation. The vacation pay liabilities include relevant social security tax and unemployment insurance contribution liabilities.

19. Liability adequacy test

At each reporting date, the company assesses whether its recognised insurance liabilities are adequate, using current estimates of future cash flows (net of deferred acquisition costs and assets acquired in business combinations) under its insurance contracts. The liability adequacy test (LAT) is performed separately for each class of insurance by determining the adequacy of gross provisions, i.e. without considering the effect of reinsurance. The model applied relies on the loss ratio and expense ratio estimates for each class of insurance.

If that assessment shows that the carrying amount of insurance liabilities (less related deferred acquisition costs and related intangible assets) is inadequate in the light of the estimated future cash flows, the entire deficiency is recognised in profit or loss and a provision is recognised based on the test results (the unexpired risk provision). Methods differ by country.

In Lithuania, the loss and expense ratios of the main insurance classes are forecast based on the data for the past four quarters. In insurance classes where the volume of premiums is insufficient, where results are volatile and where rate-setting has not changed significantly in recent years, loss ratios are forecast by taking into account the loss ratios of the past three years and by eliminating major losses.

In Latvia, loss and expense ratios are forecast based on annual statistics; similar insurance classes are viewed together.

In Estonia, the loss and expense ratios of the main insurance classes are forecast based on the data for the past four quarters; elimination of major losses is considered case by case. Smaller insurance classes are aggregated for the purpose of liability adequacy testing.

The principles of recognising the provision for unexpired risks are described in note 4.3.3. and the test results are described in note 17.

20. Revenue

20.1. Other income

Other income is recognised on an accrual basis when the underlying transaction has been performed.

20.2. Interest income

Interest income is recognised using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash flow through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset.

20.3. Dividend income

Dividend income is recognised when the right to receive payment is established and when collection of income is probable.

20.4. Insurance premiums

Recognition of insurance premiums is described in note 4.1.

21. Operating expenses

The general principle for allocating costs to line items in the statement of comprehensive income is as follows: costs that can be allocated directly are allocated directly. Costs that cannot be allocated directly are allocated in proportion to the number of the employees involved or the estimated working time of the employees involved.

21.1. Claims handling costs

Claims handling costs comprise expenses directly related to the handling and payment of claims as well as administrative expenses that are indirectly related to claims handling. Indirect handling costs include claim handlers' salaries with associated taxes and other expenses charged in proportion to the estimated time spent on claims handling.

21.2. Acquisition costs

Acquisition costs arise on the conclusion of insurance contracts and consist of three components:

- Direct costs such as commissions and expenses related to employees directly involved in the conclusion of contracts.
- Allocable costs such as the costs of communication, advertising, printed matter, sales representatives' training, premises, office supplies, etc.
- Indirect costs such as administrative personnel's salaries, payroll taxes and other costs calculated in proportion to the estimated time spent on sales support.

21.3. Administrative expenses

Administrative expenses are incurred on the collection of premiums, portfolio management, the processing of bonuses and discounts and incoming and outgoing reinsurance. Administrative expenses include personnel expenses and depreciation and amortisation expense to the extent those are not included in acquisition costs or claims handling costs.

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Date/kuupäev......19.03.2015......
Signature/allkiri..........................
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Administrative expenses consist of two components:

a) direct costs such as costs directly related to administrative personnel;
b) allocable costs such as the costs incurred in connection with communication, premises, office supplies, etc.

21.4. Investment management expenses

Investment management expenses comprise the fees paid to Pohjola Asset Management Ltd under an asset management contract for administration and management of the investment portfolio.

22. New International Financial Reporting Standards and interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC)

22.1. New standards and amendments adopted in the reporting period

The company adopted from 1 January 2014 the following amendments.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The amendments clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event.

The amendments had no effect on the company's financial statements because the company offsets only financial assets and liabilities that arise from reinsurance contracts and has not entered into any other master netting arrangements.

Standards that had no impact on the company's financial statements

The following new standards and amendments took effect that had no impact on the company's financial statements:

IFRS 10 Consolidated Financial Statements;
IFRS 11 Joint Arrangements;
IFRS 12 Disclosure of Interests in Other Entities;
IAS 27 (2011) Separate Financial Statements;
IAS 28 (2011) Investments in Associates and Joint Ventures;
Amendments to IAS 27 Investment Entities;
Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets;
Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting.

22.2. Standards, interpretations and amendments not yet adopted

The following new standards and interpretation were not yet effective for the annual period ended 31 December 2014 and has therefore not been applied in preparing these financial statements:

IFRIC 21 Levies

The company does not expect the interpretation, when initially applied, to have a material impact on its financial statements since it does not result in a change in the company's accounting policies regarding levies imposed by governments.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

The company does not expect the amendments, when initially applied, to have a material impact on its financial statements.

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Date/kuupäev 19.03.2015
Signature/allkiri
KPMG, Tallinn

22.3. *Annual improvements to IFRS*

The improvements introduce eleven amendments to nine standards and consequential amendments to other standards and interpretations. Most of these amendments are applicable to annual periods beginning on or after 1 February 2015, with earlier adoption permitted. Another four amendments to four standards are applicable to annual periods beginning on or after 1 January 2015, with earlier adoption permitted.

The company does not expect any of these amendments to have a significant impact on its financial statements.

23. *Events after the reporting period*

The annual financial statements reflect all significant events affecting the valuation of assets and liabilities that became evident between the reporting date (31 December 2014) and the date on which the financial statements were authorised for issue but are related to the reporting period.

Note 2. Use of significant accounting estimates and judgements

1. *Estimates used in the calculation of provisions*

1.1. *Provisions for claims incurred but not reported (IBNR)*

A provision for claims incurred but not reported (IBNR) is set up separately for each insurance class to indemnify claims incurred but not reported to the company by the reporting date. The methods applied in the calculation of the IBNR provisions differ by insurance class.

The methods used to calculate the IBNR provisions include the chain-ladder method, the Bornhutter-Ferguson method as well as other statistical methods that take into account the estimated reporting pattern of claims. Since the methods are based on historical claims development information, it is assumed that the historical claims development pattern will recur in the future.

The company believes that the provisions made at the end of 2014 are adequate but due to the inherent uncertainty of the loss provisioning process, it cannot be assured that the provisions will ultimately prove to be adequate.

In insurance classes where the available data do not allow using statistical methods, the IBNR provision is calculated as a percentage of the past four quarters' net earned premiums.

The laws of Latvia and Lithuania set a monetary ceiling to the emotional distress, pain and suffering claims related to compulsory motor liability insurance (5,000 euros in Lithuania and 570 euros in Latvia). According to the judgement of the European Court of Justice in case C-277/12 against an insurer operating in Latvia, such restrictions are not in compliance with the EU directives.

At the date these financial statements are authorised for issue, local laws have not been amended to eliminate the non-compliance. Accordingly, there is uncertainty about the amount of damages that may be assigned, whether application of the change could be retrospective, and to what extent the liabilities, if any, would have to be borne by insurers.

At 31 December 2014, the IBNR provision for motor liability insurance and thus the amount exposed to uncertainty was 3,221,637 euros. Management monitors the matter on an ongoing basis and will review its estimates as and when new information becomes available.

1.2. *Provision for indirect claims handling costs*

A provision for indirect claims handling costs is set up separately for each insurance class as a percentage of claims incurred but not settled and claims incurred but not reported. In Latvia and Lithuania the provision is calculated using the ratio of indirect claims handling costs to claims paid.

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
Date/kuupäev..........19.03.2015..........
Signature/allkiri..........
KPMG, Tallinn

In Estonia, it is calculated using the past calendar year's ratio of indirect claims handling costs to net earned premiums. Since the ratios are determined using historical information, it is assumed that the ratios of indirect claims handling costs to the above indicators will remain constant.

1.3. Measurement of claims reported but not settled

The provision for claims reported but not settled is calculated by individual assessment of each case.

In vehicle-related insurance classes (compulsory motor liability insurance and voluntary comprehensive motor vehicle insurance), a preliminary assessment is made on the inspection of the damaged vehicle - the amount of loss is estimated and provided for. The vehicle is then sent to a repair shop and based on the preliminary calculations of the repair shop, the provision is adjusted. If repair of the vehicle is impracticable due to economic reasons or the terms of the insurance contract (the insurance cover is the replacement cost of a new asset), the insured amount is provided for.

In the event of personal injury in motor liability insurance, reported medical expenses are provided for. The estimated medical treatment expenses and the costs of temporary incapacity for work are provided for taking into account the severity of the injuries and the previous income of the injured person (reported by the medical establishment and the injured person).

The provision for motor liability insurance pensions (compensation for permanent incapacity for work or compensation for the reduced income of the family members of the deceased) is established for payment of pension annuities. Annuities are calculated using the life tables prepared by Statistics Estonia for 2011. The provisions are discounted using a 0.75% discount rate.

In property insurance, the loss is initially estimated and later adjusted on the basis of expert opinions and preliminary calculations. In the case of contracts which provide for the deductible, the provision does not include the amount of the deductible.

