Swedbank

Swedbank P&C Insurance AS

Annual Report 2017

Contents

Management Report

1 Accounting period covered by the Annual Report

01.01.2017 – 31.12.2017

2 Company information

Name	Swedbank P&C Insurance AS
Legal form	Public Limited Company
Address	Liivalaia 12, 15039 Tallinn, Estonia
Company's code	11269248
Registration date and place	21 June 2006, Tallinn
Telephone	+372 888 2220
Fax	+372 888 2221
E-mail address	varakindlustus@swedbank.ee
Website address	www.swedbank.ee/varakindlustus
Chair of the Management Board	Rasa Balevičienė
Auditor	AS Deloitte Audit Eesti

Principal activity. Property insurance services

3 Business model and strategy

General information

Swedbank P&C Insurance AS (hereinafter also the Company) operates in Estonia, Latvia and Lithuania. The Company provides motor own damage (hereinafter MOD), motor third party liability (hereinafter MTPL), home and apartment building, travel and payment protection insurances. The products of Swedbank P&C Insurance are sold through the sales channels of Swedbank. Customers can also enter into contracts by telephone and e-mail and partially via other e-channels.

Swedbank P&C Insurance AS is a company registered in Estonia. In Latvia, the branch was registered in 2009 and Lithuanian branch in 2011.

Swedbank AS owns 100% of the Company shares as of 31 December 2017. The ultimate parent entity of the Company is Swedbank AB. The Company's financial statements are therefore consolidated into Swedbank AS annual financial statements and then to Swedbank Group annual financial statements. Throughout this annual report "Swedbank Group" or "Swedbank" refers to Swedbank AB and its subsidiaries.

Bancassurance

Bancassurance relationships between the Company and Swedbank AS provide a comfortable access to Swedbank's client base. Strong distribution channel is considered to be the main competitive advantage of the Company.

Mass-market products

Swedbank P&C Insurance AS has a clear focus on standardized mass-market products for private clients. The Company avoids offering tailor-made solutions and sets a priority on process simplification and optimisation.

High cost efficiency

Greater transparency and more choices for customers through digitisation also mean more price pressure on a number of insurance products. To create value for customers, which requires investments as well as competitive prices, our goal is to be the market leader in cost efficiency. This affects everything from how much capital we tie up to how effectively and well we work together.

Low risk

Following the Group approach the Company is keeping the low risk profile by limiting long term business and the non-traditional insurance offerings.

4 Changing management structure and harmonisation with Swedbank Life Insurance SE

During the second quarter, major internal structural changes were carried out within SLI, in parallel with its sibling company Swedbank Life Insurance SE:

- Creation of the CFO office, which combined 1st line actuarial and financial functions;
- separation of 2nd line of Risk and 2nd line of actuarial roles from business as usual functions in order to have more sound control;
- separation of contracts administration from claims handling in order to get more sharp focus into efficiency and customer satisfaction;
- creation of legal unit where employees were consolidated under one roof in order to meet upcoming more strict regulation in financial and insurance area.
- Rasa Balevičienė was appointed as a Chair of the Management Board of both companies.

5 Environment

Macroeconomic outlook

Economic growth accelerated substantially in all three Baltic countries in 2017, supported by strong external and domestic demand. High capacity utilisation, an inflow of European Union funds, and low interest rates supported investments. Tight labour markets, rapid growth in incomes and high economic sentiment favoured consumption. Real estate market benefitted from higher economic activity: prices grew and the number of deals increased in Estonia and Latvia (while remained broadly unchanged in Lithuania). New passenger car sales posted solid growth rates. In 2018, economic growth will slow to a more sustainable rate. Exports and investment will continue to benefit from global tailwinds. Domestic demand will increasingly contribute to growth. Nominal wage growth will remain decent and unemployment rate is expected to decrease, except in Estonia, where a labour market reform will lift the number of the unemployed.

Insurance markets

In 2017 Baltic non-life insurance market profitability has improved markedly driven by skyrocketing prices in MTPL and MOD in Latvia and Lithuania, moderate MTPL price increase in Estonia and changes in terms and conditions (mainly in Home insurance) carried out by the majority of the Baltic insurers. The markets were surging in 2017 boosted by growing prices and positive economic cycle. The Company's premium growth was continuously high exceeding the market growth in each of the Baltic States.

In Estonia, non-life insurance market year-on-year growth amounted to 11%. The Company's market share amounted to 16.5% (+0.8 percentage points YoY) making it the third largest insurer in the country.

In Latvia, non-life insurance market year-on-year growth amounted to 18%. Robust MTPL price growth was the main reason behind it. The Company's market share amounted to 5.0% (+1.0 percentage points YoY).

Driven by a steep price increase in motor insurances, non-life market growth in Lithuania was the highest in the Baltics and amounted to 21% year-on-year. The Company's market share amounted to 3.8% (+0.8 percentage points YoY).

Changing regulatory environment

During 2017 different preparations were made within the Company in order to be compliant with the new requirements coming from the Insurance Distribution Directive (IDD) and the General Data Protection Regulation (GDPR).

6 Internal outlook

Digital functions and services

The Company had big deliveries this year and should continue to develop and deliver new solutions and facelift the existing products. Digital channels are in the main focus of Swedbank and the Company should keep up with the group's approach. The demand for the digital solutions is increasing by clients and the expectations from Swedbank, the market leader and trailblazer, are high.

Motor own damage insurance digital solution
Amongst the biggest IT deliveries in 2017 is the internet bank solution for one of the Company's core products, Motor Own Damage Insurance. The release was done in each of the Baltic States and had a positive impact on the sales.

Internet bank Travel insurance
Travel insurance was complemented with a new digital solution in Lithuania aligning the distribution channels between the Company and its branches.

Loan payment protection insurance upgrade
LPPI business line facelift was carried out in 2017 simplifying the contract signing process. Additionally, the line of business was complemented with a new solution, small loan payment protection. The development also included implementing a new internet bank contract conclusion possibility.

Claims area developments
In the claims handling the Company focused on the process automatization to fulfil interests of client for whom it has to be fast and smooth.

Home insurance terms and conditions
Terms and conditions of home insurance were updated in all Baltic countries since 17.08.2017 and are applied to the existing contracts at the renewal. The company has simplified the wording and added several examples, so that the terms and conditions could be understood even better.

7 Financial performance review

Results
The financial results of the Company improved markedly compared to previous year driven by surging business volumes, growing prices in the non-life markets and limited increase in expenses. Moreover, the income tax on dividends was significantly lower than in 2016. Net profit of 2017 amounted to 17.1 million euros growing 6.3 million euros or 58% year-on-year.

