SEESAM INSURANCE AS

Annual report 2016

Seesam

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Commercial Register number:	10055752
Financial year:	1 January 2016 - 31 December 2016
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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

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Report by the management board

Seesam Insurance AS (hereafter also '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.
- To be the best employer.
- To be a reliable partner.
- To 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 24 sales and customer service offices across the Baltic countries: 10 in Estonia, 5 in Latvia and 9 in Lithuania.

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

Operating environment and the insurance market

As anticipated, in 2016 economic growth in the euro area remained modest. The main growth driver was domestic consumption, which in turn was supported by rising employment. In the coming years, GDP growth is expected to average 1.5% but the outlook for 2017 may be even more subdued because the trough in oil and energy prices is over and the implications of Brexit are still unclear. The European Central Bank is expected to uphold its current monetary policy. Thus, low interest rates should continue to support investment.

The year 2017 is an election year in many European countries and as the popularity of the Euro-sceptics has been increasing, surprising results cannot be ruled out. In addition to political risks within the European Union, the action plans of the US and the UK and their potential impacts on the European Union's exports are still uncertain. Political tensions resulting from Russia also persist.

According to preliminary data, in 2016 the Baltic economies grew at a relatively moderate pace. GDP growth was the highest in Lithuania (2.2%) and somewhat lower in Latvia (2.1%) and Estonia (1.6%). The main growth driver was domestic consumption which was supported by wage growth and weak inflation which boosted real incomes. Exports recovered more vigorously than the year before. Lower pay-outs from the European Union's structural funds held back investment, particularly in the construction sector, and a rise in wages and inflation reduced companies' profit margins. The expected real GDP growth rates for 2017 are 2.0% for Estonia and 2.7%-2.9% for Latvia and Lithuania.

The Baltic non-life insurance market sustained rapid growth in 2016. Compared with 2015, gross premiums written grew by 11.2% in Lithuania, 8.4% in Estonia, and 6.4% in Latvia. The growth of the non-life insurance market was strongly supported by a rise in the sales of new vehicles and, to a certain extent, an increase in insurance prices. Regrettably, the price level is still far from sustainable. The year 2016 was one of record losses in the Baltic compulsory motor liability insurance market and the situation in the voluntary motor vehicle insurance market is nothing to boast about either.

In terms of gross premium income, Seesam's market share was 9.7% in Estonia, 5.5% in Latvia and 3.3% in Lithuania (market shares have been determined taking into account premiums written by foreign insurers' branches).

Highlights of the year

Seesam 25

Seesam's memorandum of association was signed in Tallinn on 9 May 1991. 25 years in the insurance market is a long and noteworthy period. Over the years, Seesam has become an insurer recognised for its professionalism, satisfied customers, up-to-date products and services, and capacity to develop.
The year of our 25th anniversary was one of caring for us. We focused, above all, on family- and home-related activities and participated in events aimed at families and children. We spoke more about our views and values and drew attention to the importance of the family and the need to take care of our loved ones.

Family, Home, Children

In autumn 2015, we launched a new and unique solution – Seesam's family insurance. The attractive and memorable product was well received. In April 2016, we sponsored the Estonian theatres' first futsal tournament and family day, organised at the Lilleküla football arena in Tallinn. We supported the fun not-for-profit event and attended it with our stand and staff to show that Seesam values families and sports and to provide information about Seesam's family insurance.

Happy Kids Festival

In July, we participated at the Happy Kids Festival organised in the Pärnu beach park to offer families high-quality educative entertainment. The festival premises were divided into thematic areas. For example, in the interesting workshops area people could get acquainted with the tourism enterprises of Pärnu and Pärnu county and have fun at related attractions, find out about their heritage and the customs of their great grandparents, support enterprising children and companies which had started out as student businesses, and buy, sell and exchange hobby supplies.

Seesam offered the visitors an opportunity to take engaging pictures of themselves or their families using an innovative augmented selfie solution which allows creating fun images with selected props, effects and backgrounds. People could play precision games, participate in a family scooter raffle and, naturally, obtain information about insurance products.
Everything offered at the festival was made in Estonia, of high-quality, and instructive for children but also exciting and entertaining for all family members.

Opinion Festival

In August, we participated for the first time in the Opinion Festival held in Paide. Festivals are a great place for meeting existing and prospective customers and gaining a better understanding of what people need and which issues are topical for them.

In partnership with the Estonian Rescue Board, Seesam organised the discussion "Am I coping with life?". Minor unforeseen events are unavoidable but there can be life-altering tragedies. We have to be prepared and know how to handle hardship. How to do it? How to maintain inner peace and restore confidence? Which resources can we draw upon in everyday difficulties and in extreme circumstances? How can we help those who need assistance? Participants talked about threats to children and families and called upon people to pay more attention to them. In addition, we provided advice and practical exercises for coping better with any unexpected situation.

Seesam also arranged the discussion "Children wrapped in cotton-wool – is it holding them back?". We feel that both the world and our immediate environment have become more dangerous. In response, we have become much more cautious. We are overprotective and try to 'wrap our kids in cotton-wool'. Is it justified? Do rules and restrictions increase security or limit freedom? Prominent people from different fields shared their views and personal experience.

Designated Driver Campaign

In 2016, the Designated Driver Campaign celebrated its 20th anniversary. Twenty years of consistency and tradition have made Designated Driver one of the most long-lasting and certainly one of the best-known road safety campaigns in Estonia. As customary, Seesam supported the event. In 2016, around two and a half thousand people signed up compared to two hundred in 1997. Through the years, the mission of the campaign has been the same – people are encouraged to be a designated driver during the Midsummer festivities and make sure that none of their friends or family would drive under the influence of alcohol.

E-training

Staff training and development have always been our priorities. It is what makes working for Seesam attractive for people and underpins our financial performance. In 2016, our internal training moved to the next level – namely, in addition to traditional classroom training we now offer our people also e-learning options. With the new approach and an e-environment, we can make our training activities more flexible and reach all our employees regardless of their location.

Safety and Security

During the year, Seesam organised or took part in several traditional and new safety and security campaigns.

For the third time already, we participated in the reflector campaign organised by the Estonian Road Administration. The campaign, carried out under the slogan I Stand Out, emphasised that one reflector may not be enough. There are many products which glow or reflect in the dark so everyone can choose what suits them best. Organisers reached out to different target groups, visiting sports events, pre-school theatre shows, and the elderly to explain the importance of being visible and hand out free reflectors.

For the Safety on the Way to School campaign, Seesam and the Road Administration created an interactive test which parents could use to evaluate how safe is their children's way to school. The test drew attention to different hazards and provided advice on how to make the way to school safer.

In Latvia, similarly to several previous years, Seesam and Getz Nordic organised the Surprise the Winter campaign which provides people with an opportunity to have their vehicles' tyres, battery, and windscreen wipers checked to make sure they are ready for the winter. In 2016, the campaign was widened to Estonia where Seesam teamed up with Getz Eesti to offer people an opportunity have their vehicles' preparedness for winter checked in front of the Bauhof stores.

In Lithuania, we supported a project designed to help drivers – the most dangerous places in Vilnius were marked on an interactive map.

Key performance indicators

In millions of euros	2016	2015
Gross premiums written	59.1	56.4
Net earned premiums	55.3	53.2
Claims and claims handling costs incurred	34.7	34.9
Net claims and claims handling costs incurred	35.7	34.0
Net profit for the year	3.1	2.7
Insurance contract liabilities (net of reinsurance)	42.7	41.8
Investments	75.2	71.1
Operating expenses	17.7	17.4
Net loss ratio[1] (%)	64.7	63.9
Net expense ratio[2] (%)	31.5	32.3
Combined ratio[3] (%)	96.2	96.2

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

Financial performance

Profit

Seesam Insurance AS ended 2016 with a net profit of 3.1 million euros of which 2.1 million euros resulted from the insurance business and 1.0 million was earned on investments. The loss ratio increased, rising by 0.8 percentage points to 64.7% while the expense ratio decreased by 0.8 percentage points to 31.5%. The combined ratio remained stable at 96.2%.

Premium income

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

In 2016, motor liability insurance and comprehensive vehicle insurance accounted for 54.3% of Seesam's insurance portfolio. Legal persons' property and construction risks insurance together with individuals' home insurance accounted for 26.5%, short-term health insurance together with travel and accident insurance accounted for 14.3%, and other classes for 4.9% of the portfolio.