In the event of theft, the insured amount is provided for immediately, based on the claim submitted by the injured party, and without the deductible.

In travel insurance, a provision is established for the claim submitted or, in the case of larger losses, the estimated extent of the loss (compensation for medical treatment expenses).

A specific feature of accident insurance is that a provision is made for potential disability or death benefits because, as a rule, the claim for a daily allowance and compensation for injury is indemnified immediately. When there is insufficient information for making a compensation decision, the amount of the claim is provided for.

1.4. Liability adequacy test

Management assesses the adequacy of insurance liabilities (provisions) using liability adequacy tests. In a liability adequacy test, the cash flows from insurance contracts are estimated and compared to the carrying amount of the liabilities recognised. Future cash flows are forecast by reference to the expense and loss ratios identified on the basis of existing data and forecasts of those ratios.

At the end of 2014 it was determined that in some classes of insurance estimated future cash flows exceeded the carrying amounts of liabilities. The difference was recognised within the unexpired risk provision. For further information, see note 17.

2. Other receivables

2.1. Salvaged assets

Salvaged assets are acquired under vehicle insurance and property insurance contracts, when the company purchases an asset damaged in an insured event and realises it. The company realises salvaged assets through a business partner that arranges the sale of the asset by public auction. A salvaged vehicle is assigned an estimated sales price.

In the case of vehicles, the sales price is determined first based on the nature and extent of the damage and thereafter based on the popularity of the brand and the model in the market.

A salvaged asset is measured on acquisition and at the reporting date at its estimated sales price. Salvaged assets are reported within other receivables in the statement of financial position and as a reduction of claims incurred in the statement of comprehensive income.

2.2. Subrogation receivables

Subrogation receivables comprise amounts collected from parties who have caused insured events, if so provided in the insurance terms and conditions for the class. In voluntary insurance this happens when the party causing the insured event is liable under civil proceedings, and in compulsory motor liability insurance in the cases provided for in the law. After the settlement of the claim, the company assesses whether it is reasonable to claim the expenses from the party that caused the insured event by reference to the probable outcome and cost-benefit ratio of the proceedings. The company may agree a payment schedule with the person who acknowledges a claim but is unable to settle in a lump sum. A claim that is not acknowledged or which the debtor does not respond to is reviewed to decide whether to bring an action in the court of law or to waive the claim.

A subrogation receivable is recognised on acquisition and at the reporting date as a receivable in the statement of financial position and a reduction of claims incurred in the statement of comprehensive income. The amount of a subrogation receivable is estimated based on the probability of its collection, the company's historical experience with similar items, the nature of the insurance class, and the information available on the creditworthiness of the person that caused the insured event.

Note 3. Risk management

1. Risk management policies

The purpose of risk management is to manage and evaluate the risks faced by the company so as to ensure its stable, reliable and profitable operation. The biggest threat that could affect the operation of an insurance company is risk-taking, which is inherent in the insurance business. However, in addition to insurance risk management, the company's risk management also covers financial and operational risk management.

Seesam's management board regulates the activities of the risk management function using internal guidelines and manuals. Risk management guidelines and manuals were last updated in March 2013. The risk management function works closely with the parent company.

2. Insurance risk management

On entering into an insurance contract, the policyholder transfers its insurance risk to the insurer and pays an agreed amount of premium for it. The insurance risk arising from a non-life insurance contract consists of two elements: first the occurrence of the insured event, which need not be a single event, and secondly the extent of the event whereby both elements are expected to be random. Insurance terms provide for compensation of unexpected and unforeseeable loss events only.

Assuming that loss events are not related, relative expenses on claims paid should theoretically decrease in the case of a larger insurance portfolio. In reality, that assumption does not apply with 100% certainty and the so-called residual risk always exists, which may result from a changes in the environment, changes in the field of activity, economic developments, or changes in the terms and conditions of compulsory insurance prompted by changes in the needs of society. It is also necessary to consider the accumulation of risks, i.e. catastrophe risk, which may realise by means of natural forces or human activity and will combine a number of unrelated risks into one major risk.

The most likely catastrophe scenarios include:

- Storm and flooding caused by a storm;
- Torrential rain and flooding caused by rain;
- Shipwreck or plane accident;
- Pandemic (would influence Seesam through travel insurance and health insurance).

Seesam manages its insurance risk mainly through risk selection policies and rules, rate-setting, reinsurance, portfolio analysis and monitoring portfolio dynamics. On developing insurance products, insurance risk-taking is regulated by determining the scopes of the covers and setting ceilings to insured amounts.

Risk selection criteria are established through class-specific product guidelines that set forth risk selection policies, the main underwriting restrictions and claim settlement limits. Product guidelines provide general restrictions and limits for each product. Employees are granted their individual personal limits only when they have successfully passed a training programme and subsequent product and risk selection examinations. The higher an employee's level of competence, the more varied and greater the signature rights. Signature rights are established by regulations issued by the head of development department.

Seesam's reinsurance contracts are mostly of the excess of loss type and purchased through the parent company Pohjola Insurance Ltd. There are both risk-based (asset or event based) and catastrophe-based reinsurance contracts. The reinsurance programme ensures the company's solvency in the event of very large losses. The parent company's reinsurers are mostly companies whose rating is at least A according to Standard & Poor's. Seesam has also fronting type insurance contracts under which Seesam has reinsured the risks in full and does not bear any risk.

From October 2012, Seesam also holds a reinsurance licence.

The company has developed methods for analysing the portfolio and monitoring portfolio dynamics, which vary according to the nature of the insurance class. The company monitors performance of insurance classes through monthly reports and adjusts the rate for a class when necessary.

The scope of insurance cover is determined by the text of insurance terms and conditions and the additional texts of the policies. All insurance terms and conditions are approved by the management board before they are implemented.

The following table provides an overview of the concentration of liabilities arising from insurance contracts at the end of 2014 by insurance class.

	Liabilities from insurance contracts (gross)	**Liabilities from insurance contracts: reinsurers' share**	**Liabilities from insurance contracts (net)**
Motor liability insurance	16,870,777	926,907	**15,943,870**
Comprehensive vehicle insurance	8,492,992	0	**8,492,992**
Property insurance (legal persons)	8,006,660	2,036,040	**5,970,620**
Short-term health insurance	5,036,859	508	**5,036,351**
Property insurance (individuals)	4,609,118	4,112	**4,605,006**
Liability insurance	2,702,931	136,993	**2,565,938**
Other classes	349,258	80,856	**268,402**
Total	**46,068,595**	**3,185,416**	**42,883,179**

3. *Types of insurance contracts*

3.1. *Fixed-term insurance contract*

A fixed-term insurance contract is entered into for a fixed term that is recorded on the policy. On the expiry of the term, the contract expires but, depending on the terms and conditions of the contract, performance of contractual obligations may continue. The term of a fixed-term insurance contract is generally one year. As an exception, for example in the case of contracts relating to specific projects, the term may be shorter or longer than one year. Also, the term of travel insurance contracts is often shorter than one year. Seesam issues fixed-term contracts in all classes of insurance.

3.2. *Revolving insurance contract*

A revolving contract is entered into for a fixed period that is recorded on the policy. On the expiry of the term, the contract will automatically renew for another period of the same duration, unless one of the parties terminates the contract in accordance with the agreed procedure. At the moment, revolving insurance contracts are offered in Estonia only.

4. *Classes of insurance*

Seesam issues insurance contracts in the following classes: motor liability insurance, comprehensive vehicle insurance, individuals' and legal persons' property insurance, travel and accident insurance, health insurance, liability insurance, guarantee insurance, goods in transit insurance and small boat insurance.

4.1. *Motor liability insurance*

Motor liability insurance is a compulsory class whose terms and conditions and compensation rules are prescribed by the motor liability insurance law and other legislation. The insurance cover is effective also outside Estonia, providing cover for traffic losses incurred in the EU countries and countries that are members of the green card system. In several countries that are members of the green card system, there is no maximum indemnity limit for personal injury and on the occurrence of an insured event local legislation and insured amounts will apply.

The rates of motor liability insurance are determined using the *bonus malus* system that reduces the premium when losses do not occur and increases the premium when losses occur.

Claims paid in motor liability insurance include mostly property damage indemnities. However, long-term personal injury benefits, such as insurance pensions and benefits for permanent incapacity for work that are paid out over decades are also possible.

In 2014, Seesam updated its sale of compulsory motor liability insurance. The system had to be amended to respond to a regulatory change according to which from 1 January 2015 the injured parties of traffic accidents may choose whether they claim compensation from their own insurance provider or the insurance provider of the person that caused the loss. At Seesam, transition to the new system was smooth and successful.