Premium income
Business volumes growth exceeded the expectations in 2017. Gross premiums breached the 90.0 million mark and grew 27% year-on-year. Net premium income totalled 81.2 million euros (year ago: 66.2 million euros).

Net claims
Loss ratio grew by 2.1 percentage points and amounted to 63.6% in 2017 (2016: 61.5%). Net claims amounted to 51.6 million euros (year ago: 40.7 million euros).

Net operating expenses
The Company has yet again successfully limited the growth in costs arising out of surging business volumes. Net operating expenses grew 14% compared to previous year and totalled 10.3 million euros. Cost ratio decreased by 0.9 percentage points year-on-year and totalled 12.7%.

Key ratios

	2017	2016
Net loss ratio, %	63.6	61.5
Net expense ratio, %	12.7	13.6
Net combined ratio, %	76.3	75.1
Return on equity, %	40.2	31.7
SCR ratio, %	151	167

Net claims ratio $= \frac{\text{Claims incurred net of reinsurance}}{\text{Premiums earned net of reinsurance}}$

Net expense ratio $= \frac{\text{Net operating expenses}}{\text{Premiums earned net of reinsurance}}$

Net combined ratio $=$ net claims ratio + net expense ratio

SCR ratio $= \frac{\text{Eligible own funds}}{\text{Solvency capital requirement}}$

8 Plans and forecasts of activities for the following financial year

The main goal of the Company continues to be the maintenance of a high level of customer satisfaction by offering excellent services, broad insurance cover and competitive prices whilst retaining the profitability of the Company by keeping operating expenses low.

In product development Swedbank P&C Insurance AS will continue to put the main focus on digital channels, improving customers' convenience in any insurance related matter and further development of risk based pricing. Efforts will continuously go to developments that enable to comply with the new regulations.

Efficiency increase will continuously be the main goal of the Company. Different substantial IT developments for claims and aftersales processes automation are planned. In order to increase efficiency in our IT development and speed up time-to-market, the Company will continue with implementation of agile way of working of IT and business together.

9 Shareholder

Shareholder	Number of shares, units	Participation in share capital and voting rights (%)
Swedbank AS, (Estonia) (Company registration code 10060701; address: Liivalaia 8, Tallinn, Estonia; mailing address : 15040 Tallinn, Estonia)	2 121 000	100,0

10 The Council and the Board

Members of the Supervisory Council of Swedbank P&C Insurance AS

As at the date of signing of the financial statements:

Johanna Okasmaa Nilsson	Chair of the Council
Dovilė Grigienė	Member of the Council
Kristina Mikenberg	Member of the Council

Appointed during 2017:

Dovilė Grigienė	as of 24 May

Resigned during 2017:

Jonas Jonsson	as of 15 December
Aet Altroff	as of 24 May

The Company did not calculate or pay any remuneration to members of the Supervisory Board.

Members of the Management Board of Swedbank P&C Insurance AS

As at the date of signing of the financial statements:

Rasa Balevičienė	Chair of the Board
Margus Liigand	Member of the Board
Peeter Kabbun	Member of the Board
Vaida Janušytė	Member of the Board
Mihkel Mandre	Member of the Board

Appointed during 2017:

Vaida Janušytė	as of 28 September
Rasa Balevičienė	as of 30 June
Evaldas Valeiša	as of 30 June

Resigned during 2017:

Evaldas Valeiša	as of 28 September
Vaida Janušytė	as of 30 June

Key management personnel within the definition of IAS 24 are members of the Management Board and key management personnel of the parent. The remuneration paid to members of the Management Board in 2017 amounted to 140.5 thousand euros (2016: 141.3 thousand euros) and under employment contracts 50.8 thousand euros (2016: 35.2 thousand euros). In 2017, based on bonus program of Swedbank Group, 1,192 shares of Swedbank AB were transferred to Board Members for the performance in year 2013. According to the Board Member contract, Members of the Management Board have the right, upon termination of a contract, to receive remuneration of a member of the management board for three to six months.

11 Employees

As of 31 December 2017 the Company had 113 employees (64 in Estonia, 18 in Latvia and 31 in Lithuania) including five members of the Management Board. The remunerations paid to the employees amounted to 2,161,693 euros (2016: 1,948,253 euros). Personal social tax expenses in 2017 amounted to 401,483 euros (2016: 373,011 euros) in the Company in Estonia, 94,741 euros (2016: 88,427 euros) in the Latvian branch and 152,586 euros in the Lithuanian branch (2016: 124,942 euros). The unemployment insurance expenses totalled 8,609 euros (2016: 7,912 euros) in the Company in Estonian and 985 euros in the Lithuanian branch (2016: 821 euros).

Financial statements and notes

Statement of financial position

In euros	Note	31.12.2017	31.12.2016
ASSETS			
Cash and cash equivalents	3	29 141 918	13 621 772
Financial investments	4	39 596 601	38 655 459
Bonds		39 596 601	25 153 925
Term deposits		0	13 501 534
Receivables related to insurance activities		4 220 855	3 777 726
Prepaid expenses	5	230 592	122 480
Reinsurance assets	6	10 053 012	5 130 244
Receivables		2 720 652	1 711 359
Technical provisions		7 332 360	3 418 885
Deferred tax assets	17	3 343	22 283
Tangible assets		3 658	5 977
Total assets		**83 249 979**	**61 335 941**
LIABILITIES AND EQUITY			
Liabilities related to insurance activities	7	39 406 390	25 881 824
Technical provisions		34 611 291	23 511 766
Liabilities related to reinsurance		4 071 754	1 879 971
Other		723 345	490 087
Other liabilities	8	1 443 227	1 357 358
Total liabilities		**40 849 617**	**27 239 182**
Equity			
Share capital	9	21 210 000	21 210 000
Share premium		1	1
Statutory legal reserve		2 121 000	721 000
Retained earnings		2 003 258	1 345 855
Net profit for financial year		17 066 103	10 819 903
Total equity		**42 400 362**	**34 096 759**
Total liabilities and equity		**83 249 979**	**61 335 941**

The Notes presented on pages 12 to 32 form inseparable parts of the Financial Statements.