During the year, gross premiums written by Seesam in the three Baltic countries grew to 59.1 million euros, 4.8% up on 2015. Gross premium income earned in Estonia accounted for 49.5% of total premium income while Latvia contributed 25.0% and Lithuania 25.5%.

Claims

Claims (gross claims including handling costs) paid in 2016 remained more or less stable, amounting to 35.6 million euros (2015: 35.9 million euros). Motor liability insurance and comprehensive vehicle insurance accounted for 62.2% of claims paid while legal persons' property and construction risks insurance together with individuals' home insurance accounted for 21.7%, short-term health insurance together with travel insurance and accident insurance accounted for 13.5%, and other classes accounted for a total of 2.6% of claims paid. The ratio of claims paid and claims handling costs to gross premiums written was 60.3%

Claims and claims handling costs incurred (net of reinsurance) totalled 35.7 million euros (2015: 34.0 million euros) and the net loss ratio rose to 64.7% (2015: 63.9%).

Expenses

Seesam's operating expenses for the year grew by 1.5% to 17.7 million euros.

Insurance contract acquisition costs for 2016 amounted to 11.6 million euros and the ratio of acquisition costs to gross premiums written was 19.6%. (2015: 11.6 million euros and 20.5% respectively). Administrative expenses totalled 5.9 million euros and investment management expenses amounted to 0.1 million euros (2015: 5.7 million euros and 0.1 million euros respectively).

Investments

At 31 December 2016, the total carrying value of Seesam's investments was 75.2 million euros (2015: 71.1 million euros), 4.1 million euros up on the end of 2015. Investments comprised debt securities and bonds issued by financial institutions (49.8%), governments (18.3%) and companies (11.0%), equities and fund units (20.8%), and other investments (0.2%). Seesam's investment gain for 2016 amounted to 1.0 million euros (2015: 0.6 million euros). Investments cover Seesam's insurance contract liabilities (net of reinsurance) 1.8-fold (2015: 1.7-fold).

People

At the end of 2016, Seesam had 350 staff: 160 in Estonia, 88 in Latvia and 102 in Lithuania. The number of sales staff was 97 in Estonia, 42 in Latvia and 62 in Lithuania.

Women accounted for 76% of the headcount and their proportion is similar in all three countries. The average age of the staff was 39 years. The average age was the highest in Estonia where it was over 44, in Latvia it was around 37, and in Lithuania 34. On average, our staff have been with us for 7.3 years, the average length of employment being 9.5 years in Estonia, 5.7 years in Latvia and 5.4 years in Lithuania.

Through the years, Seesam has prioritised developing its employees' insurance expertise and competencies. We believe that our success is underpinned by a professional team. Reliable and well-trained insurance professionals can offer our customers the best possible advice and service. Seesam's stable performance confirms that by enhancing employee competencies we build employee confidence and the desire to deliver the best possible results.

In 2016, one of the goals of the human resource department was to analyse the company's image and identify both the internal and the external perception of Seesam as an employer.

In 2015, we began offering our staff the teleworking option. Today we are pleased to report that flexible working conditions have improved employee satisfaction. This is also reflected in the results of a satisfaction survey: in 2016 Seesam's pan-Baltic employee satisfaction index was 4.33 on a 5-point scale. Over 83% of the staff participated. The survey showed that our people appreciate, above all, the support of their colleagues and managers and the opportunity to manage their work and time flexibly.

In recruiting new staff, we pay a lot of attention to their personality and interest in customer service. In addition, we provide on-boarding support to ensure that new staff adapt smoothly to the organisation and their responsibilities. In 2016, we implemented Edutizer – a web-based e-learning platform which supports independent learning with video training. The e-solution allows us to provide new staff with more flexible and quicker insurance training.

Seesam's investment in staff support and development has been highly effective and loyalty-inspiring but the image of a good employer must also be communicated to current and prospective job-seekers. Seesam wishes to be attractive in the labour market and in the coming years we will work to meet this objective.

Management

In 2016, Seesam's supervisory board had the following members:

Mr Olli Ilmari Lehtilä, chairman of the supervisory board

Mr Jouko Markku Kalevi Pölönen

Mr Jorma Juhani Alanne (until 10 March 2016)

Mr Karri Arne Olavi Alameri (from 10 March 2016)

In 2016, 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 2017

We expect that in the next few years, premiums written in the Baltic non-life insurance market will grow steadily at the rate of 4-5% per year. The rise will be supported by growth in the Baltic GDPs, which will be driven by an increase in people's purchasing power and domestic consumption. We anticipate a price increase in motor liability insurance, which in recent years has generated major losses for all market players. It is also likely that we will see a slight price increase in comprehensive vehicle insurance where profitability has decreased significantly in the past couple of years.

We expect claims paid to increase at the same rate as premium income or slightly faster. A relatively mild winter has a favourable impact on the frequency of losses incurred in motor liability and comprehensive vehicle insurance.

Competition in the Baltic insurance market will remain fierce through 2017. There are several relatively new market entrants whose main ambition is to grow market share with little or no regard for profitability. Stiff competition will keep insurance prices favourable for customers. Insurers will continue to open new e-stores where prices are even more favourable than in the traditional sales channels.

Seesam's priorities will remain unchanged. We are planning to achieve moderate sales growth but the main focus will be on excellent customer service, competent risk selection, and profitability. We will invest in increasing the availability of our e-services both in underwriting and claims handling. Our customers know us for our professionalism and strong service culture and we will do our best to deliver it also in the future.

Annual financial statements

Statement of comprehensive income

	Note	2016	2015
Gross premiums written	4	59,121,533	56,414,502
Written premiums ceded to reinsurers	4	-3,043,890	-3,199,724
Change in the provision for unearned premiums	4	-755,360	1,280
Reinsurers' share of change in the provision for unearned premiums	4, 17	-68,708	5,143
Net earned premiums		**55,253,575**	**53,221,201**
Investment income, net	5	1,127,567	793,461
Other operating income	6	278,185	240,181
Total income		**56,659,327**	**54,254,843**
Claims and claims handling costs incurred	7	-34,746,381	-34,852,101
Reinsurers' share of claims and claims handling costs incurred	7	-988,870	830,064
Net claims and claims handling costs incurred		**-35,735,251**	**-34,022,037**
Acquisition costs	8	-11,615,358	-11,571,550
Administrative expenses	8	-5,908,021	-5,698,833
Investment management expenses	8	-144,132	-143,532
Total operating expenses		**-17,667,511**	**-17,413,915**
PROFIT BEFORE INCOME TAX		**3,256,565**	**2,818,891**
INCOME TAX EXPENSE	22	**-187,173**	**-147,571**
NET PROFIT FOR THE YEAR		**3,069,392**	**2,671,320**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,069,392**	**2,671,320**

The notes on pages 14 to 51 are an integral part of these financial statements.

Satement of financial position

As at 31 December	Note	2016	2015
ASSETS			
Property and equipment	10	862,688	3,108,194
Intangible assets	11	992,533	778,720
Deferred acquisition costs	11	2,397,290	2,290,187
Investments			
Equities and fund units at fair value through profit or loss	12,13	15,620,677	13,720,984
Debt securities at fair value through profit or loss	12,13	59,423,827	57,182,515
Available-for-sale financial assets	12	35,000	35,000
Deposits		140,012	140,016
Total investments		**75,219,516**	**71,078,515**
Other receivables	15	1,086,779	1,340,304
Reinsurance assets	15	2,200,736	3,277,567
Receivables from reinsurers		3,670	99,838
Receivables from policyholders and insurance brokers	15	4,553,036	4,237,489
Prepaid taxes		0	117,977
Cash and cash equivalents	14	2,230,296	2,220,367
Non-current assets held for sale		2,187,918	0
Deferred income tax assets	22	20,243	31,841
TOTAL ASSETS		**91,754,705**	**88,580,999**
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)		35,720,281	33,048,961
Profit for the year		3,069,392	2,671,320
Total equity		**42,799,559**	**39,730,167**
Liabilities			
Insurance contract liabilities	17	44,917,835	45,046,004
Payables to reinsurers		258,363	111,549
Other insurance payables	18	2,072,786	1,988,354
Payables to suppliers and other payables	19	841,296	794,167
Other provisions	19	493,024	555,732
Income tax payable	19	195,000	205,524
Other taxes payable	19	161,941	143,395
Deferred tax liabilities	22	14,901	6,107
Total liabilities		**48,955,146**	**48,850,832**
TOTAL EQUITY AND LIABILITIES		**91,754,705**	**88,580,999**

The notes on pages 14 to 51 are an integral part of these financial statements.