4.2. *Individuals' and legal persons' property and vehicle insurance and insurance of persons*

Seesam insures property, vehicles and persons in relevant insurance classes based on the location of the property and the person and, in the case of a vehicle, the place of registration of the vehicle. Taking into account cross-border insurance restrictions, Seesam generally selects into its insurance portfolio insurance risks that are located in Estonia, Latvia and Lithuania. Outside the Baltic countries, Seesam insures business customers with an international reach whose assets are mainly located in Estonia, Latvia and/or Lithuania but who also operate in other EEA countries.

The insurance cover offered varies, extending from all-risk insurance to the insurance of specific risks. Depending on the nature of the property and the terms and conditions of the insurance class, intra-company underwriting guidelines and manuals set forth specific limits for both the insured amount and the nature and scope of insurance cover. Seesam also monitors the threat of accumulation of risks.

In property insurance, the factors which affect risk the most include asset type, quality of construction or assembly, age, purpose of use and security. Major claims generally result from the realisation of the risks of fire, water damage or natural disasters. In the insurance of persons, the factors which may lead to major claims include the person's risk behaviour, work environment, lifestyle and health-related characteristics.

In selecting risks, Seesam observes both internal product and risk guidelines and manuals that provide more specific rules and highlight areas of higher risk as well as the requirements of its reinsurance contracts. The process of drafting and signing insurance contracts is subject to regular quality and compliance reviews and relevant guidelines and manuals are adjusted whenever changes are made to a product or the sales process.

In 2014 several changes took place in Seesam's property insurance products. In Lithuania, home, vehicle and accident insurance terms and conditions were updated and in Latvia accident insurance terms and conditions were renewed. In Estonia, the focus was on updating the terms and conditions of legal persons' property insurance. During the year, the previously separate terms and conditions of legal persons' property, all risks and equipment breakdown insurance were incorporated into a single set of insurance terms and conditions. In addition, the Estonian entity updated the terms and conditions of its construction and installation work insurance.

4.3. Health insurance

Seesam offers health insurance to companies and their employees. The insured amount of medical treatment costs is limited per person. Most claims incurred involve outpatient treatment where claims paid (benefits) are small. In-patient treatment claims are larger and the contracts specify the maximum benefit rates. Currently, Seesam offers health insurance only in Latvia.

4.4. Guarantee insurance

Guarantee insurance is mainly offered to partner travel agencies in Latvia and Lithuania.

4.5. Liability insurance

Liability insurance covers property damage and personal injuries inflicted by the policyholder on third parties. On the assessment and selection of liability insurance risks, it is particularly important to examine the customer's field of activity, skills and experience in the field of activity. Seesam has a list of activities where insurance risk is remarkably higher and where Seesam does not wish to enter into an insurance contract. Often the number of liability insurance claims is attributable to incidents of water damage at buildings managed by apartment associations and roof leakage and basement flooding caused by the condition of the building.

In 2014, Seesam's Lithuanian branch developed new employer's liability insurance terms and conditions in order to bring them up-to-date and render them more competitive in the Lithuanian market.

Seesam's Latvian branch developed new liability insurance terms and conditions in the framework of the terms and conditions for construction work insurance. The amendments were prompted by changes in Latvian legislation.

In liability insurance, the indemnification process is generally long because substantiation of claims (creation of liability) is regulated by the law. To date, most indemnities have been paid in a lump sum. However, long-term indemnities such as pension and permanent incapacity for work benefits are also possible.

4.6. *Goods in transit insurance*

Goods in transit insurance covers the damage caused to goods and other property during their transport, loading, unloading and interim storage. In this class, the main risk factors are the nature of the goods and the route and means of transport. Loss events occur relatively seldom, and their nature varies. Generally, claims are relatively small.

4.7. *Small boat insurance*

Small boat insurance indemnifies the losses incurred in connection with the damage, destruction or loss of an insured small boat. Small boat insurance is always provided together with small boat liability insurance where the insured amount is 190,000 euros. The insured amounts for small boats rarely exceed 150,000 euros. Seesam offers small boat insurance only in Estonia.

In our opinion Seesam's insurance portfolio is sufficiently diversified both in terms of risks insured and classes of insurance. Therefore, there are no significant concentrations of risks.

5. *Sensitivity analysis*

The following sensitivity analysis characterises the effect of a change in any of the main insurance risks on the company's result of operations, solvency margin and combined ratio for 2014. Important risk parameters include a change in the size of the insurance portfolio, a change in claims and a change in administrative expenses. The impact was determined by changing one parameter by 1% at a time on the assumption that all other conditions remain constant. For the purpose of sensitivity analysis, a major loss is a claim of at least 0.5 million euros.

Risk parameter	Amount in statement of comprehensive income for 2014 (€m)	Change in risk parameter	Impact on net profit/equity for 2014 (€m)	Impact on combined ratio for 2014
Net insurance portfolio	52.4	Decrease 1%	-0.5	-1.0%
Net claims	33.3	Growth 1%	-0.3	-0.6%
Major loss		1 additional claim	-0.5	-1.0%
Operating expenses	17.2	Growth 1%	-0.2	-0.3%

6. *Analysis of claims development*

The following table provides a historical overview of the incurrence and settlement of claims and the adequacy of provisions established (gross claims, in thousands of euros). The claims development table allows comparing the estimates of claims outstanding included in the financial statements with prior period losses. Claims are presented by the year of incurrence. The table contains cumulative claims estimates (claims paid, including subrogation and salvage recoveries, and the provision for claims outstanding, including the IBNR provision). The table does not contain information on actual claims handling costs and the provision for indirect claims handling costs.

Management believes that the provisions for claims outstanding as at the end of 2014 are adequate. However, as provisions are created on the basis of estimates and relevant factors change over time, the final amounts may differ from current estimates.

Year of incurrence (€'000)	2010	2011	2012	2013	2014
At end of year of incurrence	20,247	32,980	30,921	34,731	37,975
One year later	19,778	27,303	29,393	30,508	

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Two years later	19,408	26,301	28,612		
Three years later	18,905	25,939			
Four years later	18,715				
Cumulative claims until 31 December 2014	18,214	24,643	25,767	27,883	24,358
Provision for claims incurred by year (including IBNR) at 31 December 2014	501	1,296	2,846	2,625	13,616

The figures for 2010 comprise the figures for Seesam Rahvusvaheline Kindlustuse AS (the predecessor of Seesam Insurance AS). The claims incurred in 2011 also include the claims incurred by Seesam's branches during the period 1 June 2011 - 31 December 2011. From 2012, claims incurred include the claims incurred by Seesam's branches during the full year.

At 31 December 2014, the provision for claims incurred before 2010 (including IBNR) amounted to 2,270 thousand euros.

7. *Financial risk management*

Both insurance activities and investing activities involve financial risk, which may manifest itself in:

- Market risk – the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk consists of three types of risk: interest rate risk, currency risk and other price risk.
- Credit risk – the risk that one party to a financial instrument will cause the other party to incur a financial loss by failing to discharge its contractual obligations.
- Liquidity risk – the risk that the company will encounter difficulty in meeting the obligations associated with its financial liabilities.

The company is exposed to potential financial risks through financial assets and liabilities, reinsurance assets and liabilities and insurance contract receivables and liabilities. The main components of financial risk are interest rate risk, currency risk, credit risk and liquidity risk.

In the insurance business, the realisation of a risk manifests itself in the impairment of assets representing cover for insurance provisions or the settlement difficulties of a transaction partner (e.g. a reinsurance partner). In investing activities, the main risks related to financial assets are interest rate risk, which manifests itself in a lower than expected yield of investments, and price risk, which results from a decrease in the value of investments.

The risks related to investing activities are managed by applying policies and guidelines that have been approved at group level. The risk management strategy and guidelines as well as the investment plan are reviewed and updated at least once a year. For risk management purposes, an internal ALM (asset and liability management) policy is applied. The policy is designed to ensure that the risks taken do not exceed the company's risk tolerance.

Seesam's management board reviews and approves the company's investment plan annually for each subsequent financial year. The investment plan sets out the structure of investments; expected rates of return; limits for credit, interest rate and currency risks; limits for ratings; and the powers granted for making investment decisions as well as the scope of such powers. It is also monitored that the investment portfolio meets the requirements set out in the Insurance Activities Act.

Seesam's investment portfolio is managed by Pohjola Asset Management Ltd that pays special attention to dispersing financial risks, investment liquidity and counterparty risk. Every year the investment policy for the next financial year is set based on the prevailing economic situation.

According to the parent company's business strategy, funds are invested in fixed and floating rate debt securities and equities as well as real estate in Finland and other countries with the purpose of earning a good return in the long term.

To mitigate potential financial risks, investments are spread between different financial instruments. Investments are made considering the provisions of the Investment Activities Act and the company's annual investment plan, which is aimed at generating sufficient income, mitigating risks and covering insurance contract liabilities.

7.1. Market risk

Market risk arises from changes in interest rates, foreign exchange rates and the prices of financial assets.

7.1.1. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company's financial instruments that are exposed to interest rate risk include fixed and floating rate debt securities and units in debt securities and interest rate funds. Seesam's investments comprise mainly debt securities. At the reporting date, the weighted average duration of debt securities was 2.79 years and their weighted average yield to maturity was 0.39% (2013: 1.27 years and 0.56% respectively).