Statement of comprehensive income

In euros	Note	2017	2016
Premiums earned, net of reinsurance	10		
Premiums earned		87 276 127	70 208 209
Reinsurance premium		-6 070 195	-4 008 013
TOTAL		81 205 932	66 200 196
Claims incurred, net of reinsurance	11		
Claims incurred, gross		54 149 553	40 890 915
Claims handling expenses		3 257 861	2 675 022
Share of reinsurance in claims incurred		-5 840 898	-2 851 287
TOTAL		51 566 516	40 714 650
Operating expenses			
Acquisition costs and reinsurance commissions	13	4 433 883	3 974 790
Administrative expenses	14	5 485 419	4 716 892
Other operating expenses		462 123	306 980
TOTAL		10 381 425	8 998 662
Profit from insurance activities		19 257 991	16 486 884
Investment income and expenses, net	16	-99 254	201 600
Other income		2 104	501
Other expenses		258 083	231 584
Profit before income tax		18 902 758	16 457 401
Income tax	17	1 817 715	5 658 357
Deferred income tax	17	18 940	-20 859
Net profit for the year		17 066 103	10 819 903
Total comprehensive income for the year		17 066 103	10 819 903

The Notes presented on pages 12 to 32 form inseparable parts of the Financial Statements.

Statement of changes in equity

In euros	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
As at 01.01.2016	7 210 000	1	721 000	24 214 510	32 145 511
Net profit for the year	0	0	0	10 819 903	10 819 903
Proceeds from issuance of shares	14 000 000	0	0	0	14 000 000
Distribution of dividends	0	0	0	-22 800 000	-22 800 000
Fair value adjustment of share based payment at the settlement date	0	0	0	-68 655	-68 655
As at 31.12.2016	21 210 000	1	721 000	12 165 758	34 096 759
Net profit of the year	0	0	0	17 066 103	17 066 103
Distribution of dividends	0	0	0	-8 700 000	-8 700 000
Change in Statutory legal reserve	0	0	1 400 000	-1 400 000	0
Fair value adjustment of share based payment at the settlement date	0	0	0	-62 500	-62 500
As at 31.12.2017	21 210 000	1	2 121 000	19 069 361	42 400 362

The Notes presented on pages 12 to 32 form inseparable parts of the Financial Statements.

Statement of cash flows

In euros	2017	2016
Cash flow used in operating activities	**25 267 925**	**12 635 329**
Insurance premiums collected	90 993 935	71 637 885
Claims, recoveries and handling expenses paid	-50 775 902	-40 659 078
Settlements with reinsurers	-1 543 304	-1 146 189
Operating expenses paid	-14 602 749	-11 694 443
Income tax paid	-1 068 181	-5 506 356
Other income and expenses	2 264 126	3 510
Cash flow used in investing activities	**-1 032 943**	**2 612 896**
Acquisition of tangible assets	-2 352	-4 386
Interest collected	794 589	701 563
Acquisition of bonds	-28 754 537	-9 866 831
Disposal of bonds	13 558 340	8 806 600
Placed in term deposits	0	-15 300 000
Proceeds from matured term deposits	13 500 000	18 386 711
Investment expenses paid	-128 983	-110 761
Cash flow used in financing activities	**-8 700 000**	**-8 800 000**
Distribution of dividends	-8 700 000	-22 800 000
Proceeds from issuance of shares	0	14 000 000
TOTAL CASH FLOW	15 534 982	6 448 225
Cash and cash equivalents at beginning of the year	13 621 772	7 184 894
Change in cash and cash equivalents	15 534 982	6 448 225
Effect of exchange rate changes	-14 836	-11 347
Cash and cash equivalents at end of the year	29 141 918	13 621 772

The Notes presented on pages 12 to 32 form inseparable parts of the Financial Statements.

Notes

1 Accounting policies

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The accounting policies and procedures and the presentation of financial information applied in preparation of the 2017 Financial Statements of Swedbank P&C Insurance AS (hereinafter also the Company) are in accordance with the International Financial Reporting Standards (IFRS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Commission.

Functional currency of the Company is euro. All the amounts in these Financial Statements have been presented with an accuracy of one euro, unless indicated otherwise. The Financial Statements have been prepared using the accrual basis of accounting.

The Annual Report, prepared by the Management Board, which also includes the financial statements, has been presented to the Supervisory Board and the Shareholder for approval. The Shareholder has the right to reject the Annual Report prepared by the Management Board and approved by the Supervisory Board and demand that a new report is prepared.

JUDGEMENTS AND ESTIMATES OF MANAGEMENT BOARD IN PREPARING FINANCIAL STATEMENTS

Preparation of Financial Statements in accordance with the International Financial Reporting Standards as adopted by European Commission requires the use of estimates and judgements by the Management Board, which impacts the balances of assets and liabilities recognised, as well as revenue and expenses of the accounting period. The judgements and the estimates have been developed according to the best knowledge of the Management Board and considering the factors that are deemed justified under the current circumstances. The judgements and estimates are consistently reviewed. The final outcome may differ from these judgements and estimates.

The Management Board has decided to classify bonds of investment portfolio in fair value through profit and loss. Judgements of the fair value of assets in the investment portfolio are determined by the portfolio manager (Swedbank Investeerimisfondid AS) on the basis of market information. The fair value of the remaining financial assets and liabilities does not differ substantially from their book value. The Management Board has decided that the investment portfolio should have very good liquidity at all times, covering the potential outflows arising from insurance contracts. Additionally, at least 10% of the Portfolio assets have to have a liquidation horizon of one week. The only exception is allowed to assets covering annuities; there maximum allowed maturity is 20 years.

In calculating insurance technical provisions, the Management Board estimates unearned premium and outstanding claims provisions separately. Premium provision represents unearned part of premium instalments. Historical claim data, current trends, actual payment patterns are used for outstanding claims provision estimation.

In calculating the cost which is recognised as employee benefits ultimately settled in the form of common shares in Swedbank AB, the Management Board estimates how many common shares will be settled. Employees are allotted contingent rights to receive common shares, which require, for example, that they remain employed until the settlement date; otherwise the rights expire. Management also estimates the fair value of the rights allotted to employees and which gives them the conditional right to receive common shares in Swedbank AB at no cost. The estimate is based on the quoted price of the common share, since the right essentially has the same terms as a common share.

Liability adequacy is considered as management judgement.

CLASSIFICATION OF CONTRACTS

According to IFRS 4, for the accounting purposes contracts of an insurance company must be classified into insurance or investment contracts. Insurance contracts are contracts under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder or another beneficiary upon the arrival of an insured event. All contracts concluded by the Company can be classified as insurance contracts.

REVENUE RECOGNITION

Revenue from insurance premiums (gross premium) means premium earned and to be earned under an insurance contract or instalments of premium whose due date falls in the financial year. If the due date of premium or the first instalment of premium is after the date of entry into force of the insurance contract, premium revenue is recognised at the date of entry.

Share of reinsurance in claims paid means indemnities to be received from reinsurers on the basis of reinsurance contracts.