Statement of cash flows

	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Insurance premiums received		57,189,982	54,400,059
Reinsurance premiums paid		-3,028,398	-3,044,164
Claims and claims handling costs paid		-33,038,099	-33,114,142
Paid in operating expenses		-17,174,406	-17,177,522
Income tax paid		-113,524	-182,412
Interest received		1,692,732	1,564,992
Purchases and sales of equities and fund units, net		-1,180,000	143,594
Cash flows from debt instruments and deposits		-3,526,171	-2,697,117
Investment management expenses paid	8	-144,132	-143,532
Net cash used in/from operating activities		**677,984**	**-250,244**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment and intangible assets		-654,518	-556,348
Net cash used in investing activities		**-654,518**	**-556,348**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of finance lease liabilities		-13,537	-16,746
Net cash used in financing activities		**-13,537**	**-16,746**
NET CASH OUTFLOW/INFLOW		**9,929**	**-823,338**
Cash and cash equivalents at beginning of year		**2,220,367**	**3,043,705**
Cash and cash equivalents at end of year	**14**	**2,230,296**	**2,220,367**
DECREASE/INCREASE IN CASH AND CASH EQUIVALENTS		**9,929**	**-823,338**

The notes on pages 14 to 51 are an integral part of these financial statements.

Statement of changes in equity

	Share capital	Statutory capital reserve	Retained earnings	Total
As at 31 December 2014	**3,000,000**	**1,009,886**	**33,048,961**	**37,058,847**
Profit for the year	0	0	2,671,320	2,671,320
Total comprehensive income for the year	0	0	2,671,320	2,671,320
As at 31 December 2015	**3,000,000**	**1,009,886**	**35,720,281**	**39,730,167**
Profit for the year	0	0	3,069,392	3,069,392
Total comprehensive income for the year	0	0	3,069,392	3,069,392
As at 31 December 2016	**3,000,000**	**1,009,886**	**38,789,673**	**42,799,559**

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

The notes on pages 14 to 51 are an integral part of these financial statements.

Notes to the annual financial statements

Note 1. Significant accounting policies

Seesam Insurance AS is a company registered in the Estonian Commercial Register, which provides insurance services in Estonia and, through its branches, in Latvia and Lithuania. The company is subject to the supervision of the Estonian Financial Supervision Authority. The company's legal address is Vambola 6, 10114 Tallinn, Estonia.

The ultimate controlling party of Seesam Insurance AS is OP Financial Group. OP Financial Group consists of around 180 member cooperative banks and the OP Central Cooperative as well as other companies and credit, financial and service companies whose shares are either fully held by the above organisations or in which the above organisations hold more than half of the voting power.

The annual financial statements of Seesam Insurance AS for the year ended 31 December 2016 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 the year ended 31 December 2016 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU). The accounting and reporting policies set out below have been applied consistently to all periods presented in these financial statements unless indicated otherwise.

Under the Estonian Commercial Code, the annual report including the financial statements which has been prepared by the management board and approved by the supervisory board must also be approved by the general meeting. Shareholders may decide not to approve the annual report prepared and submitted by the management board and may demand that a new annual report be prepared.

The management board authorised these financial statements for issue on 21 March 2017.

1.2. Basis of preparation

The financial statements of Seesam Insurance AS have been prepared under the historical cost convention, except that:

- financial assets at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value (except for those financial assets whose fair value cannot be determined reliably);
- non-current assets held for sale are measured at the lower of carrying amount and fair value.

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 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. Foreign branches' accounts are maintained separately using the same accounting policies as the company except for the policy for recognising gross premiums (see note 1, paragraph 4.1).

Branches prepare their financial statements for the same periods as the company.

Any balances, income and expenses and profits and losses arising from transactions between the company and its branches are eliminated in full.

2. FUNCTIONAL AND PRESENTATION CURRENCY

The company's functional and presentation currency is the euro (EUR).

A foreign currency transaction is recorded in the functional currency using the exchange rate of the European Central Bank at the date of the transaction. At the end of the reporting period, foreign currency monetary items are translated to the functional currency using the closing exchange rates of the European Central Bank. An exchange gain or loss on a monetary item is the difference between its amortised cost in the functional currency at the beginning of the period and its amortised cost in foreign currency translated at the exchange rate at the end of the period.

Foreign currency non-monetary items that are measured at fair value are translated to the functional currency using the exchange rate at the date when the fair value was measured. Foreign currency non-monetary items that are measured in terms of historical cost are translated to the functional currency 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, demand deposits, and term deposits with banks that have a maturity of up to three months. 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 mainly 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 insurance contracts issued by the company 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 (except for the Latvian and Lithuanian figures). 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.

In accordance with the generally accepted practice of their respective domiciles, the Latvian and Lithuanian branches recognise the total amount of gross premiums receivable under an insurance contract 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 cancellation of the contract.

4.2. Claims

When a claim incurred from an insured event is settled, the payment is recognised in claims incurred. Until the settlement decision is made, the estimated amount of claims incurred is included in the provision for claims outstanding and recognised in profit or loss through the change in the provision for claims outstanding. 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 section 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 premiums 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 recognised under the Estonian Motor Insurance Act. The provision for claims outstanding is not reduced by the value of probable salvage and subrogation recoveries, except in 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, a unexpired risk provision is created without reducing deferred acquisition costs.

5. REINSURANCE COMMISSIONS

Reinsurance commissions are recognised based on the amounts recorded in the contracts made with reinsurers. Reinsurance commissions receivable are recognised 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 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 term of the reinsurance contract of the underlying insurance contract. If a claim in the provision for claims outstanding exceeds the company's retention limit, the excess amount is recognised as a reinsurance receivable. Estimated reinsurance receivables are also recognised for unreported claims.

Receivables from 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 at the trade date.

Based on the purpose of their acquisition and management's intentions, all investments 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.

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, and 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 may not 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. INTANGIBLE ASSETS

11.1. 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 any impairment losses. Intangible assets are amortised using the straight-line method. Amortisation rates are determined by reference to the useful lives of the assets which generally extend from 3 to 5 years. Amortisation expense is recognised within administrative expenses.

11.2. 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 insurance (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.

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.

12. 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 any 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. The depreciation rates, depreciation methods and 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 compares an asset's carrying amount to 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.

Items of property and equipment whose sale in the next twelve months is highly probable are reclassified to non-current assets held for sale. A non-current asset held for sale is measured at its carrying amount. In the reporting period, the company had one asset which was classified as a non-current asset held for sale (see note 10).

13. IMPAIRMENT OF ASSETS

13.1. 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.

13.2. 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.

14. CORPORATE INCOME TAX

According to legislation in force, in Estonia corporate profit is not subject to income tax. Therefore, deferred tax assets and liabilities do not arise. In place of profit, income tax is levied on dividends distributed from retained earnings. The tax rate is 20% and the amount of tax payable is calculated as 20/80 (2015: 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 actually distributed. Because of the 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.

Corporate 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	2016	2015
Lithuania	15%	15%
Latvia	15%	15%

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

15. 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.

15.1. 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.

15.2. The company as a lessor

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

16. 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 the 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 liabilities under certain circumstances are disclosed in the notes to the financial statements as contingent liabilities.

17. VACATION PAY LIABILITIES

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

18. 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 net provisions. The model applied relies on the loss ratio and expense ratio estimates for each class of insurance. The test is performed separately for each country but using the same methodology. The results are not aggregated, i.e. the positive result of one entity does not cancel out the negative result of another.

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 an additional provision (unexpired risk provision) is recognised.

Future cash flows are forecast by reference to the net loss ratios of the classes of insurance. Loss ratios are estimated on the basis of historical data. As a rule, the forecasts are made based on the past 12 months' net loss ratios. In insurance classes where results are highly volatile, longer periods are used. Expense ratios are also estimated based on the past 12 months' data.

The principles of recognising the provision for unexpired risks are described in note 1, paragraph 4.3.3. and the test results are disclosed in note 17.

19. REVENUE

19.1. Other income

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

19.2. 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.

19.3. Dividend income

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

19.4. Insurance premiums

Recognition of insurance premiums is described in note 1, paragraph 4.1.

20. 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.

20.1. 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.

20.2. Acquisition costs

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

a) direct costs such as commissions and expenses related to employees directly involved in the conclusion of contracts;
b) allocable costs such as the costs of communication, advertising, printed matter, sales representatives' training, premises, office supplies, etc.;
c) indirect costs such as administrative personnel's salaries, payroll taxes and other costs calculated in proportion to the estimated time spent on sales support.