Distribution of debt securities by interest rate as at 31 December 2014

	Face value	**Fair value**
Fixed income debt securities		
Interest rate 0-2.50%	27,900,000	29,152,702
Interest rate 2.51% -3.50%	6,000,000	6,362,312
Interest rate 3.51% -4.50%	12,890,000	14,151,035
Interest rate 4.51% -5.50%	3,450,000	3,925,750
Interest rate 5.51% -6.50%	1,750,000	2,080,044
Total	**51,990,000**	**55,671,843**
Floating rate debt securities	600,000	606,072
Total debt securities	**52,590,000**	**56,277,915**

Distribution of debt securities by interest rate as at 31 December 2013

	Face value	**Fair value**
Fixed income debt securities		
Interest rate 0-2.50%	15,600,000	15,763,441
Interest rate 2.51% -3.50%	10,330,000	10,803,777
Interest rate 3.51% -4.50%	19,190,000	20,619,876
Interest rate 4.51% -5.50%	3,570,000	3,800,773
Interest rate 5.51% -6.50%	700,000	813,265
Interest rate 6.51% -7.50%	2,400,000	2,562,000
Total	**51,790,000**	**54,363,132**
Floating rate debt securities	600,000	598,697
Total debt securities	**52,390,000**	**54,961,829**

The following analysis of the sensitivity of investments to changes in interest rates has been performed using modified duration. Modified duration is the measure of the sensitivity of the price of a security to a change in market interest rates, i.e. return. Mathematically, this is expressed as a percentage change in the price of a security resulting from a 1% change in yield.

	Market value at 31 Dec 2014	Risk parameter	Change	Effect on market value at 31 Dec 2014
Interest rate risk	64,340,519	Change in interest rates	1.0%	1,698,968

The sensitivity analysis has been performed based on debt securities at fair value through profit or loss of 56,277,915 euros and units in debt securities and interest rate funds of 8,062,604 euros (included in *Equities and fund units at fair value through profit or loss* in the statement of financial position). Units in equity funds of 4,782,083 euros have been excluded from the sensitivity analysis – the funds earn income on changes in the prices of the shares included in the portfolio and the dividends paid on those shares. Thus, they are not exposed to interest rate risk.

7.1.2. Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

At the end of 2014, 100% of investments in financial instruments were denominated in euros. Financial assets denominated in currencies other than the euro accounted for only 3.2% of all financial assets.

In the period, 99.99% of receivables from policyholders and insurance brokers were settled in euros or Lithuanian litas. Since the exchange rate of the Lithuanian litas was fixed by the central bank of the country, the currency was pegged to the euro, and the fluctuation of its exchange rate was limited by a fluctuation corridor set forth in the law, the financial instruments were not exposed to any significant currency risk and the company considers currency risk very low.

Carrying amounts of financial assets and liabilities by currency as at 31 December 2014

	EUR	USD	LVL	LTL	GBP	Total
Debt securities	56,277,915	0	0	0	0	56,277,915
Fund units	12,844,687	0	0	0	0	12,844,687
Equities	35,000	0	0	0	0	35,000
Term deposits	140,110	0	0	0	0	140,110
Other receivables	1,180,591	0	0	20,665	0	1,201,256
Receivables from reinsurers	1,111	0	0	0	0	1,111
Receivables from policyholders and insurance brokers	2,670,827	323	0	1,215,256	0	3,886,406
Cash and cash equivalents	1,774,106	9,929	0	1,259,670	0	3,043,705
Total	**74,924,347**	**10,252**	**0**	**2,495,591**	**0**	**77,430,190**
Financial liabilities	1,340,081	0	0	862,900	0	2,202,981
Net exposure	73,584,266	10,252	0	1,632,691	0	75,227,209

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Carrying amounts of financial assets and liabilities by currency as at 31 December 2013

	EUR	USD	LVL	LTL	GBP	Total
Debt securities	54,961,829	0	0	0	0	54,961,829
Fund units	9,597,228	0	0	0	0	9,597,228
Equities	35,000	0	0	0	0	35,000
Term deposits	141,198	0	0	0	0	141,198
Other receivables	780,563	0	3,492	23,378	0	807,433
Receivables from reinsurers	111,886	386	0	0	725	112,997
Receivables from policyholders and insurance brokers	1,083,827	0	1,359,711	1,274,882	0	3,718,420
Cash and cash equivalents	1,782,468	2,981	320,102	927,436	0	3,032,987
Total	**68,493,999**	**3,367**	**1,683,305**	**2,225,696**	**725**	**72,407,092**
Financial liabilities	987,755	48,390	625,285	834,975	3,907	2,500,312
Net exposure	67,506,244	-45,023	1,058,020	1,390,721	-3,182	69,906,780

7.1.3. Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The company is exposed to other price risk through investments in equity and debt instruments. If at 31 December 2014 the fair value of debt securities and fund units (excluding accrued interest) had increased or decreased by 10%, the company's result of operations and available solvency margin would have accordingly increased or decreased by 6,810,786 euros (2013: 6,357,566 euros).

The table below provides an overview of debt securities by their geographical area. Changes in the economies of different geographical areas may affect the fair values of financial instruments from those geographical areas. In recent years, the company has realised the debt securities of Southern European countries (Italy, Spain, Greece).

As at 31 December	**2014**	**2013**
Austria	0	4,946,934
Belgium	0	365,663
Netherlands	13,056,571	9,714,471
Ireland	0	386,412
Italy	0	258,678
Norway	526,348	550,358
France	5,077,313	3,138,959
Sweden	6,772,559	2,014,128
Germany	5,845,214	6,990,126
Finland	6,414,318	16,083,671
Great Britain	12,064,781	6,138,098
Switzerland	1,406,706	0
Denmark	826,755	1,633,591
USA	4,287,350	2,740,740

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Total	**56,277,915**	**54,961,829**

7.2. *Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge its obligations. Seesam's credit risk exposures are related to policyholders' and brokers' solvency, arrangement of reinsurance and investment management. The terms of effectiveness of insurance cover are set out in the company's general contract terms and conditions. The contracts signed with insurance intermediaries and brokers set out settlement terms and adherence to those terms is checked systemically. Reinsurance contracts have mostly been signed with the parent company whose credit rating according to Standard & Poor's is very good (AA-).

The following table outlines receivables that are exposed to credit risk.

As at 31 December	2014	2013
Receivables from policyholders and insurance brokers	**3,886,406**	**3,718,420**
- Not past due	2,760,898	2,629,808
- Past due, of which:	1,125,508	1,088,612
Not later than 3 months	1,038,398	969,600
Later than 3 months and not later than 6 months	18,621	19,476
Later than 6 months and not later than 12 months	11,256	23,426
Later than 1 year	57,233	76,110
Receivables from reinsurers	**1,111**	**112,997**
- Not past due	1,111	111,481
- Past due, of which:	0	1,516
Later than 1 year	0	1,516

The credit risk of financial instruments is mitigated by selecting reliable institutions for holding the deposits and securities and dispersing investments between counterparties (different issuers, countries, rating classes, maturity dates). The minimum permitted credit rating for investments in the fixed income debt securities portfolio is BB-.

In addition, the company monitors the average credit rating of the debt securities portfolio. This indicator has to be at least A-.

At period-end, the largest proportion of investments in debt securities was made up of financial institutions' bonds. Their share was 53.4%, 12.5 percentage points up on 2013 (2013: 40.9%). Financial institutions' debt securities carry a higher risk than government bonds but their yields are also higher.

Government bonds accounted for 30.1% of investments in debt securities (2013: 42.0%). Their yields are lower but risk level is the lowest – the probability of a country going bankrupt is remote.

The share of debt securities issued by companies remained at the same level at 16.5% (2013: 17.1%).

At the year-end, 80.9% of fixed income investments were in securities whose issuers' ability to meet their obligations was very strong or strong (credit rating at least A- according to Standard & Poor's). In 2013, the corresponding proportion was 83.4%. In 2014, issuers maintained their credit rating at the same level as at 31 December 2013 with one exception (credit rating dropped from AA- to A+).

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Distribution of fixed and floating yield investments by credit rating (carrying amounts)

As at 31 December	2014	%	2013	%
AAA	17,614,042	31.3%	23,972,626	43.6%
AA+	4,757,877	8.5%	5,333,346	9.7%
AA-	5,067,870	9.0%	8,502,833	15.5%
A+	6,981,581	12.4%	2,663,193	4.9%
A	9,919,938	17.6%	2,645,468	4.8%
A-	1,204,757	2.1%	2,717,017	4.9%
BBB+	6,361,132	11.3%	2,160,784	3.9%
BBB	3,243,469	5.8%	5,868,275	10.7%
BBB-	1,127,249	2.0%	1,098,287	2.0%
Total	**56,277,915**	**100%**	**54,961,829**	**100%**

7.3. Liquidity risk

Realisation of liquidity risk may lead to a situation where financial assets need to be sold at a price significantly below their market value. The primary purpose of liquidity risk management is to ensure the company's ability to meet its obligations under insurance contracts and its commitments arising from insurance activities on a timely basis. Liquidity risk, which may halt insurance activities and satisfaction of obligations arising from insurance contracts, is mitigated by investing in short-term deposits (including overnight deposits), various funds (equity, debt securities and interest rate funds), debt securities and highly liquid listed equities.