Reinsurance commission means commissions to be received from reinsurers on the basis of reinsurance contracts.

Recourse revenue is recognized when recourse amounts are received.

Revenue from realization of salvage is recognised when the right of ownership of the assets has been transferred to the buyer. The right of ownership is transferred to the buyer as from the transfer of the assets. Sales revenue is recognised in the amount actually paid by the buyer. Payment is a prerequisite for transfer of assets.

Other revenue is recognised at the fair value of the payments received or to be received. Revenue from the sales of goods is recognised when all essential risks and benefits relating to the right of ownership have been transferred to the buyer and the amount of revenue can be established in a reliable manner. Revenue from the sales of services is recorded on the accrual basis upon provision of the services. Interest income is recorded on the accrual basis, considering the effective interest rate of the asset.

RECOGNITION OF EXPENSES

Reinsurance premium means premium paid or payable according to the reinsurance conditions concluded by the insurer as the reinsurer.

Claims incurred means amounts of indemnities paid out in the financial year (claims paid) and changes in the provisions of claims.

Claims handling expenses mean direct expenses relating to specific losses and indirect administrative expenses relating to claims handling and insurer's relevant expenses, including employees' salaries, social tax expenses, etc.

Acquisition costs mean direct and indirect costs arising from entry into insurance contracts. Direct acquisition costs are agency fees and mediator's fee. Indirect acquisition costs are for instance advertising costs, salaries of employees relating to the conclusion of policies, transport, telephone, etc., costs.

Administrative expenses mean costs relating to the collection of insurance premiums, portfolio management, general management, accounting and IT. The expenses include those relating to insurance activities not recorded under acquisition costs or claims adjustment expenses.

Other expenses mean expenses incurred in the interests of the Company as a whole, but not in connection with everyday insurance or investment activities. The expenses include for example fees to auditors, supervision fee to the Financial Supervision Authority, legal, notarial, etc., services.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are balances of current and overnight deposits as of the balance sheet date. The Company does not settle petty cash transactions. The Cash Flow Statement has been prepared using the direct method.

Cash invested in and received from term deposits has been recorded in the Cash Flow Statement according to the content of the transactions as cash flow from investing activities.

RECOGNITION OF FOREIGN CURRENCY TRANSACTIONS

The functional currency of the Company is euro. All other currencies are considered foreign currencies.

Foreign currency transactions are recognised on the basis of the official closing exchange rates of the European Central Bank as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been restated in euro using the exchange rates quoted by the European Central Bank as of the balance sheet date. Gains and losses on conversion of foreign currency have been indicated in the Statement of Comprehensive Income of the accounting period.

FINANCIAL ASSETS

Depending on the purpose of acquisition of financial assets and the plans of the management related thereto the financial assets are classified into the following categories according to IAS 39:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments;
- available-for-sale financial assets.

The Company does not have any financial assets to be classified as held-to-maturity investments or available-for-sale financial assets. The quantitative distribution of financial assets has been set out in note 2 Market risk chapter.

Financial assets are recorded on the Balance Sheet on the trading date when a contract for the acquisition of asset is concluded.

Financial assets are registered in accounting at their acquisition cost, i.e. the fair value paid for the assets. The initial acquisition cost includes all the transaction costs directly attributable to acquisition of the financial assets, except the costs related to acquisition of the financial assets at fair value through profit or loss.

Financial assets are derecognised when the Company loses the right to the cash flow generated by the financial assets or assigns the cash flow generated by the financial assets and most of the risks and benefits related to the financial assets to a third party.

Financial assets at fair value through profit or loss

This group includes the following: financial assets held with the trading objective, i.e. the assets that have been acquired or arisen mainly for the resale or repurchase objective in the near future, or are derivative instruments other than hedge instruments.

According to the IFRS 13 fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. If an asset or a liability measured at fair value has a bid price and ask price, the price within the bid-ask spread is used to measure fair value.

The financial assets at fair value through profit or loss are recognised initially at acquisition cost, i.e. the fair value paid for the financial assets (transaction costs are not included). After initial recognition such financial assets are restated on the balance sheet date to the fair value (IAS 39). Gains and losses from change in the fair value are recognised in the Statement of Comprehensive Income.

Loans and receivables

Receivables are debts of policyholders, reinsurers, intermediaries and others at the end of the financial year. Receivables are recorded on the Balance Sheet at amortised cost, calculated using the effective interest rate method. On the balance sheet date the probability of accrual of receivables is assessed using the method of individual assessment of receivables. The recovery and write-off of receivables under insurance contracts that's payment term has expired takes place according to the rules for debt proceedings. In the case of cancelled receivables relevant revenue entries are reduced.

Term deposits are classified according to IAS 39 under receivables and are recognised at amortised cost.

REINSURANCE ASSETS

Reinsurance assets comprise the share of reinsurance in the provision for unearned premiums and outstanding claims and receivables from reinsurers. Receivables from reinsurers arise from reinsurance commissions and the share of reinsurers in claims.

TANGIBLE FIXED ASSETS

Tangible fixed assets are assets with a useful life exceeding one year and value of 1,000 euros or more, in the case of computing equipment with a value of more than 2,000 euros, and in the case of computing equipment of workplaces with value of more than 250 euros. Other equipment is written off upon acquisition.

Tangible fixed assets are initially recognised at their acquisition cost, which comprises the purchase price and expenses directly attributable to the acquisition. Thereafter the tangible fixed assets are recorded on the Balance Sheet at the acquisition cost thereof less accumulated depreciation and any possible write-downs arising from impairment.

The difference between cost of an asset and its terminal value is expensed during the useful lifetime of that asset. Depreciation period is 2-4 years, depending on the nature of the asset. Depreciation is calculated according to the straight-line method.

As of each balance sheet date the evaluation of occurrence of factors referring to any possible impairment of fixed assets is carried out. The recoverable amount of the assets is assessed if such circumstances appear and it is compared to the book value of relevant assets. If the recoverable amount of tangible fixed assets (the higher of the two: fair value less costs to sell or value in use) is permanently lower than the book value, the assets are indicated in the presumably recoverable amount.

FINANCIAL LIABILITIES

Financial liabilities are contractual obligations to give the other party money or other financial assets, a contractual obligation to exchange with the other party financial instruments under potentially unfavourable conditions.

Financial liabilities are initially recognised at their fair value, less transaction costs, and thereafter at adjusted acquisition cost using the effective interest rate method. The adjusted acquisition cost of short-term financial liabilities is generally equal to their nominal value and therefore short-term financial liabilities are recognised on the Balance Sheet in the amounts subject to payment. Financial liabilities are derecognised when they are satisfied, i.e. the liability set out in a contract has been discharged, cancelled or expired. The quantitative distribution of liabilities has been set out in clauses Market risk and Liquidity risk of Note 2.