20.3. 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. 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.

20.4. Investment management expenses

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

21. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS ORIGINATED BY THE INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC)

21.1. Standards issued but not yet effective and not yet adopted by the company

IFRS 9 Financial Instruments

(Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.)

This standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required. The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

(Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. Have not yet been endorsed by the EU.)

The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4. The amendments introduce two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers. The other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.

It is expected that IFRS 9, when initially applied, will have a significant impact on the company's financial statements, since the classification and measurement of its financial instruments will change. The company has not yet determined the precise impact of the initial application of IFRS 9 on its IFRS financial statements and is considering deferring the application of the standard until IFRS 4 Insurance Contracts is applied.

IFRS 15 Revenue from Contracts with Customers

(Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)

The new standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

The company does not expect that the new standard, when initially applied, will have material impact on its financial statements.

IFRS 16 Leases

(Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15. Has not yet been endorsed by the EU.)

IFRS 16 supersedes IAS 17 Leases and related interpretations. The standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Lessor accounting will remain largely unaffected by the introduction of the new standard and the distinction between operating and finance leases will be retained.

The company has not yet completed the analysis of the potential impacts of the standard. According to management's assessment, the initial application of the standard may have an impact on the company's total assets.

21.2. New standards and amendments effective for the reporting period

The following new standards and amendments were required to be adopted in the reporting period:

- Amendments to IAS 1
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
- Amendments to IAS 27 Equity Method in the Separate Financial Statements

The new requirements did not have a significant impact on the company's financial statements.

22. 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 2016) 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 2016 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.

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. 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 which covers legal liability towards third parties 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 amount which corresponds to the market value of the vehicle is provided for.

In the event of personal injury in motor liability insurance, depending on the severity of the injury, reported medical expenses and expenses arising from temporary incapacity for work 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 2% 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 criminal offences against property (theft), the extent of the loss is assessed and either the total insured amount or an estimated portion of it is provided for (based on the claim submitted by the injured party).

In travel insurance, a provision is made 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 the 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.

It was determined that as at the end of 2016 in some classes of insurance the estimated future cash flows exceeded the carrying amounts of liabilities. The difference was recognised within the unexpired risk provision. For further information, please refer to note 17.

2. OTHER RECEIVABLES

2.1. Salvaged assets

Salvaged assets are acquired under motor, vehicle, and property insurance contracts, when the company indemnifies a policyholder for an asset damaged in an insured event. In that case title to the salvaged asset transfers to the company and the company realises it. Salvaged assets are realised via 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 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 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 POLICY

Seesam's risk management policy is based on the risk management policy of OP Group, the guidelines issued by the Estonian Financial Supervision Authority, and the requirements of the EU Solvency II Frame Directive.

Seesam's risk management policy describes the strategies, the main tasks and responsibilities, significant risks, and other operating principles that constitute an important and integral part of Seesam's risk management system.

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.

Organisation and supervision of the activities of the company's risk management function is the responsibility of Seesam's management board.

The company has appointed a Corporate Risk Manager who is responsible for making sure that the risk management function operates effectively.

In line with Seesam's risk management policy, the main risks are as follows:

- strategic risks;
- insurance risks;
- financial risks;
- operational risks;
- concentration risks;
- reputational risks.

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, in theory relative expenses on claims paid should 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 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 combines 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 taken 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 granted with regulations issued by Head of Development Department.

Seesam's reinsurance contracts are mostly of the excess of loss type and purchased through the parent company OP 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.

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 as at the end of 2016 by insurance class.

	Liabilities from insurance contracts (gross)	Liabilities from insurance contracts: reinsurers' share	Liabilities from insurance contracts (net)
Motor liability insurance	17,040,185	662,974	16,377,211
Comprehensive vehicle insurance	9,270,067	0	9,270,067
Property insurance (legal persons)	7,221,924	1,374,563	5,847,361
Short-term health insurance	4,279,745	0	4,279,745
Property insurance (individuals)	4,170,646	0	4,170,646
Liability insurance	2,179,453	128,917	2,050,536
Other classes	755,815	34,282	721,533
TOTAL	**44,917,835**	**2,200,736**	**42,717,099**

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, the term may be shorter or longer than one year; for example in the case of specific project or product-based insurance contracts. Also, the term of travel insurance contracts is often shorter than one year.

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 using 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: compulsory motor insurance which covers legal liability towards third parties, comprehensive motor vehicle insurance (hereafter '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 insurance

Motor insurance which covers legal liability to third parties (hereafter 'motor liability insurance') is a compulsory class whose terms and compensation rules are prescribed by the motor insurance law and other legislation. The insurance cover provides protection against motor insurance 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.

4.2. Individuals' and legal persons' property, vehicle and personal insurance

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 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-risks 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 2016, Seesam made several changes to its property insurance products.

In Lithuania, we changed the terms and conditions of companies' comprehensive and all-risks insurance and extended our range of optional extras. Liability insurance can now be added to family insurance and home insurance can be supplemented with home assistance. In addition, we upgraded our automated solutions for the self-service systems and information exchange with partners.

In Latvia, we updated home insurance conditions with a view to making the product more attractive in the market and offering all-risks insurance as an alternative to a list of insurance covers. We updated the conditions of accident insurance and fixed three different packages for adults. We launched comprehensive vehicle insurance policies with a term longer than one year. In addition, we upgraded the automated data exchange systems in the self-service environment for making claims.

In Estonia, we drafted new travel insurance conditions. Insurance cover was widened for both trip interruption and optional extras: we began offering cover against terrorism, strike and bankruptcy. In home insurance, risk selection principles were thoroughly revised.

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 liability insurance, the compensation 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.

In 2016, we changed the liability insurance we offer in Latvia by adding new insurance covers to make the product more attractive and competitive in the market.

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, losses are 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 the financial year. 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 Seesam's sensitivity analysis, a major loss is a claim of at least 0.5 million euros.

Risk parameter	Amount in statement of comprehensive income for 2016 (€m)	Change in risk parameter	Impact on profit before income tax/ equity for 2016 (€m)	Impact on combined ratio for 2016
Net earned premiums	55.3	Decrease 1%	-0.6	1.0%
Net claims	35.7	Growth 1%	-0.4	0.6%
Major loss (including claims handling costs)		1 additional claim	-0.5	0.9%
Operating expenses	17.7	Growth 1%	-0.2	0.3%

6. ANALYSIS OF CLAIMS DEVELOPMENT

The table below 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 2016 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)	2012	2013	2014	2015	2016
At end of year of incurrence	32,980	30,921	34,731	37,072	40,453
One year later	27,303	29,393	35,379	34,684	
Two years later	26,301	29,779	32,799		
Three years later	28,029	29,052			
Four years later	27,192				
Cumulative claims until 31 December 2016	26,235	28,244	31,241	32,238	27,219
Provision for claims incurred by year (including IBNR) at 31 December 2016	957	809	1,557	2,446	13,234

At 31 December 2016, the provision for claims incurred before 2012 (including IBNR) amounted to 3,044 thousand euros.

The provision for claims incurred before 2012 comprises the figures for Seesam Rahvusvahelise Kindlustuse AS (the predecessor of Seesam Insurance AS) and the claims incurred by Seesam's branches during the period 1 June 2011 - 31 December 2011.

7. FINANCIAL RISK MANAGEMENT

Both insurance 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 counterparty (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.

Seesam's supervisory board reviews and approves the company's investment plan annually for each subsequent financial year. The investment plan sets out the structure of investments; the expected rates of return; the limits for credit, interest rate and currency risks; the 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 OP 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 updated based on the current economic situation.

According to the investment strategy, available funds are invested in fixed and floating rate debt securities and equities as well as real estate with the purpose of earning a good return in the long term.

To mitigate potential financial risks, the company invests in different financial instruments. Investments are made taking into account the requirements of the Investment Activities Act and the company's annual investment plan, which is aimed at generating sufficient income, maintaining and increasing the value of investments, 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 2.41 years and their weighted average yield to maturity was 0.05% (2015: 2.33 years and 0.27% respectively).