The table below provides an overview of the distribution of debt securities and other fixed income securities by remaining maturities on the assumption that they will be held until redemption.

Distribution of financial assets by remaining maturity as at 31 December 2014

Remaining maturity	0-1 years	1-3 years	3-5 years	5-7 years
Debt securities at fair value through profit or loss	9,617,670	21,647,892	17,526,168	7,486,185
Equities and fund units at fair value through profit or loss	12,844,687	0	0	0
Available-for-sale financial assets	35,000	0	0	0
Term deposits	140,110	0	0	0
Other receivables	1,201,256	0	0	0
Receivables from reinsurers	1,111	0	0	0
Receivables from policyholders and insurance brokers	3,886,406	0	0	0
Cash and cash equivalents	3,043,705	0	0	0
Total	**30,769,945**	**21,647,892**	**17,526,168**	**7,486,185**

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Distribution of financial assets by remaining maturity as at 31 December 2013

Remaining maturity	**0-1 years**	**1-3 years**	**3-5 years**
Debt securities at fair value through profit or loss	30,469,727	17,052,962	7,439,140
Equities and fund units at fair value through profit or loss	9,597,228	0	0
Available-for-sale financial assets	35,000	0	0
Term deposits	141,198	0	0
Other receivables	807,433	0	0
Receivables from reinsurers	112,997	0	0
Receivables from policyholders and insurance brokers	3,718,420	0	0
Cash and cash equivalents	3,032,987	0	0
Total	**47,914,990**	**17,052,962**	**7,439,140**

Distribution of financial liabilities by remaining maturity as at 31 December 2014

Remaining maturity	**0-1 years**	**1-3 years**
Payables to reinsurers	189,030	0
Payables to policyholders	64,537	0
Payables to insurance brokers	916,536	0
Payables to suppliers and other payables	998,156	34,722
Total	**2,168,259**	**34,722**

Distribution of financial liabilities by remaining maturity as at 31 December 2013

Remaining maturity	**0-1 years**	**1-3 years**
Payables to reinsurers	143,352	0
Payables to policyholders	168,127	0
Payables to insurance brokers	843,935	0
Payables to suppliers and other payables	1,298,594	46,304
Total	**2,454,008**	**46,304**

Estimated future settlement obligations arising from the provision for claims outstanding are as follows:

Remaining maturity	**0-1 years**	**1-3 years**	**3-5 years**	**5-7 years**	**7-10 years**	**Over 10 years**
Provision for claims outstanding at 31 December 2014	13,737,964	6,502,179	1,529,343	892,557	933,672	2,017,341
Provision for claims outstanding at 31 December 2013	12,816,849	7,757,924	1,414,683	895,817	938,867	2,028,566

The estimates are based on recent years' claims settlement statistics. Most claims are settled and the provision is used in the first year. Motor liability insurance pensions are paid out as annuities. Approximately half of the pensions that have been provided for will be paid out after 10 years.

8. *Operational risk management*

Operational risk is the risk that the company may suffer a loss because internal processes, people's activities or systems are inadequate, do not operate or are not performed in the expected manner or an undesirable external event occurs. The company regards legal risk as part of its operational risk.

Implementation and enforcement of the company's operational risk policies is the responsibility of the company's management board. In the company's everyday operation, this responsibility is assigned to heads of departments and functions. Seesam maps its operational risks and conducts threat assessments across the Baltics on a regular basis at least once a year.

Seesam's business operations are highly dependent on information technology and IT systems. Partly, IT solutions have been outsourced. Seesam pays close attention to the security of its databases and endeavours to prevent risks that may result from viruses or system malfunctions or failures. The company has adopted business continuity and disaster recovery plans for its IT systems.

Seesam has established clear outsourcing rules and, in order to mitigate business continuity risks, has adopted a Business Continuity Plan (BCP) developed in partnership with the parent company's risk management specialists. In planning our business continuity activities, we consider the three main threats faced by contemporary companies: something might happen to the premises where we serve our customers or do our work, something serious might happen to our staff, or there might be an extensive failure in the IT systems. According to the BCP plan, when a threat occurs we will form a crisis committee that will be responsible for commencing the planned activities and disseminating information about the situation. Business continuity risks are tested according to the BCP testing plan and the BCP is revised and updated as and when necessary.

9. *Capital management*

Capital adequacy is of vital importance to an insurer. The available solvency margin is directly related to an insurance company's risk bearing capacity which describes the ratio of the company's available solvency margin to significant items in the statement of financial position and the statement of comprehensive income.

The ratios of the available solvency margin to claims incurred and premiums earned characterise the company's ability to cope with various insurance risks. The ratio of the available solvency margin to insurance provisions reflects the company's ability to cope with errors made in the estimation of provisions.

	2014 (m€)	**Risk bearing capacity (%)**	**2013 (m€)**	**Risk bearing capacity (%)**
Available solvency margin	36.4	-	32.5	-
Claims incurred	33.1	110%	30.6	106%
Premiums earned (net of reinsurance)	52.4	69%	49.3	66%
Insurance provisions (net of reinsurance)	42.9	85%	41.6	78%
Investment portfolio	69.3	53%	64.7	50%

Requirements to insurance companies' solvency are set out in the Insurance Activities Act. Under the Insurance Activities Act, the company's absolute minimum capital requirement is 3.5 million euros. At 31 December 2014, the company's required minimum solvency margin (calculated in accordance with the above Act) was 9.4 million euros while the available solvency margin was 36.4 million euros. Thus, the minimum solvency margin requirement is satisfied 3.9-fold.

	2014	2013
Available solvency margin	36,387,199	32,484,684
Required minimum solvency margin	9,431,917	8,720,858
Absolute minimum capital requirement	3,500,000	3,500,000
Solvency surplus	26,955,282	23,763,826
Minimum share capital	3,000,000	3,000,000

Note 4. Premiums

	Gross premiums written 2014	Ceded to reinsurers 2014	Gross premiums written 2013	Ceded to reinsurers 2013
Comprehensive vehicle insurance	17,011,662	-101,610	16,893,226	-111,281
Motor liability insurance	13,536,593	-480,648	12,437,407	-378,660
Property and construction risks insurance	7,899,351	-1,448,145	7,650,626	-1,478,115
Home insurance	6,556,873	-175,456	6,394,554	-182,083
Short-term health insurance*	8,889,427	-58,157	7,467,884	-65,292
Liability insurance	1,983,281	-405,925	1,907,311	-376,741
Business interruption insurance	570,044	-268,147	573,981	-318,544
Goods in transit insurance	107,518	-52,790	105,402	-55,175
Small boat insurance	32,512	-3,030	35,439	-3,542
Guarantee insurance	13,339	-2,986	12,434	-5,284
Total gross premiums written	**56,600,600**	**-2,996,894**	**53,478,264**	**-2,974,717**
Change in provision for unearned premiums**	-1,194,545	1,971	-1,178,339	2,545
Total net earned premiums	**55,406,055**	**-2,994,923**	**52,299,925**	**-2,972,172**

* Short-term health insurance comprises travel, accident and health insurance.
** See also note 17.

2014	Estonia	Latvia	Lithuania	Total
Gross premiums written	27,049,996	15,151,572	14,399,032	56,600,600
Ceded to reinsurers	-1,438,288	-807,641	-750,965	-2,996,894

2013	Estonia	Latvia	Lithuania	Total
Gross premiums written	26,268,285	13,280,738	13,929,241	53,478,264
Ceded to reinsurers	-1,556,644	-718,417	-699,656	-2,974,717

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Date/kuupäev........19.03.2015........
Signature/allkiri........................
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Note 5. Investment income, net

2014	Investment income	Unrealised gain/loss on changes in value	Gain/loss on realisation	Total
Financial assets at fair value through profit or loss				
- Fund units	98,962	633,918	48,305	781,185
- Debt securities	1,548,242	23,833	-388,702	1,183,373
Deposits	3,010	0	0	3,010
Total	**1,650,214**	**657,751**	**-340,397**	**1,967,568**

2013	Investment income	Unrealised gain/loss on changes in value	Gain/loss on realisation	Total
Financial assets at fair value through profit or loss				
- Fund units	90,114	557,595	0	647,709
- Debt securities	1,704,991	-1,184,439	-175,538	345,014
Deposits	4,737	0	0	4,737
Total	**1,799,842**	**-626,844**	**-175,538**	**997,460**

Note 6. Other operating income

	2014	2013
Reinsurance commissions and profit participation	68,189	79,037
Reinsurers' share of acquisition costs	1,429	829
Other income	148,447	162,757
Total other operating income	**218,066**	**242,623**

Note 7. Claims and claims handling costs

Claims and claims handling costs	From insurance contracts 2014	Reinsurers' share 2014	From insurance contracts 2013	Reinsurers' share 2013
Comprehensive vehicle insurance	11,273,052	583	11,180,156	147
Motor liability insurance	8,953,508	-48,911	6,898,168	472
Property and construction risks insurance	4,089,356	-26,455	3,256,937	-183,556
Home insurance	3,460,185	0	3,083,420	25
Short-term health insurance*	4,725,258	126	3,937,144	194
Business interruption insurance	167,653	0	304,937	-16,090
Liability insurance	593,927	6,886	804,185	-76,320
Goods in transit insurance	22,901	0	107,416	0

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Date/kuupäev........19.03.2015........
Signature/allkiri........
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Small boat insurance	37,329	0	16,739	0
Total claims and handling costs paid	**33,323,169**	**-67,771**	**29,589,102**	**-275,128**
Change in provision for claims outstanding	-239,647	293,180	1,060,539	-553,618
Total claims and handling costs incurred	**33,083,522**	**225,409**	**30,649,641**	**-828,746**

* Short-term health insurance comprises travel, accident and health insurance.