TECHNICAL PROVISIONS

Provision for unearned premiums is formed from the sum of provisions for unearned premiums of individual contracts. The provision is the amount of the premium or instalments of premium of contract in force that corresponds to the outstanding risks as of the balance sheet date.

Provision for outstanding claims is the amount that reflects the final estimated expenditure, including all claims handling expenses, of all insurance claims incurred but not yet settled as of the balance sheet date, irrespective of whether these claims have been reported. As an input for measuring the liabilities arising from unsettled claims, the Company uses the estimation about the volume of individual claims reported to the Company and statistical analysis of claims incurred but not yet reported. The Company does not discount the liabilities arising from unsettled claims except for liabilities arising from motor third party liability annuity claims.

LIABILITIES FROM REINSURANCE

Reinsurance liabilities from proportional reinsurance arise at the same time and proportionally to the accrual of receivables (incl. the initial commission) and payables of the Company in respect of policyholders.

Non-proportional reinsurance premium rate, minimum and deposit payment and procedure for payment thereof for an insured year is determined in a reinsurance contract. The amount of an insurance premium is based on the volume of premium actually earned during the underwriting year and the initial premium is adjusted at the end of the underwriting year.

LIABILITY ADEQUACY TEST

At each balance sheet date liability adequacy tests are performed to ensure the adequacy of liabilities arising from insurance contracts, considering the current judgements of the present value of contractual cash flow, and also loss adjustment and administrative expenses. All deficits are recorded in the Statement of Comprehensive Income and a provision based on the liability adequacy test is created on the Balance sheet (unexpired risk reserve).

LEASE ACCOUNTING

Lease transactions where all significant risks and benefits relating to the ownership of the property transfer to the lessee are recorded as finance lease. Other lease transactions are treated as operating leases. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income over the lease term on a straight-line basis.

Finance lease is reported by the Company as the lessee on the Balance Sheet as the assets and liabilities in the amount of the fair value thereof or in the present value of the minimum lease payments, if that is lower. Lease payments are divided between financial expenses (interest expenses) and reduction of the residual value of the liability. Financial expenses are allocated to each lease period so as to produce a constant periodic rate of interest on the residual value of the liability during the lease period. Financial expenses are recognised on accrual basis in the Statement of Comprehensive Income.

SHARE-BASED PAYMENT

Since the Group (refers to Swedbank AB (publ) and its subsidiaries) receives services from its employees and assumes an obligation to settle the transactions with equity instruments, this is recognised as share based payment. This means that the fair value of the services that entitle the employees to an allotment of equity instruments is expensed at the time the services are rendered. At the same time a corresponding increase in liabilities is recognised. For share-based payment to employees settled with equity instruments, the services rendered are valued with reference to the fair value of the allotted equity instruments. The fair value of the equity instruments is calculated as per the allotment date for accounting purposes, i.e., the valuation date. The valuation date refers to the date when a contract was entered into and the parties agreed on the terms of the share-based payment.

On the allotment date, the employees are allotted rights to share-based payment. Since the allotted equity instruments are not vested until the employees have fulfilled a period of service, it is assumed that the services are rendered during the vesting period. This means that the cost and corresponding increase in liabilities are recognised over the entire vesting period. Non market based vesting terms, such as a requirement that a person remain employed, are taken into account in the assumption of how many equity instruments are expected to be vested.

At the end of each report period the Group reassesses its judgments of how many shares it expects to be vested based on the non-market based vesting terms. Any deviation from the original judgment is recognised through profit or loss and a corresponding adjustment is recognised in liabilities.

Related social insurance charges are recognised as cash-settled share-based payment, i.e., as a cost during the corresponding period, but based on the fair value that at any given time serves as the basis for a payment of social insurance charges. Subsidiary shall record the transactions with its employees as cash-settled. The liability will be applied irrespective of how the subsidiary obtains the equity instruments to execute the obligations to its employees.

RESERVES

Pursuant to the requirements of the Commercial Code, the legal reserve that is formed of transfers made from net profit has been indicated. The amount of the annual transfer must be at least 1/20 of the approved net profit for the financial year until the legal reserve accounts for at least 1/10 of the share capital.

NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Initial application of new amendments to the existing standards effective for the current reporting period

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

Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017);

Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealised Losses – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017).

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

Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective:

IFRS 9 "Financial Instruments" - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);

IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018);

IFRS 16 "Leases" – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);

Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time);

Amendments to IFRS 15 "Revenue from Contracts with Customers" - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).

The Company has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates. The Company anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Company in the period of initial application.

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at the date of signing of the financial statements (the effective dates stated below is for IFRS in full):

IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021);

Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);

Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019);

Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);

Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);

Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);

Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);

Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018);

IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).

The Company anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Company in the period of initial application, with the exception of following new standard:

IFRS 17 "Insurance Contracts" issued by IASB on 18 May 2017. The new standard requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 "Insurance Contracts" and related interpretations while applied. IFRS 17 will radically change the content of insurance companies' main reports.