Debt securities by interest rate as at 31 December 2016

	Face value	Fair value, i.e. carrying amount
Fixed income debt securities		
Interest rate 0-2.50%	34,769,000	35,968,738
Interest rate 2.51% -3.50%	5,717,000	6,198,998
Interest rate 3.51% -4.50%	8,750,000	9,643,616
Interest rate 4.51% -5.50%	3,600,000	4,132,345
Interest rate 5.51% -6.50%	3,050,000	3,480,130
Total	**55,886,000**	**59,423,827**
Floating rate debt securities	0	0
Total debt securities	**55,886,000**	**59,423,827**

Debt securities by interest rate as at 31 December 2015

	Face value	Fair value, i.e. carrying amount
Fixed income debt securities		
Interest rate 0-2.50%	28,500,000	29,454,541
Interest rate 2.51% -3.50%	3,400,000	3,741,936
Interest rate 3.51% -4.50%	13,020,000	14,009,924
Interest rate 4.51% -5.50%	5,500,000	6,244,012
Interest rate 5.51% -6.50%	2,750,000	3,127,676
Total	**53,170,000**	**56,578,089**
Floating rate debt securities	600,000	604,426
Total debt securities	**53,770,000**	**57,182,515**

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 2016	Risk parameter	Change	Effect on market value at 31 Dec 2016
Interest rate risk	69,947,003	Change in interest rates	1.0%	1,648,652

The sensitivity analysis has been performed based on debt securities at fair value through profit or loss of 59,423,827 euros and units in debt securities and interest rate funds of 10,523,176 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 5,097,501 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 2016, 100% of Seesam's investments were denominated in euros. Financial assets denominated in currencies other than the euro accounted for only 0.03% of all financial assets (2015: 0.02%).

All receivables from policyholders and insurance brokers are denominated in euros. Thus, Seesam's financial instruments have practically no currency risk exposure and according to the company's assessment its currency risk is very low.

Carrying amounts of financial assets and liabilities by currency as at 31 December 2016

	EUR	USD	Total
Debt securities	59,423,827	0	59,423,827
Fund units	15,620,677	0	15,620,677
Equities	35,000	0	35,000
Term deposits	140,012	0	140,012
Other receivables	705,746	0	705,746
Receivables from reinsurers	3,670	0	3,670
Receivables from policyholders and insurance brokers	4,553,036	0	4,553,036
Cash and cash equivalents	2,204,818	25,478	2,230,296
Total financial assets	**82,686,786**	**25,478**	**82,712,264**
Financial liabilities	**2,061,109**	**0**	**2,061,109**
Net position	**80,625,677**	**25,478**	**80,651,155**

Carrying amounts of financial assets and liabilities by currency as at 31 December 2015

	EUR	USD	Total
Debt securities	57,182,515	0	57,182,515
Fund units	13,720,984	0	13,720,984
Equities	35,000	0	35,000
Term deposits	140,016	0	140,016
Other receivables	969,307	0	969,307
Receivables from reinsurers	99,838	0	99,838
Receivables from policyholders and insurance brokers	4,237,489	0	4,237,489
Cash and cash equivalents	2,207,145	13,222	2,220,367
Total financial assets	**78,592,294**	**13,222**	**78,605,516**
Financial liabilities	**1,812,729**	**0**	**1,812,729**
Net position	**76,779,565**	**13,222**	**76,792,787**

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 2016 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 own funds would have accordingly increased or decreased by 7,504,450 euros (2015: 6,989,715 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 disposed of the debt securities of Southern European countries whose economies are weaker (Italy, Spain, Greece).

The debt securities of Finnish and Dutch companies, financial institutions, and governments account for 45.1% of the debt securities portfolio (2015: 38.8%) and those of French, Swedish and US companies and financial institutions account for 38.9% (2015: 38.4%). Debt securities from other geographical areas account for 16.0% (2015: 22.8%) of the debt securities portfolio.

As at 31 December	2016	2015
Netherlands	13,498,147	12,618,849
Finland	13,314,026	9,571,931
France	8,706,003	5,874,337
Sweden	8,335,851	7,138,782
USA	6,041,476	8,954,493
Great Britain	5,113,553	9,061,779
Switzerland	3,049,623	3,101,082
Denmark	1,054,104	537,625
Germany	311,044	323,637
Total	**59,423,827**	**57,182,515**

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, reinsurance arrangements and investment management. The terms on which insurance cover is valid 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 (A+) and which have a stable outlook.

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

As at 31 December	2016	2015
Receivables from policyholders and insurance brokers		
- Not past due	3,723,175	3,268,473
- Past due, of which:	829,861	969,016
Not later than 3 months	808,595	937,408
Later than 3 months and not later than 6 months	12,757	10,163
Later than 6 months and not later than 12 months	1,671	8,636
Later than 1 year	6,838	12,809
Total	**4,553,036**	**4,237,489**
Receivables from reinsurers		
- Not past due	3,670	99,838
Total	**3,670**	**99,838**

The credit risk of financial instruments is mitigated by selecting reliable institutions for holding deposits and securities and spreading investments between counterparties (different issuers, countries, rating classes, maturities). The minimum permitted credit rating for investments in fixed income debt securities is BB-. In addition, to minimise credit risk, the company monitors the average credit rating of the debt securities portfolio which must 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 63.0% (2015: 65.0%). Financial institutions' debt securities carry a higher risk than government and companies' bonds but their yields are also higher.

At the year-end, government bonds accounted for 23.1% of investments in debt securities (2015: 24.4%). Their yields are lower but risk level is the lowest because the likelihood of a country going bankrupt is remote. In 2016 and 2015, the interest rates of government bonds were exceptionally low and according to the investment plan their share had to be maintained at a low level. The share of debt securities issued by companies has also been kept at a low level: in 2016 it was 13.9% (2015: 10.6%).

At period-end, 66.8% 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 2015, the corresponding share was 76.1%. In 2016, issuers maintained their credit rating at the same level as the year before or the rating was upgraded by one notch except for one issuer whose credit rating was downgraded by a notch (from A+ to A).

Fixed and floating yield investments by credit rating (carrying amounts):

As at 31 December	2016	%	2015	%
AAA	7,043,917	11.8%	10,927,753	19.1%
AA+	7,307,924	12.3%	7,384,893	12.9%
AA-	7,168,629	12.1%	7,268,757	12.7%
A+	5,810,929	9.8%	4,441,533	7.8%
A	10,982,488	18.5%	9,641,678	16.9%
A-	1,373,394	2.3%	3,831,038	6.7%
BBB+	13,649,885	23.0%	8,175,392	14.3%
BBB	6,086,661	10.2%	5,511,471	9.6%
Total	**59,423,827**	**100%**	**57,182,515**	**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.

Financial assets by remaining maturity as at 31 December 2016

Remaining maturity	0-1 years	1-3 years	3-5 years	5-7 years
Debt securities at fair value through profit or loss	11,038,677	27,405,618	18,212,586	2,766,946
Equities and fund units at fair value through profit or loss	15,620,677	0	0	0
Available-for-sale financial assets	35,000	0	0	0
Term deposits	140,012	0	0	0
Other receivables	705,746	0	0	0
Receivables from reinsurers	3,670	0	0	0
Receivables from policyholders and insurance brokers	4,553,036	0	0	0
Cash and cash equivalents	2,230,296	0	0	0
Total	**34,327,114**	**27,405,618**	**18,212,586**	**2,766,946**

Financial assets by remaining maturity as at 31 December 2015

Remaining maturity	0-1 years	1-3 years	3-5 years	5-7 years
Debt securities at fair value through profit or loss	6,073,894	32,662,234	14,794,258	3,652,129
Equities and fund units at fair value through profit or loss	13,720,984	0	0	0
Available-for-sale financial assets	35,000	0	0	0
Term deposits	140,016	0	0	0
Other receivables	969,307	0	0	0
Receivables from reinsurers	99,838	0	0	0
Receivables from policyholders and insurance brokers	4,237,489	0	0	0
Cash and cash equivalents	2,220,367	0	0	0
Total	**27,496,895**	**32,662,234**	**14,794,258**	**3,652,129**

Financial liabilities by remaining maturity as at 31 December 2016

Remaining maturity	0-1 years	1-3 years
Payables to reinsurers	258,363	0
Payables to policyholders	48,843	0
Payables to insurance brokers	912,607	0
Payables to suppliers and other payables	823,123	18,173
Total	**2,042,936**	**18,173**

Financial liabilities by remaining maturity as at 31 December 2015

Remaining maturity	0-1 years	1-3 years
Payables to reinsurers	111,549	0
Payables to policyholders	37,894	0
Payables to insurance brokers	869,119	0
Payables to suppliers and other payables	759,750	34,417
Total	**1,778,312**	**34,417**

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 2016	14,230,171	6,712,945	1,032,990	358,530	250,607	1,122,974
Provision for claims outstanding at 31 December 2015	13,921,046	5,743,846	1,270,569	878,864	878,848	1,898,573

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 but in the company's everyday operation it is the responsibility of heads of departments and functions. Seesam maps its operational risks and carries out threat assessments across the Baltics on a regular basis (at least annually).