In the statement of comprehensive income, the line item *Claims and claims handling costs incurred* includes the change in the provision for claims outstanding (see note 17) as well as claims handling costs of 2,289,875 euros (2013: 2,282,027 euros). The amount of claims paid does not match the amount of *Claims and claims handling costs paid* in the statement of cash flows because the amount presented in the table above includes also indirectly allocable costs.

Claims handling costs	**2014**	**2013**
Salaries	1,452,921	1,378,827
Other operating expenses	358,473	446,644
Change in the value of property and equipment and intangible assets	237,698	92,982
Services purchased from third parties	240,784	363,574
Total	**2,289,875**	**2,282,027**

Note 8. Operating expenses

Operating expenses are divided into acquisition costs and administrative expenses as follows:

	2014	**2013**
Staff costs	**6,436,302**	**6,388,696**
Acquisition costs	3,691,235	3,516,892
Administrative expenses	2,745,067	2,871,804
Commissions to brokers	**6,143,804**	**5,957,710**
Acquisition costs	6,143,804	5,957,710
Change in the value of property and equipment and intangible assets*	**517,199**	**2,031,592**
Acquisition costs	145,189	197,483
Administrative expenses	372,010	1,834,109
Rentals and utilities costs paid	**606,688**	**457,162**
Acquisition costs	371,498	286,872
Administrative expenses	235,190	170,290
Other operating expenses	**3,381,083**	**3,228,905**
Acquisition costs	1,369,034	1,363,511
Administrative expenses	2,012,049	1,865,394
Total	**17,085,076**	**18,064,065**
Change in deferred acquisition costs	-64,530	-253,906

Total acquisition costs	**11,656,230**	**11,068,562**
Total administrative expenses	**5,364,316**	**6,741,597**
Investment management expenses	143,532	143,532
Total operating expenses	**17,164,078**	**17,953,691**

* For further information on the change in the value of property and equipment, see note 10.
The composition of claims handling costs is presented in note 7.
In the reporting period, the average number of staff was 341 (2013: 336).
The remuneration of the management board is disclosed in note 23 Transactions with related parties.

Note 9. Reinsurance result

	2014	2013
Premiums ceded to reinsurers (note 4)	-2,996,894	-2,974,717
Reinsurers' share of change in provision for unearned premiums (note 4)	1,971	2,545
Reinsurers' share of commissions paid (note 6)	68,189	79,037
Reinsurers' share of claims paid (note 7)	67,771	275,128
Reinsurers' share of change in provision for claims outstanding (note 7)	-293,180	553,618
Reinsurers' share of acquisition costs (note 6)	1,429	829
Foreign exchange differences on reinsurance (administrative expenses)	25	-68
Net result	**-3,150,688**	**-2,063,628**

Note 10. Property and equipment

	Buildings	Vehicles	Hardware, equipment	Office furnishings	Other items	Pre-payments	Total
Cost at 31 December 2012	4,251,654	471,737	1,461,828	691,916	173,537	10,600	**7,061,272**
Additions	60,972	97,100	161,234	399,913	42,116	0	**761,335**
Disposals	0	-196,239	-688,191	-153,012	-71,672	-10,600	**-1,119,714**
Write-down*	-1,510,214	0	0	0	0	0	**-1,510,214**
Cost at 31 December 2013	2,802,412	372,598	934,872	938,817	143,981	0	**5,192,680**
Additions	35,912	0	115,692	28,089	2,492	7,137	**189,322**
Disposals	0	-45,543	-86,363	-18,968	-20,336	0	**-171,210**
Cost at 31 December 2014	2,838,324	327,055	964,201	947,938	126,137	7,137	**5,210,792**
Accumulated depreciation at 31 December 2012	-416,280	-374,921	-1,188,026	-483,081	-84,638	0	**-2,546,946**
Depreciation	-86,132	-10,296	-134,143	-46,795	-36,661	0	**-314,027**

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Date/kuupäev.....19.03.2015.........
Signature/allkiri..........................
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Depreciation on disposals	0	101,969	652,862	94,719	68,948	0	**918,498**
Accumulated depreciation at 31 December 2013	-502,412	-283,248	-669,308	-435,157	-52,351	0	**-1,942,476**
Depreciation	-52,484	-5,887	-119,608	-64,403	-26,665	0	**-269,047**
Depreciation on disposals	0	25,299	85,654	7,114	18,789	0	**136,856**
Accumulated depreciation at 31 December 2014	-554,896	-263,836	-703,263	-492,446	-60,227	0	**-2,095,309**
Carrying amount at 31 December 2012	**3,835,374**	**96,816**	**273,802**	**208,836**	**88,899**	**10,600**	**4,514,327**
Carrying amount at 31 December 2013	**2,300,000**	**89,350**	**265,563**	**503,661**	**91,630**	**0**	**3,250,204**
Carrying amount at 31 December 2014	**2,283,428**	**63,219**	**260,938**	**455,493**	**65,910**	**7,137**	**3,136,125**

* Non-recurring restatement of the building to market value due to a possible change in use.

Note 11. Intangible assets

Intangible assets

	Software
Cost at 31 December 2012	1,588,531
Accumulated amortisation at 31 December 2012	-897,733
Carrying amount at 31 December 2012	**690,798**
Additions	71,124
Disposals	-395
Amortisation for the year	-91,703
Cost at 31 December 2013	1,659,260
Accumulated amortisation at 31 December 2013	-989,436
Carrying amount at 31 December 2013	**669,824**
Additions	222,146
Disposals	-274
Amortisation for the year	-220,048
Cost at 31 December 2014	1,881,132
Accumulated amortisation at 31 December 2014	-1,209,484
Carrying amount at 31 December 2014	**671,649**

Intangible insurance assets (deferred acquisition costs)

Carrying amount at 31 December 2012	**1,992,182**
Amortised portion	-5,892,312
Additions from new contracts	6,146,218
Carrying amount at 31 December 2013	**2,246,089**
Amortised portion	-7,155,998
Additions from new contracts	7,220,528
Carrying amount at 31 December 2014	**2,310,619**

At the reporting date, intangible assets and intangible insurance assets (deferred acquisition costs) totalled 2,982,268 euros (2013: 2,915,913 euros).

Note 12. Investments in financial instruments

The company's investments in debt instruments, equities and fund units are classified as financial assets at fair value through profit or loss. Available-for-sale financial assets include an EGCC (MTÜ Estonian Golf & Country Club) D-share, which is measured at cost. Fixed and floating rate debt instruments include government bonds and debt securities issued by companies and financial institutions.

The fair value of investments in financial instruments is determined using the active market prices quoted in the Bloomberg trading system. The fair value of unlisted financial instruments is determined using generally accepted valuation techniques. If a security does not have a listed market price, a price range is derived based on its end-of-the-month price using the swap curve. In 2014 and 2013 the company did not have such securities.

The three-level fair value hierarchy provided in IFRS 13:

1. financial instruments whose fair value is determined by reference to quoted prices in active markets for identical instruments;
2. financial instruments whose fair value is determined by reference to directly observable market inputs;
3. financial instruments whose fair value is determined by reference to inputs that are not based on observable market data.

Under the three-level fair value hierarchy provided in IFRS 13, at 31 December 2014 all of the company's financial instruments that are measured at fair value fell into the Level 1 category.