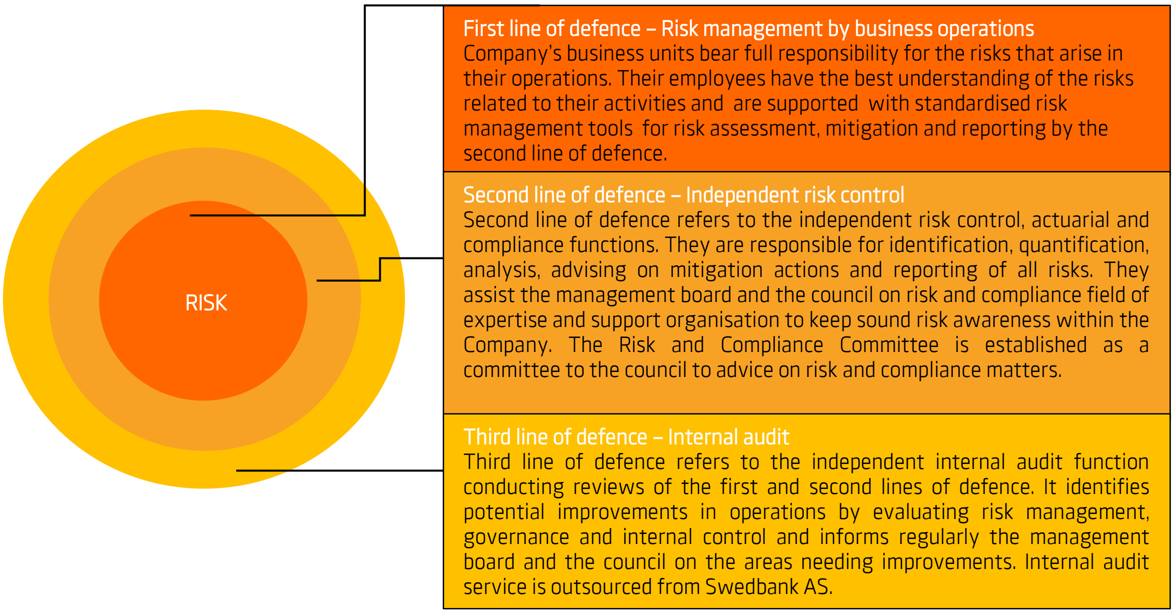
2 Risk management

The Company considers risk management as an integral part of a sound management, governance and decision making process. Risk management is embedded into daily business activities, forming a part of the Company's culture. The main aim of the risk management is to secure, that the Company is capable to fulfil the insured persons' and shareholders' interests by keeping all risks within the Company's risk appetite and holding sufficient capital to be solvent at any time.
The Company's risk management system consists of processes, methodologies, tools and organizational structures, with the purpose to manage risks that are inherent or related to the Company's business in order to support effective achievement of business goals. A well-developed risk management process is in place (Figure 1). This enables understanding, analysing and quick mitigation of unfavourable risks. The Company's risk management is based on the risk management framework and on the risk strategy and risk appetite statement.

In line with the Solvency II regulation, the Own Risk and Solvency Assessment (ORSA) process has been implemented in the Company. ORSA is a management tool for the Company's council and management board in order to understand the risks and related capital implications, and to contribute to risk-informed decision-making. The ORSA process follows the annual planning cycle and is interdependent with other key processes within the Company.

Figure 1. Risk Management Process

Figure 2. Risk Management Organisation



ORGANIZATIONAL SET-UP OF RISK MANAGEMENT IN THE COMPANY

The organizational set-up of risk management is based on the concept of the three lines of defence, with clear goals, responsibilities and a simple reporting structure in accordance with the internationally recognised best practices (Figure 2).

RISK PROFILE OF THE COMPANY

The company is exposed mainly to underwriting, market, credit and operational risks, as well as to strategic and business risks. The company's main business focus is on providing simple and wide insurance cover, mainly for private customers, while keeping the portfolio well diversified. The company holds sufficient capital to cover its obligations. Therefore, the overall level of the company's risk profile can be regarded as low. The underwriting principles and investment strategy have not changed much during the last year; therefore also the risk profile of the company has remained stable.

MANAGEMENT OF UNDERWRITING RISK

Underwriting risk is one of the most important risks for the company reflecting the core business of insurance, which is taking and managing insurance risk. It´s proper management and control determines largely the company's overall results. Underwriting risk involves risks related with proper pricing, reserving and appropriate reinsurance cover. The business model of the company is based on offering simple products for mass market, where the effect of individual risks is not very high. Therefore, the main focus is on the portfolio management.

The main framework for managing underwriting risk is stated in the underwriting risk management policy and additional underwriting guidelines.

The main components of portfolio risk management are:

- Choice and volume of products
- Setting target loss ratios
- Price establishment
- Selection of individual insured risks
- Assessment of sufficiency of insurance premiums
- Appropriate reserves and underlying assumptions
- Reinsurance

Choice and volume of products

The choice of products is determined by the business model of the Company, which is to offer simple insurance contracts which can be concluded easily along with other products in Swedbank Group. The principle for choosing products is to maximise the potential customer base and the amount of contracts in order to ensure well diversified portfolio.

Products are standardized and suitable for most of the potential policyholders without applying any unnecessary special conditions and expert knowledge for concluding a contract.

Before launching any new services or significant changes to existing services, relevant risks are analysed and assessed for capital requirements. During 2017 no remarkable changes were made to the existing services. Therefore, the Company´s underwriting risk has not changed substantially. In general, underwriting risk impact as such is increasing along the overall portfolio increase. This is natural due to the business growth.

Setting a targeted loss ratio

The management board assesses the results of product portfolio and market situation and defines the target loss ratio for the financial year in respect of each product. The maximum acceptable loss ratio is decided as well. If the product's loss ratio exceeds the maximum acceptable loss ratio or will likely exceed it in the future, the preparation of an action plan to keep the loss ratio below the maximum acceptable level is required.

Price establishment

The Company establishes prices of insurance products according to its previous claims experience taking into account the historical loss ratios of the respective insurance product in the country of operation.

The Company analyses the difference in sales price and technical price for every insurance product. This gives the opportunity to discover the risks arising during pricing and when needed to implement quickly mitigation actions in order to decrease the risks related to pricing.

The current loss ratio level provides a basis for considering the premium rates used in 2017 as adequate in order to ensure that the Company's liabilities will be met on the account of the collected insurance premiums.

The establishment of adequate price is also directly related to using adequate insured sums in insurance contracts. The Company observes construction and service prices and adjusts, where necessary, the insured sums used by default and permitted as a minimum. In order to state the proper sum insured of the insured vehicles, the actual market price is controlled. During each policy renewal the sum insured is adjusted based on the actual market price. This should ensure the use of actual market price in insurance contracts.

Choice of risks insured

In consideration of the small size of the Estonian, Latvian and Lithuanian insurance markets as well as the Company's goals for its market share, the Company does not concentrate on limited client segments. The selection of risks in portfolio management consists rather of the identification of loss-generating segments and reduction of their share in the portfolio. To refrain from risks of low quality disturbing the portfolio balance, principles of taking insurance risks have been established and restrictions and approval requirements have been set for insurance agents. Furthermore, individual risks of low quality are eliminated from the portfolio during the contract prolongation process.

Appropriate reserves and underlying assumptions

The Company enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. These reserves are measured individually for each file by the claims departments. Additional reserves for incurred but not reported (IBNR) claims are also booked. Reserves are based on applicable accounting and actuarial standards as well as internal and industry best practice.

The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future.

For long-tail claims such as motor third party liability annuities that take many years to settle, there is also a risk in inflation, interest rates that are used for discounting, as well as longevity risk. The sensitivity analysis of these assumptions is presented in the table below:

Sensitivity	Effect on net liabilities / profit before tax, EUR	
	2017	2016
Inflation increase by 1% pp	349 948	316 066
Decrease in discount rate by 1% pp	361 716	326 712
Decrease in mortality by 20%	43 132	31 924

THE DEVELOPMENT OF CLAIMS: 2008- 2017

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date. Recourses, salvage and claims handling costs are excluded from the triangles. The amounts showed below are gross of reinsurance. The surplus (deficiency) of the initial reserve at the end of accident year with respect to the re-estimated (gross) final cost for each year represents the difference between the amount shown in the first line and the amount shown in the final diagonal under "current estimate of cumulative claims".