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 launching 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

Since 1 January 2016, insurers have had to comply with new capital requirements. Under the Insurance Activities Act, an insurer has to calculate its solvency capital requirement at least once a year on a going concern basis using the standard formula, internal model, or partial internal model. The solvency capital requirement corresponds to the amount of an insurer's own funds which enables the insurer to meet its obligations under insurance contracts over the next 12 months with 99.5% probability.

The minimum capital requirement corresponds to the amount of eligible basic own funds below which there would be unacceptably high risk that the insurer would not be able to fulfil its obligations to policyholders, insured persons and beneficiaries were the insurer to continue its operations.

An insurer must ensure that it has eligible own funds sufficient for complying with the solvency capital requirement and the minimum capital requirement subject to the quantitative limits provided in Article 82 of Commission Delegated Regulation (EU) No. 2015/35.

Seesam's capital management principles are outlined in its risk management policy. The purpose of capital management is to ensure that the company has a sustainable and adequate amount of capital for carrying out its business operations. In accordance with the strategy of OP Financial Group, Seesam is a moderate risk-taker whose minimum capital buffer requirement is 3 million euros and solvency ratio requirement under Solvency II which took effect from 2016 is 120%.

As at 31 December 2016, Seesam's own funds met and significantly exceeded both the minimum capital requirement and the solvency capital requirement.

Note 4. Premiums

	Gross premiums written 2016	Ceded to reinsurers 2016	Gross premiums written 2015	Ceded to reinsurers 2015
Comprehensive vehicle insurance	18,168,599	-121,752	17,499,170	-121,052
Motor liability insurance	13,935,802	-415,000	12,466,000	-450,000
Property and construction risks insurance	8,794,720	-1,423,054	8,527,023	-1,571,702
Home insurance	6,855,642	-154,682	6,639,306	-185,587
Short-term health insurance*	8,440,273	-54,373	8,545,590	-66,246
Liability insurance	2,251,158	-530,241	1,985,754	-396,384
Business interruption insurance	519,611	-288,883	615,896	-347,121
Goods in transit insurance	115,424	-53,589	96,188	-58,653
Small boat insurance	32,314	-2,200	30,748	-2,878
Guarantee insurance	7,990	-116	8,827	-101
Total gross premiums written	**59,121,533**	**-3,043,890**	**56,414,502**	**-3,199,724**
Change in provision for unearned premiums**	-755,360	-68,708	1,280	5,143
Total net earned premiums	**58,366,173**	**-3,112,598**	**56,415,782**	**-3,194,581**

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

2016	Estonia	Latvia	Lithuania	Total
Gross premiums written	29,271,367	14,768,778	15,081,388	59,121,533
Ceded to reinsurers	-781,528	-739,383	-1,522,979	-3,043,890

2015	Estonia	Latvia	Lithuania	Total
Gross premiums written	28,297,583	14,989,253	13,127,666	56,414,502
Ceded to reinsurers	-1,577,091	-876,613	-746,020	-3,199,724

Note 5. Investment income, net

2016	Investment income	Unrealised gain/loss	Realised gain/loss	Total
Financial assets at fair value through profit or loss				
- Fund units	93,930	385,902	163	479,995
- Debt securities	1,455,040	-676,468	-132,979	645,593
Deposits	1,979	0	0	1,979
Total	**1,550,949**	**-290,566**	**-132,816**	**1,127,567**

2015	Investment income	Unrealised gain/loss	Realised gain/loss	Total
Financial assets at fair value through profit or loss				
- Fund units	107,807	469,625	57,136	634,568
- Debt securities	1,443,705	-1,095,891	-190,098	157,716
Deposits	1,177	0	0	1,177
Total	**1,552,689**	**-626,266**	**-132,962**	**793,461**

Note 6. Other operating income

	2016	2015
Reinsurance commissions and profit participation	104,864	83,440
Reinsurers’ share of acquisition costs	2,918	-756
Other income	170,403	157,497
Total other operating income	**278,185**	**240,181**

Note 7. Claims and claims handling costs

Claims and claims handling costs	**From insurance contracts 2016**	**Reinsurers’ share 2016**	**From insurance contracts 2015**	**Reinsurers’ share 2015**
Comprehensive vehicle insurance	12,608,957	813	12,070,003	1,513
Motor liability insurance	9,539,874	-72,630	9,430,910	-92,632
Property and construction risks insurance	3,144,219	-60,637	3,374,442	-407,891
Home insurance	4,583,592	-76,932	3,894,743	0
Short-term health insurance*	4,814,690	-560	5,810,840	0
Business interruption insurance	264,893	-10,111	94,317	0
Liability insurance	625,233	200,804	1,141,890	-244,045
Goods in transit insurance	7,893	0	11,898	0
Small boat insurance	40,559	0	44,368	0
Total claims and handling costs paid	**35,629,910**	**-19,253**	**35,873,411**	**-743,055**
Change in provision for claims outstanding	-883,529	1,008,123	-1,021,310	-87,009
Total claims and handling costs incurred	**34,746,381**	**988,870**	**34,852,101**	**-830,064**

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

In the statement of comprehensive income, line item Claims and claims handling costs incurred also includes the change in the provision for claims outstanding (see note 17) as well as claims handling costs of 2,770,352 euros (2015: 2,387,947 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	**2016**	**2015**
Salaries	1,580,196	1,498,467
Other operating expenses	428,181	368,997
Change in the value of property and equipment and intangible assets	56,126	53,553
Services purchased from third parties	705,849	466,930
Total	**2,770,352**	**2,387,947**

Note 8. Operating expenses

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

	2016	2015
Staff costs	**6,871,549**	**6,803,411**
Acquisition costs	3,853,208	3,803,827
Administrative expenses	3,018,341	2,999,583
Commissions to brokers	**6,283,664**	**5,931,826**
Acquisition costs	6,283,664	5,931,826
Depreciation and amortisation	**551,854**	**542,837**
Acquisition costs	97,608	123,053
Administrative expenses	454,246	419,784
Rentals and utilities costs paid	**615,534**	**553,377**
Acquisition costs	286,888	284,329
Administrative expenses	328,646	269,048
Other operating expenses	**3,307,881**	**3,425,272**
Acquisition costs	1,201,093	1,414,854
Administrative expenses	2,106,788	2,010,418
Total	**17,630,482**	**17,256,723**
Change in deferred acquisition costs	-107,103	13,661
Total acquisition costs	**11,615,358**	**11,571,550**
Total administrative expenses	**5,908,021**	**5,698,833**
Investment management expenses	144,132	143,532
Total operating expenses	**17,667,511**	**17,413,915**

The composition of claims handling costs is disclosed in note 7.

In the reporting period, the average number of staff was 350 (2015: 353). The remuneration provided to the management board is disclosed in note 23.

Note 9. Reinsurance result

	2016	2015
Premiums ceded to reinsurers	-3,043,890	-3,199,724
Reinsurers’ share of change in provision for unearned premiums	-68,708	5,143
Reinsurers’ share of commissions paid	104,864	83,440
Reinsurers’ share of claims paid	19,253	743,055
Reinsurers’ share of change in provision for claims outstanding	-1,008,123	87,009
Reinsurers’ share of acquisition costs	2,918	-756
Exchange differences on reinsurance (administrative expenses)	7	54
Net result	**-3,993,679**	**-2,281,779**