Fair values of financial instruments according to the fair value hierarchy

Level 1		
As at 31 December	**2014**	**2013**
Debt securities at fair value through profit or loss	56,277,915	54,961,829
Equities and fund units at fair value through profit or loss	12,844,687	9,597,228
Total	**69,122,602**	**64,559,057**

EGCC D-share

As at 31 December	**2014**	**2013**
Available-for-sale financial asset (measured at cost)	35,000	35,000
Ownership interest	0.29%	0.29%

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Allkirjastatud identifitseerimiseks
Date/kuupäev........19.03.2015........
Signature/allkiri.......................
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Investments in debt securities by issuer

As at 31 December	2014	2013
Fixed income securities		
Government bonds	16,921,209	23,084,210
Debt securities issued by financial institutions	29,458,573	21,892,071
Debt securities issued by companies	9,292,061	9,386,851
Total	**55,671,843**	**54,363,132**
Floating rate securities		
Debt securities issued by financial institutions	606,072	598,697
Total	**606,072**	**598,697**
Total debt securities	**56,277,915**	**54,961,829**

Note 13. Fair values of financial assets and liabilities

	Carrying amount	Fair value	Carrying amount	Fair value
As at 31 December	**2014**	**2014**	**2013**	**2013**
Debt securities at fair value through profit or loss (note 12)	56,277,915	56,277,615	54,961,829	54,961,829
Equities and fund units at fair value through profit or loss (note 12)	12,844,687	12,844,687	9,597,228	9,597,228
Available-for-sale financial assets (note 12)	35,000	-*	35,000	-*
Term deposits	140,110	140,110	141,198	141,198
Receivables from policyholders and insurance brokers and other receivables (note 15)	5,088,773	5,088,773	4,638,850	4,638,850
Cash and cash equivalents (note 14)	3,043,705	3,043,705	3,032,987	3,032,987
Total financial assets	**77,430,190**	**77,394,890**	**72,407,092**	**72,372,092**
Payables to reinsurers (note 15)	189,030	189,030	143,352	143,352
Payables to policyholders (note 18)	64,537	64,537	168,127	168,127
Payables to insurance brokers (note 18)	916,536	916,536	843,935	843,935
Payables to suppliers and other payables (note 19)	1,032,878	1,032,878	1,344,898	1,344,898
Total financial liabilities	**2,202,981**	**2,202,981**	**2,500,312**	**2,500,312**

* The fair value of the share in EGCC has not been determined because it cannot be measured reliably. Management has no intention of disposing of the share in EGCC.

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Allkirjastatud identifitseerimiseks
Date/kuupäev........19.03.2015........
Signature/allkiri..........................
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Note 14. Cash and cash equivalents

As at 31 December	2014	2013
Cash on hand	10,110	32,504
Demand deposits	3,033,595	3,000,483
Total	**3,043,705**	**3,032,987**

Cash and cash equivalents by currency

As at 31 December	2014	2013
EUR	1,774,106	1,782,468
USD	9,929	2,981
LVL	0	320,102
LTL	1,259,670	927,436
Total	**3,043,705**	**3,032,987**

In the reporting period, the interest rates of overnight deposits ranged from 0.01% to 0.08%. The interest rates of term deposits ranged from 0.08% to 3.75%.

Note 15. Receivables

Other receivables

As at 31 December	2014	2013
Subrogation claims submitted*	790,963	668,849
Salvaged assets	72,125	56,182
Other financial assets	338,168	82,402
Prepaid expenses	393,883	322,623
Total	**1,595,139**	**1,130,056**

* Subrogation claims submitted comprise claims of 3,414,258 euros less an impairment loss of 2,623,295 euros (2013: claims of 3,155,781 euros less an impairment loss of 2,486,932 euros).

Reinsurance assets

As at 31 December	2014	2013
Reinsurers' share of provision for unearned premiums	161,701	159,730
Reinsurers' share of provision for claims outstanding	3,023,715	3,316,894
Total	**3,185,416**	**3,476,624**

Receivables from and payables to a reinsurer are presented in the statement of financial position in the net amount, in accordance with the terms and conditions of the reinsurance contracts. All receivables fall due within the next 12 months.

Other insurance payables (see note 18) include reinsurers' share of acquisition costs of 14,866 euros (2013: 15,695 euros).

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
Date/kuupäev.......19.03.2015.......
Signature/allkiri..........
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Receivables from policyholders and insurance brokers

As at 31 December	2014	2013
Receivables from policyholders and insurance brokers	3,886,406	3,718,420
Total	**3,886,406**	**3,718,420**

All receivables fall due within the next 12 months. During the year, receivables of 20,490 euros were considered doubtful and recognised as an expense (2013: 12,129 euros).

Note 16. Equity

As at 31 December	2014	2013
Share capital	3,000,000	3,000,000
Number of shares	469,398	469,398
Par value of a share (in euros)	no par value	no par value

According to the articles of association, the company's minimum and maximum authorised share capital amount to 3,000,000 euros and 12,000,000 euros respectively. All shares are registered shares without par value, of the same class and carry equal rights. The company's sole shareholder is Pohjola Insurance Ltd that holds 100% of the company's voting power. The company has issued ordinary shares of one class. Ordinary shares provide the holder with all the rights listed in the Estonian Commercial Code: the right to attend the general meeting, to participate in the distribution of profits and the distribution of residual assets on the dissolution of the company, to obtain from the management board information about the company's activities (at the general meeting).

Reserves comprise the statutory capital reserve (see note 1 subsection 10). At 31 December 2014, the capital reserve stood at 1,009,886 euros (31 December 2013: 1,009,886 euros).

Note 17. Insurance contract liabilities

As at 31 December	2014	2013
Provision for unearned premiums	20,193,851	19,033,686
Provision for claims outstanding	25,613,057	25,852,705
Unexpired risk provision	261,689	227,307
Total	**46,068,596**	**45,113,698**
Reinsurers' share of provision for unearned premiums	161,701	159,730
Reinsurers' share of provision for claims outstanding	3,023,715	3,316,894
Total reinsurance assets	**3,185,416**	**3,476,624**
Insurance provisions net of reinsurance	**42,883,179**	**41,637,074**

Provision for claims outstanding

As at 31 December	2014	2013
Provision for claims incurred and reported	19,329,044	19,730,884
Provision for claims incurred but not reported (IBNR)	5,141,865	5,521,411
Provision for indirect claims handling costs	1,142,147	600,410
Total provision for claims outstanding	**25,613,057**	**25,852,705**

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Allkirjastatud identifitseerimiseks
Date/kuupäev 19.03.2015
Signature/allkiri
KPMG, Tallinn

Reinsurers' share of provision for claims incurred and reported	2,977,769	3,274,085
Reinsurers' share of provision for claims incurred but not reported	45,947	42,810
Reinsurers' share of provision for claims outstanding	**3,023,715**	**3,316,895**
Provision for claims outstanding net of reinsurance	**22,589,341**	**22,535,810**

Liability adequacy test

The company has assessed the adequacy of its insurance provisions using a liability adequacy test. The test indicated that in some classes of insurance the estimated future cash flows under the contracts exceeded the carrying amount of relevant insurance liabilities. The difference of 261,689 euros (2013: 227,307 euros) has been recognised within the unexpired risk provision. In other classes of insurance the estimated future cash flows under the contracts did not exceed the carrying amount of insurance liabilities recognised.

Unexpired risk provision

Insurance class As at 31 December	**2014**	**2013**
Health insurance	98,941	98,940
Comprehensive vehicle insurance	0	56,092
Motor liability insurance	162,748	72,275
Total	**261,689**	**227,307**

Changes in the provision for claims outstanding

2014	**Liabilities from insurance contracts**	**Receivables from reinsurance contracts**	**Net**
At 1 January	**25,852,705**	**3,316,895**	**22,535,810**
Claims incurred	37,974,730	1,744,090	36,230,640
Claims paid	-33,323,169	-67,771	-33,255,398
Change in prior periods' provision	-4,891,210	-1,969,499	-2,921,711
At 31 December	**25,613,057**	**3,023,715**	**22,589,341**

2013	**Liabilities from insurance contracts**	**Receivables from reinsurance contracts**	**Net**
At 1 January	**24,792,166**	**2,763,277**	**22,028,889**
Claims incurred	34,731,431	1,229,251	33,502,180
Claims paid	-29,589,102	-275,128	-29,313,974
Change in prior periods' provision	-4,081,790	-400,505	-3,681,285
At 31 December	**25,852,705**	**3,316,895**	**22,535,810**

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Allkirjastatud identifitseerimiseks
Date/kuupäev......19.03.2015......
Signature/allkiri..........
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Changes in the provision for unearned premiums

2014	Liabilities from insurance contracts	Receivables from reinsurance contracts	Net
At 1 January	**19,033,686**	**159,730**	**18,873,956**
Premiums written	56,600,600	2,996,894	53,603,706
Premiums earned	-55,440,435	-2,994,923	-52,445,512
At 31 December	**20,193,851**	**161,701**	**20,032,150**

2013	Liabilities from insurance contracts	Receivables from reinsurance contracts	Net
At 1 January	**17,274,353**	**157,185**	**17,117,168**
Premiums written	53,478,264	2,974,717	**50,503,547**
Premiums earned	-51,718,931	-2,972,172	**-48,746,759**
At 31 December	**19,033,686**	**159,730**	**18,873,956**

In the statement of comprehensive income, the line item *Changes in the provision for unearned premiums* includes the change in the unexpired risk provision.