Estimate of ultimate claims costs, gross

In thousand euros

Accident year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
at the end of accident year	21 937	22 846	20 993	19 646	21 714	25 419	28 514	35 720	47 266	60 708	
1 year later	22 057	22 966	20 642	19 161	21 016	24 563	28 512	34 206	45 800		
2 years later	21 366	22 449	20 281	18 802	20 903	24 646	27 717	33 648			
3 years later	21 165	22 307	20 966	18 997	20 858	24 419	27 183				
4 years later	21 257	22 609	21 021	18 940	20 761	23 841					
5 years later	21 258	22 736	20 919	18 755	20 335						
6 years later	21 408	22 737	20 921	18 765							
7 years later	21 397	22 726	20 959								
8 years later	21 383	22 663									
9 years later	21 420										
Current estimate of cumulative claims	21 420	22 663	20 959	18 765	20 335	23 841	27 183	33 648	45 800	60 708	295 322

Claims paid, gross

In thousand euros

Accident year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
at the end of accident year	17 305	17 836	16 450	15 198	16 015	19 003	21 115	26 365	35 186	42 880	
1 year later	20 940	21 555	19 949	18 496	19 686	23 414	26 569	32 685	43 515		
2 years later	21 064	21 741	20 132	18 673	20 514	23 850	27 014	32 848			
3 years later	21 127	21 801	20 206	18 715	20 577	24 063	26 523				
4 years later	21 169	21 833	20 266	18 731	20 612	23 410					
5 years later	21 184	21 859	20 287	18 732	20 036						
6 years later	21 193	21 878	20 307	18 727							
7 years later	21 197	21 894	20 320								
8 years later	21 199	21 919									
9 years later	21 199										
Cumulative payments to date	21 199	21 919	20 320	18 727	20 036	23 410	26 523	32 848	43 515	42 880	271 377
Liability recognised in the balance sheet, gross	221	744	639	38	299	431	660	800	2 285	17 828	23 945
Current estimate of surplus/(deficiency)	517	183	34	881	1 379	1 578	1 331	2 072	1 466		
% Surplus/(deficiency) of initial gross reserve	2%	1%	0%	4%	6%	6%	5%	6%	3%		

REINSURANCE AND CONCENTRATION OF RISKS

To manage underwriting risk and protect the equity of the Company, reinsurance is used. In 2017, all the motor own damage, property, motor third party liability and travel insurance contracts of the Company were covered by non-proportional reinsurance programs. Additionally, motor third party liability insurance was covered by proportional reinsurance. According to the business model of the Company, there is no need for facultative reinsurance.

To minimize the reinsurance counterparty default risks particularly the reinsurer's insolvency and dependency on one reinsurer, the Company defines the minimum permitted credit rating and the maximum permitted share per reinsurer in a reinsurance contract. Reinsurer's share in motor own damage and property insurance as well as motor third party liability insurance is limited to 30% in 2017.

Due to the small volume of the travel insurance portfolio, in the context of global reinsurance market, one reinsurer has been selected as a partner in travel insurance.

The credit ratings set for reinsurers have been specified in chapter Credit risk.

MARKET RISK

Market risk is the risk that the value of an investment portfolio will decrease due to the changes in the market risk factors. The Company has kept a very conservative investment strategy and due to that, the main market risk factor influencing the portfolio is unfavorable change in interest rates.

Currency risk

Currency risk arises in the circumstances where the value of a financial instrument may float due to changes in foreign exchange rates. As of 31.12.2017 all assets and liabilities are in EUR, including the investments in the investment portfolio. According to the investment strategy currencies other than Euro are not allowed. Therefore, there is also no direct currency risk for the Company.

Interest rate risk

Interest rate risk means uncertainty concerning future interest rates. Financial effect on the assets of the Company's investment portfolio which may occur due to unfavourable changes in interest rates is quantified based on sensitivity testing. Sensitivity testing takes into account the negative change of interest rates by 100 basis points. However, it does not take into account the probability of the change.

Change in interest rate	Effect of the change on the Company's net assets, in thousands of euros
100 bps	-976

Distribution of interest-bearing assets and liabilities by interest-fixing terms

In thousands of euros	Up to 3 months	3…12 months	1…2 years	Over 2 years	Total
			31.12.2017		
Assets					
Cash	29 142	0	0	0	29 142
Financial investments at fair value through profit or loss	84	6 600	8 230	24 683	39 597
Exposure to interest rate risk	**29 226**	**6 600**	**8 230**	**24 683**	**68 739**
			31.12.2016		
Assets					
Cash	13 622	0	0	0	13 622
Financial investments at fair value through profit or loss	1 248	6 905	7 218	9 783	25 154
Financial investments at amortised cost	8 503	4 998	0	0	13 501
Exposure to interest rate risk	**23 373**	**11 903**	**7 218**	**9 783**	**52 277**

LIQUIDITY RISK

Liquidity risk is the risk that the Company is unable to realize investments and other assets to settle its financial obligations when they fall due without a significant increase in the cost of obtaining means of payment.

The Company may theoretically incur liquidity problems particularly if claims concentrate on one short period of time mainly due to natural or man-made catastrophic events. To manage the liquidity risk, the cash-flow and liabilities of the Company as well as the duration thereof are analysed. The provision for claims incurred but not settled is constantly compared with the balance of bank accounts.

The liquidity risk of the Company is very low. Cash-flows from insurance activities have been constantly positive and should remain positive also in the future. Liabilities of the Company from insurance activities are mainly short-term, with duration of up to one year except relatively small amount of annuity claims from motor third liability insurance. Due to the uncertainty of financial markets, the Company avoids taking long-term positions in compilation of an investment portfolio, which reduces the possibility of earning on the account of taking interest or credit risk. Exception is the annuities arising from the motor third party liabilities; there the long-term positions are in accordance with the duration of the liabilities. Majority of assets in an investment portfolio may be realised, if necessary, within one week at the market price. Claims are paid out within 2-3 days from making a pay-out decision.