Note 10. Property and equipment

	Buildings	Motor vehicles	Hardware, equipment	Office furnishings	Other items	Pre-payments	Total
Cost at 31 Dec 2014	2,838,324	327,055	964,201	947,938	126,137	7,137	**5,210,792**
Additions	4,488	20,050	141,000	107,388	2,892	17,220	**293,038**
Disposals	0	-10,631	-31,736	-55,002	0	-7,137	**-104,506**
Cost at 31 Dec 2015	2,842,812	336,474	1,073,465	1,000,324	129,029	17,220	**5,399,324**
Additions	1,890	2,150	141,653	105,986	7,350	62,333	**321,362**
Disposals	0	-27,514	-199,858	-40,164	-5,350	0	**-272,886**
Reclassification*	-2,844,702	0	0	0	0	0	**-2,844,702**
Cost at 31 Dec 2016	0	311,110	1,015,260	1,066,146	131,029	79,553	**2,603,098**
Accumulated depreciation at 31 Dec 2014	-554,896	-263,836	-703,263	-492,446	-60,227	0	**-2,074,667**
Depreciation	-53,137	-15,002	-132,260	-68,039	-23,809	0	**-292,246**
Disposals	0	0	31,733	44,050	0	0	**75,783**
Accumulated depreciation at 31 Dec 2015	-608,033	-278,837	-803,789	-516,435	-84,036	0	**-2,291,130**
Depreciation	-48,751	8,317	-102,629	-76,682	-20,817	0	**-240,562**
Disposals	0	0	166,368	22,949	1,734	0	**191,051**
Reclassification*	656,784	0	0	0	0	-56,553	**600,231**
Accumulated depreciation at 31 Dec 2016	0	-270,520	-740,050	-570,168	-103,119	-56,553	**-1,740,410**
Carrying amount at 31 Dec 2014	**2,283,428**	**63,219**	**260,938**	**455,493**	**65,910**	**7,137**	**3,136,125**
Carrying amount at 31 Dec 2015	**2,234,779**	**57,636**	**269,676**	**483,889**	**44,994**	**17,220**	**3,108,194**
Carrying amount at 31 Dec 2016	**0**	**40,590**	**275,210**	**495,978**	**27,910**	**23,000**	**862,688**

* Depreciation of the building was discontinued as from 30 November 2016 and its carrying amount was transferred to non-current assets held for sale because the building was put on sale.

Note 11. Intangible assets

Intangible assets

	Software
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**
Additions	394,079
Disposals	0
Amortisation	-287,007
Cost at 31 December 2015	2,275,211
Accumulated amortisation at 31 December 2015	-1,496,491
Carrying amount at 31 December 2015	**778,720**
Additions	517,336
Disposals	-566,267
Amortisation	262,744
Cost at 31 December 2016	2,226,280
Accumulated amortisation at 31 December 2016	-1,233,747
Carrying amount at 31 December 2016	**992,533**

Deferred acquisition costs

Carrying amount at 31 December 2014	**2,310,619**
Amortised portion	-4,158,824
Additions from new contracts	4,138,392
Carrying amount at 31 December 2015	**2,290,187**
Amortised portion	-4,347,026
Additions from new contracts	4,454,129
Carrying amount at 31 December 2016	**2,397,290**

At the reporting date, intangible assets and deferred acquisition costs totalled 3,389,823 euros (2015: 3,068,907 euros).

Note 12. Investments

Investments in financial assets

The company's investments in debt instruments, equities and fund units are classified as financial assets at fair value through profit or loss. Fixed and floating rate debt instruments include government bonds and debt securities issued by companies and financial institutions.

Investments in debt securities by issuer

As at 31 December	2016	2015
Fixed income securities		
Government bonds	13,731,388	13,936,948
Debt securities issued by financial institutions	37,427,952	36,551,966
Debt securities issued by companies	8,264,487	6,089,175
Total	**59,423,827**	**56,578,089**
Floating rate securities		
Debt securities issued by financial institutions	0	604,426
Total	**0**	**604,426**
Total debt securities	**59,423,827**	**57,182,515**

Available-for-sale financial assets include an EGCC (MTÜ Estonian Golf & Country Club) D-share, which is measured at cost.

EGCC D-share

As at 31 December	2016	2015
Available-for-sale financial asset (measured at cost)	35,000	35,000
Ownership interest	0.29%	0.29%

The fair value of investments in financial assets is determined using 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 2016 and 2015 the company did not have such securities.

Note 13. Fair values of financial assets and liabilities

As at 31 December	Carrying amount 2016	Fair value 2016	Carrying amount 2015	Fair value 2015
Debt securities at fair value through profit or loss (note 12)	59,423,827	59,423,827	57,182,515	57,182,515
Equities and fund units at fair value through profit or loss (note 12)	15,620,677	15,620,677	13,720,984	13,720,984
Available-for-sale financial assets (note 12)	35,000	-*	35,000	-*
Term deposits	140,012	140,012	140,016	140,016
Receivables from policyholders and insurance brokers and other receivables (note 15)	5,262,452	5,262,452	5,306,634	5,306,634
Cash and cash equivalents (note 14)	2,230,296	2,230,296	2,220,367	2,220,367
Total financial assets	**82,712,264**	**82,677,264**	**78,605,516**	**78,570,516**
Payables to reinsurers (note 15)	258,363	258,363	111,549	111,549
Payables to policyholders (note 18)	48,843	48,843	37,894	37,894
Payables to insurance brokers (note 18)	912,607	912,607	869,119	869,119
Payables to suppliers and other payables (note 19)	841,296	841,296	794,167	794,167
Total financial liabilities	**2,061,109**	**2,061,109**	**1,812,729**	**1,812,729**

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

Fair value hierarchy for financial assets and liabilities

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 2016 all of the company's financial assets that are measured at fair value belonged to the Level 1 category.

Fair values of financial instruments under the fair value hierarchy of IFRS 13

As at 31 December 2016	Level 1	Level 2	Level 3	Total
Debt securities at fair value through profit or loss	59,423,827	0	0	59,423,827
Equities and fund units at fair value through profit or loss	15,620,677	0	0	15,620,677
Term deposits	0	140,012	0	140,012
Receivables from policyholders and insurance brokers and other receivables (note 15)	0	0	5,262,452	5,262,452
Cash and cash equivalents (note 14)	0	0	2,230,296	2,230,296
Total financial assets	**75,044,504**	**140,012**	**7,492,748**	**82,677,264**
Total financial liabilities	**0**	**0**	**2,061,109**	**2,061,109**

Fair values of financial instruments under the fair value hierarchy of IFRS 13

As at 31 December 2015	Level 1	Level 2	Level 3	Total
Debt securities at fair value through profit or loss	57,182,515	0	0	57,182,515
Equities and fund units at fair value through profit or loss	13,720,984	0	0	13,720,984
Term deposits	0	140,016	0	140,016
Receivables from policyholders and insurance brokers and other receivables (note 15)	0	0	5,306,634	5,306,634
Cash and cash equivalents (note 14)	0	0	2,220,367	2,220,367
Total financial assets	**70,903,499**	**140,016**	**7,527,001**	**78,570,516**
Total financial liabilities	**0**	**0**	**1,812,729**	**1,812,729**

Note 14. Cash and cash equivalents

As at 31 December	2016	2015
Cash on hand	9,411	9,008
Demand deposits	2,220,885	2,211,359
Total	**2,230,296**	**2,220,367**

Cash and cash equivalents by currency

As at 31 December	2016	2015
EUR	2,204,818	2,207,145
USD	25,478	13,222
Total	**2,230,296**	**2,220,367**

Note 15. Receivables

Other receivables

As at 31 December	2016	2015
Subrogation claims submitted*	495,977	673,363
Salvaged assets	45,392	52,070
Other financial assets	164,377	243,874
Prepaid expenses	381,033	370,997
Total	**1,086,779**	**1,340,304**

* Subrogation claims submitted comprise claims of 2,078,736 euros less an impairment allowance of 1,582,759 euros (2015: claims of 2,881,108 euros less an impairment allowance of 2,207,745 euros).

Reinsurance assets

As at 31 December	2016	2015
Reinsurers' share of provision for unearned premiums	98,136	166,844
Reinsurers' share of provision for claims outstanding	2,102,600	3,110,723
Total	**2,200,736**	**3,277,567**

Receivables from and payables to reinsurers

As at 31 December	2016	2015
Receivables from reinsurers	3,670	99,838
Payables to reinsurers	258,363	111,549

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 are expected to be realised within the next 12 months. Other insurance payables (see note 18) include reinsurers' share of acquisition costs of 11,274 euros (2015: 14,191 euros).

Receivables from policyholders and insurance brokers

As at 31 December	2016	2015
Receivables from policyholders and insurance brokers	4,553,036	4,237,489
Total	**4,553,036**	**4,237,489**

All receivables are expected to be realised within the next 12 months. During the year, receivables of 9,233 euros were considered doubtful and recognised as an expense (2015: 17,753 euros).

Note 16. Equity

As at 31 December	2016	2015
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 OP Insurance Ltd which 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 in the distribution of residual assets on the dissolution of the company, and 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 paragraph 10). At 31 December 2016, the capital reserve stood at 1,009,886 euros (31 December 2015: 1,009,886 euros).