Note 18. Other insurance payables

As at 31 December	2014	2013
Prepayments from policyholders	1,077,069	851,228
Approved indemnities payable to policyholders	64,537	168,127
Payables to insurance brokers	916,536	843,935
Reinsurers' share of acquisition costs	13,436	14,866
Total	**2,071,578**	**1,878,156**

Note 19. Other liabilities

As at 31 December	2014	2013
Other payables	291,922	581,499
Vacation pay liabilities	430,883	406,186
Payables to suppliers	262,715	298,273
Finance lease payables	47,358	58,940
Total payables to suppliers and other payables	**1,032,878**	**1,344,898**
Income tax payable	134,436	113,585
Social security tax payable	127,298	136,065
Taxes payable	**261,734**	**267,147**
Other provisions	517,675	505,876
Total	**1,819,988**	**2,135,418**

Other provisions of 517,675 euros comprise an estimated provision for performance bonuses payable for the results of the financial year and a provision for future payments under a cooperation agreement.

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Allkirjastatud identifitseerimiseks
Date/kuupäev......19.03.2015.........
Signature/allkiri......................
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Note 20. Operating and finance leases

Operating leases

a. The company as a lessee

During the year, the company made contractual operating lease payments for office premises:

	2014	2013
Operating lease rentals paid	413,223	602,853

The leases can be terminated by giving up to one year's notice. If the leases are not cancelled, operating lease rentals payable in the next financial year will amount to 680,145 euros.

b. The company as a lessor

The company is a lessor under one operating lease on office premises that can be terminated by giving six months' notice.

	2014	2013
Operating lease rentals received	35,068	34,608

Finance leases

a. The company as a lessee

In 2014, the company paid 12,199 euros in finance lease rentals for a vehicle. At 31 December 2014, the company's finance lease liability amounted to 47,358 euros and the carrying amount of the leased asset was 47,358 euros. The interest rate of the lease is floating – the base rate is 3 month Euribor plus a margin that ranges from 0.5% to 1.5%.

Future finance lease rentals under the above lease are payable as follows:

	Lease payments in euros
Not later than 1 year	12,636
Later than 1 year and not later than 5 years	34,722

Note 21. Contingent liabilities

Litigations

The claims of action filed against Seesam Insurance AS in connection with insurance activities have been recorded in insurance databases and have been provided for in the statement of financial position.

Note 22. Income tax

Income tax expense

	2014	2013
Income tax expense	222,733	193,252
Change in deferred income tax	-3,316	-42,652
Total income tax expense	**219,417**	**150,600**

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Allkirjastatud identifitseerimiseks
Date/kuupäev......19.03.2015......
Signature/allkiri..................
KPMG, Tallinn

Recognised deferred tax liabilities

As at 31 December	2014	2013
Deductible temporary differences on		
Property and equipment	51,434	58,312
Other liabilities (vacation pay liabilities to employees)	-35,225	-35,112
Total recognised deferred tax liabilities	**16,209**	**23,200**

Recognised deferred tax assets

As at 31 December	2014	2013
Deductible temporary differences	39,082	42,756
Total	**39,082**	**42,756**

Reconciliation of accounting profit and income tax expense

As at 31 December	2014	2013
Profit before tax	4,123,757	2,793,251
Tax rate 0%	0	0
Effect of tax rates in foreign jurisdictions	214,422	-101,941
Effect of exempt income and taxable expenses	8,312	76,703
Utilisation of unrealised tax losses carried forward	0	212,892
Change in recognised deferred tax liabilities	-6,991	0
Change in recognised deferred tax assets	3,674	-37,054
Income tax expense for the year	**219,417**	**150,600**

At 31 December 2014, the company's unrestricted equity amounted to 33,048,962 euros (2013: 29,144,622 euros). Dividend distributions to shareholders are subject to income tax calculated as 20/80 of the amount distributed as the net dividend. Thus, the maximum amount that could be distributed as a dividend using unrestricted equity as at the reporting date is 26,848,249 euros and the distribution would result in an income tax expense of 6,200,713 euros. Income tax expense has been calculated taking into account the fact that the profits of the Latvian and Lithuanian entities are taxed as earned in their domiciles.

Distributable profit has been found without taking into account the fact that the Insurance Activities Act requires deducting the carrying amount of intangible assets from retained earnings before a distribution can be made to shareholders.

Note 23. Transactions with related parties

Parties are considered to be related if one controls the other or has significant influence over the other's operating decisions. For example, related parties include:

- the parent company (and persons that have control or significant influence over the parent);
- subsidiaries;
- associates;
- other group companies (e.g. the parent's other subsidiaries);
- members of the executive and higher management and shareholders with a significant interest except where these persons cannot exert significant influence on the company's operating decisions;

- close family members (i.e. family members that may be assumed to have significant influence such as a spouse or domestic partner and children) of the persons described in the preceding paragraph as well as companies under their control or significant influence.

Seesam's related parties include:

- the owner (Pohjola Insurance Ltd);
- other group companies (Pohjola Bank plc, Pohjola Finance Estonia AS, Pohjola Asset Management Ltd, Pohjola IT-Procurement Ltd);
- members of the management and supervisory boards;
- close family members of and companies related to the above.

The company's ultimate controlling party is OP-Pohjola Group.

The company has reinsurance contracts with the parent Pohjola Insurance Ltd and with Pohjola Bank Finland Oyj.

	Recognised reinsurance premiums		**Commissions and indemnities received**	
	2014	**2013**	**2014**	**2013**
Pohjola Insurance Ltd	2,904,023	2,842,458	108,823	331,052
Pohjola Bank Finland Oyj	2,950	5,265	0	526

The company has an investment management contract with Pohjola Asset Management Ltd.

	Services purchased	
	2014	**2013**
Pohjola Asset Management Ltd	143,532	143,532

Receivables from and liabilities to Pohjola Insurance Ltd

As at 31 December	**2014**	**2013**
Net reinsurance receivable	0	111,355
Other receivables	16,059	809
Total receivables	**16,059**	**112,164**
Net reinsurance payable	109,122	9,407
Total payables	**109,122**	**9,407**

The company purchases car leasing services from Pohjola Finance Estonia AS. In 2014, services purchased totalled 96,857 euros (2013: 157,217 euros).

In 2014, the remuneration of the members of the management board amounted to 266,657 euros (2013: remuneration amounted to 337,667 euros and termination benefits totalled 8,864 euros). The remuneration of the members of the management board consists of basic remuneration and performance benefits. The proportion of performance benefits does not exceed 30% of basic remuneration. Under the terms of a board member's service contract, one member of the management board is entitled to termination benefits.

Performance benefits are paid based on various ratios that reflect the performance of Seesam Insurance AS and OP-Pohjola Group and achievement of the personal work goals of the person involved.

In 2014 and in 2013, members of the supervisory board were not remunerated.

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Date/kuupäev........19.03.2015........
Signature/allkiri.......................
KPMG, Tallinn

Note 24. Events after the reporting period

On 1 January 2015, the Republic of Lithuania joined the euro area and the Lithuanian litas (LTL) was replaced by the euro (EUR). Accordingly, as from that date the company's Lithuanian branch converted its accounting into euros and its financial statements for 2015 and subsequent years will be prepared in euros

The official exchange rate for the adoption of the euro was LTL 3.4528 to EUR 1.

Signatures to annual report 2014

The management board of Seesam Insurance AS has prepared the report by the management board and the annual financial statements for 2014. The annual report is signed on 17 March 2015 by:

Chairman of the management board
Toomas Abner

Member of the management board
Andri Püvi

Member of the management board
Brigita Elona Blavaščiūnienė

Member of the management board
Aigars Freimanis

KPMG

KPMG Baltics OÜ
Narva mnt 5
Tallinn 10117
Estonia

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

Independent Auditors' Report

To the shareholder of Seesam Insurance AS

We have audited the accompanying financial statements of Seesam Insurance AS ("the Company"), which comprise the statement of financial position as at 31 December 2014, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 53.

Management's Responsibility for the Financial Statements

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

Auditors' 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 our 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, we consider 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 Seesam Insurance AS as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

19 March 2015

KPMG Baltics OÜ
Licence No 17
Narva mnt. 5
Tallinn 10117

Andris Jegers
Authorized Public Accountant, No 171

Profit allocation proposal

The management board of Seesam Insurance AS has approved the profit for 2014 of 3,904,340 euros.

The management board proposes that the general meeting transfer the profit for 2014 to retained earnings.

Chairman of the management board
Toomas Abner

Member of the management board
Andri Püvi

Member of the management board
Brigita Elona Blavaščiūnienė

Member of the management board
Aigars Freimanis

List of business activities

Activities during the period 1 January - 31 December 2014	Amounts
Non-life insurance (65121)	56,600,600
Total	56,600,600

Activities planned for the period 1 January - 31 December 2015
Non-life insurance (65121)