Note 17. Insurance contract liabilities

As at 31 December	2016	2015
Provision for unearned premiums	21,087,377	20,247,281
Provision for claims outstanding	23,708,217	24,591,746
Unexpired risk provision	122,241	206,977
Total	**44,917,835**	**45,046,004**
Reinsurers' share of provision for unearned premiums	98,136	166,844
Reinsurers' share of provision for claims outstanding	2,102,600	3,110,723
Total reinsurance assets	**2,200,736**	**3,277,567**
Insurance provisions net of reinsurance	**42,717,099**	**41,768,437**

Provision for claims outstanding

As at 31 December	2016	2015
Provision for claims incurred and reported	18,182,626	18,714,857
Provision for claims incurred but not reported (IBNR)	4,389,735	4,692,769
Provision for indirect claims handling costs	1,135,856	1,184,120
Total provision for claims outstanding	**23,708,217**	**24,591,746**
Reinsurers' share of provision for claims incurred and reported	2,065,993	3,068,674
Reinsurers' share of provision for claims incurred but not reported	14,100	42,049
Reinsurers' share of provision for claims outstanding	**2,102,600**	**3,110,723**
Provision for claims outstanding net of reinsurance	**21,605,617**	**21,481,023**

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 has been recognised in the unexpired risk provision in the table below. 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	2016	2015
Health insurance	52,062	62,395
Comprehensive vehicle insurance	70,179	29,277
Motor liability insurance	0	115,305
Total	**122,241**	**206,977**

Changes in the provision for claims outstanding

	Liabilities from insurance contracts	Receivables from reinsurance contracts	Net
As at 31 December 2014	**25,613,057**	**3,023,715**	**22,589,341**
Claims incurred	37,941,900	679,593	37,262,307
Claims paid	-35,873,411	-743,055	-35,130,356
Change in prior periods' provision	-3,089,800	150,470	-3,240,269
As at 31 December 2015	**24,591,746**	**3,110,723**	**21,481,023**
Claims incurred	40,453,142	618,048	39,835,095
Claims paid	-35,629,910	-19,253	-35,610,657
Change in prior periods' provision	-5,706,761	-1,629,425	-4,077,337
As at 31 December 2016	**23,708,217**	**2,080,093**	**21,628,124**

Changes in the provision for unearned premiums

	Liabilities from insurance contracts	Receivables from reinsurance contracts	Net
As at 31 December 2014	**20,193,851**	**161,701**	**20,032,150**
Premiums written	56,414,502	3,199,724	53,214,778
Premiums earned	-56,361,072	-3,194,581	-53,166,491
As at 31 December 2015	**20,247,281**	**166,844**	**20,080,437**
Premiums written	59,121,533	3,043,890	56,077,643
Premiums earned	-58,281,437	-3,112,598	-55,168,839
As at 31 December 2016	**21,087,377**	**98,136**	**20,989,241**

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

Note 18. Other insurance payables

As at 31 December	2016	2015
Prepayments from policyholders	1,100,062	1,067,150
Approved indemnities payable to policyholders	48,843	37,894
Payables to insurance brokers	912,607	869,119
Reinsurers' share of acquisition costs	11,274	14,191
Total	**2,072,786**	**1,988,354**

Note 19. Other liabilities

As at 31 December	2016	2015
Other payables	198,679	182,400
Vacation pay liabilities	395,343	423,715
Payables to suppliers	214,211	137,390
Finance lease payables	33,063	50,662
Total payables to suppliers and other payables	**841,296**	**794,167**
Income tax payable	195,000	205,524
Social security tax payable	161,941	143,395
Taxes payable	**356,941**	**348,919**
Other provisions	493,024	555,732
Total	**1,691,261**	**1,698,818**

Other provisions of 493,024 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.

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:

	2016	2015
Operating lease rentals paid	769,260	749,641

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 922,858 euros.

b. The company as a lessor

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

	2016	2015
Operating lease rentals received	34,288	35,261

Finance leases

a. The company as a lessee

In 2016, the company paid 16,245 euros in finance lease rentals for a vehicle. At 31 December 2016, the company's finance lease liability amounted to 33,063 euros and the carrying amount of the leased asset was 33,063 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	14,891
Later than 1 year and not later than 3 years	18,173

Note 21. Contingent liabilities

Litigations

The claims 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

	2016	2015
Income tax expense	166,781	150,432
Change in deferred income tax	20,392	-2,861
Total income tax expense	**187,173**	**147,571**

Recognised deferred tax liabilities

As at 31 December	2016	2015
Deductible temporary differences on		
Property and equipment	44,980	39,173
Other liabilities (vacation pay liabilities to employees)	-30,079	-33,066
Total recognised deferred tax liabilities	**14,901**	**6,107**

Income tax assets and liabilities which relate to the same jurisdiction/country have been offset.

Recognised deferred tax assets

As at 31 December	2016	2015
Deductible temporary differences on		
Property and equipment	-18,308	-14,462
Other liabilities (liabilities related to employees)	38,551	46,303
Total	**20,243**	**31,841**

Income tax assets and liabilities which relate to the same jurisdiction/country have been offset.

Reconciliation of accounting profit and income tax expense

As at 31 December	2016	2015
Profit before income tax	3,256,565	2,818,891
Effect of tax rates in foreign jurisdictions	115,837	68,148
Effect of exempt income and taxable expenses	50,945	82,285
Change in recognised deferred tax liabilities	12,640	-1,595
Change in recognised deferred tax assets	7,751	-1,267
Income tax expense for the year	**187,173**	**147,571**

At 31 December 2016, the company's unrestricted equity amounted to 38,789,673 euros (2015: 35,720,281 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 the net dividend using unrestricted equity as at the reporting date is 32,386,206 euros and the distribution would result in income tax expense of 6,403,467 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 unless 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 owners (OP Insurance Ltd and the ultimate controlling party OP Financial Group);
- other group companies (OP Corporate Bank plc Estonian branch, OP Yrityspankki Oyj, OP Finance AS, OP Finance SIA, OP Finance UAB, OP Asset Management Ltd, OP IT Procurement Ltd);
- the members of the management and supervisory boards;
- close family members of and companies related to the above.

The company has a reinsurance contract with the parent OP Insurance Ltd.

	Recognised reinsurance premiums		**Commissions and indemnities received**	
	2016	**2015**	**2016**	**2015**
OP Insurance Ltd	2,573,284	3,063,990	60,671	135,147

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

	Services purchased	
	2016	**2015**
OP Asset Management Ltd	144,132	143,532

Receivables from and liabilities to OP Insurance Ltd

As at 31 December	**2016**	**2015**
Net reinsurance receivable	0	99,838
Other receivables	41,046	37,797
Total receivables	**41,046**	**137,635**
Net reinsurance payable	168,454	6,448
Total payables	**168,454**	**6,448**

The company purchases car leasing services from OP Finance. In 2016, services purchased totalled 137,618 euros (2015: 123,725 euros).

In 2016, the remuneration of the members of the management board amounted to 335,265 euros (2015: 293,196 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 the service contract, one member of the management board is entitled to termination benefits.

Performance benefits are paid based on the General Terms and Conditions of OP Financial Group's Remuneration Schemes. The performance benefits of the management board and the employees of Seesam Insurance AS depend on financial results, which are measured through various ratios, and the achievement of their agreed personal goals.

In 2016 and in 2015, the members of the supervisory board were not remunerated.

Signatures to annual report 2016

The management board of Seesam Insurance AS has prepared the report by the management board and the annual financial statements for 2016. The annual report is signed on 21 March 2017 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 Baltics OÜ
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Independent Auditors' Report

(Translation of the Estonian original)

To the Shareholder of Seesam Insurance AS

Opinion

We have audited the financial statements of Seesam Insurance AS (the Company), which comprise the statement of financial position as at 31 December 2016, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the financial statements presented on pages from 10 to 51 give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

Tallinn, 22 March 2017

Eero Kaup
Certified Public Accountant, Licence No 459

KPMG Baltics OÜ
Licence No 17

Profit allocation proposal

The management board of Seesam Insurance AS has approved the profit for 2016 of 3,069,392 euros.

The management board proposes that the general meeting transfer the profit for 2016 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 2016	Amounts
Non-life insurance (65121)	59,121,533
Total	59,121,533

Activities planned for the period 1 January - 31 December 2017
Non-life insurance (65121)