Distribution of assets and liabilities by remaining maturities

In thousands of euros	Up to 3 months	3...12 months	1...2 years	Over 2 years	Without maturity	Total
			31.12.2017			
Assets						
Cash	29 142	0	0	0	0	**29 142**
Financial investments at fair value through profit or loss	84	6 600	8 230	24 683	0	**39 597**
Tangible assets	0	0	0	0	3	**3**
Other assets	13 290	1 178	40	0	0	**14 508**
Total assets	**42 516**	**7 778**	**8 270**	**24 683**	**3**	**83 250**
Liabilities and equity						
Liabilities	32 784	5 670	268	2 128	0	**40 850**
Equity	0	0	0	0	42 400	**42 400**
Total liabilities and equity	**32 784**	**5 670**	**268**	**2 128**	**42 400**	**83 250**
Exposure by maturities	**9 732**	**2 108**	**8 002**	**22 555**	**-42 397**	**0**
			31.12.2016			
Assets						
Cash	13 622	0	0	0	0	**13 622**
Financial investments at fair value through profit or loss	1 248	6 905	7 218	9 783	0	**25 154**
Financial investments at amortised cost	8 503	4 998	0	0	0	**13 501**
Tangible assets	0	0	0	0	6	**6**
Other assets	8 499	543	11	0	0	**9 053**
Total assets	**31 872**	**12 446**	**7 229**	**9 783**	**6**	**61 336**
Liabilities and equity						
Liabilities	21 095	3 945	320	1 879	0	**27 239**
Equity	0	0	0	0	34 097	**34 097**
Total liabilities and equity	**21 095**	**3 945**	**320**	**1 879**	**34 097**	**61 336**
Exposure by maturities	**10 777**	**8 501**	**6 909**	**7 904**	**-34 091**	**0**

CREDIT RISK

Credit risk refers to the risk that the counterparty of a financial transaction due to its insolvency does not meet its contractual obligations towards the Company.

The credit risk of the Company is mainly associated with the reinsurance and the investment management. Realization of the risk within the next 12 months is considered low by the Company. The reason being that high credit rating requirements have been set for both reinsurers as well as investment portfolio counterparties.

Credit risk is minimized with the minimum credit ratings established on the credit institution of security issuance and on reinsurance partners and monitoring the maximum share of counterparties in the investment portfolio and reinsurance programs.

Distribution of the investment portfolio in terms of credit ratings:

2017										
In percentage	Aaa	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	**TOTAL**
Bonds	1.4	12.8	21.7	4.0	0.7	8.6	0.9	4.1	3.4	57.6
Cash in investment portfolio			42.4							42.4
TOTAL	**1.4**	**12.8**	**64.1**	**4.0**	**0.7**	**8.6**	**0.9**	**4.1**	**3.4**	**100.0**
2016										
Bonds		11.8	17.0			6.3	2.5	6.8	3.7	48.1
Term deposit			25.8							25.8
Cash in investment portfolio			26.1							26.1
TOTAL		**11.8**	**68.9**			**6.3**	**2.5**	**6.8**	**3.7**	**100.0**

In the above table local branches and subsidiaries of European banks (e.g. Baltic banks of Swedbank group), which are not separately rated by agencies, are classified according to their parent's rating.

Debt securities by issuer type:

In euros	**31.12.2017**	**31.12.2016**
Government bonds of European countries	6 033 802	4 353 784
Bonds of banks	21 383 969	13 908 508
Other corporate bonds	12 178 830	6 891 633
TOTAL	**39 596 601**	**25 153 925**

The credit ratings of the reinsurers participating in the motor own damage, motor third party liability and property reinsurance programmes remain between Aa3-A3 according to Moody's. Compared to 2016, no significant changes have occurred in the credit ratings of reinsurance programmes. Additionally, credit ratings of the reinsurers are assessed by the Swedbank Group own credit risk methodology to minimize the impact from the external credit ratings systematic potential failures. Also the financial performance and claims payment habit of the reinsures' that participate in the Company's reinsurance treaties, is monitored.

OPERATIONAL RISK

Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. The definition of operational risk includes legal risk and information risk.

The Company has implemented the following main methods and tools in order to systematically identify, analyse, monitor and mitigate the operational risks:

- Risk and Control Self-Assessment is carried out at least annually by the business and mitigation actions are monitored regularly.
- Risk analysis of new products and services.
- Business continuity management through up-to-date business continuity plans and regular business continuity testing.
- Reporting and analysing incidents.

Additionally, Risk Management Maturity Assessment method is used for assessing the overall level of risk management and risk awareness in the Company. The Company follows standardised Swedbank Group methodology.

Operational risk management has three main goals:

- Prevention

  Once a year risks related to business activities of all departments are mapped and their probability and financial impact, impact on the functioning of business processes and reputation is assessed. In the case of significant risks, clear responsibilities and deadlines for implementing mitigation actions are in place. Monitoring of the implementation of the mitigation actions should reduce the risk to the acceptable level.

  All new products and processes as well as significant changes made to the existing ones are subject to risk assessment. The purpose of the process is to ensure that the Company is not entering into activities that contain unintended forms of risk or risks that are not immediately managed and controlled by part of the process.

- Ensuring preparedness for fast and efficient solution of potential crisis situation

The Company has drawn up a business continuity plan that contains the code of practice and predefined actions for restoring quickly the situation as before any potential crisis situation. The business continuity plan is updated on a constant basis and the functioning thereof is tested during business continuity tests.

- Development and implementation of improvement activities

To develop improvement activities and quantify the impact of operational incidents and losses, information is collected regularly about failures and incidents from daily activities. Mitigation actions are developed based on the size and frequency of the incidents.

CAPITAL MANAGEMENT

Capital content and management

The target of capital management is to ensure the sustainability and stability of the Company protecting therewith the interests of policyholders and shareholders. Capital management is based on the management of the assets and liabilities of the Company and risks related thereto and consists in regular assessment of the compliance with the capital requirements established in the Insurance Activities Act.

The term ‘capital’ refers to equity capital, which consists of paid-up share capital, share premium, legal reserve and retained earnings. The Company does not use any external funding.

Capital requirements established by law

The Insurance Activities Act defines three capital requirements for the Company:

- the share capital shall be three million euros in minimum;
- the sum of eligible basic own funds shall not be smaller than the floor of the minimum capital requirement, which is 3.7 million euros;
- the sum of eligible own funds shall not be smaller than the solvency capital requirement.

The Company is continuously well capitalized and remains in a comfort zone of solvency capital requirement. More information will be available in Solvency Financial Capital Requirement report.

3 Cash and cash equivalents

In euros	31.12.2017	31.12.2016
Demand deposits	29 141 918	13 621 772
TOTAL	29 141 918	13 621 772

4 Financial investments

Investment activities of insurance undertakings are regulated by the Investment Activities Act. Upon investment of an insurance undertaking’s assets the nature of commitments arising from insurance activities and insurance contracts shall be taken into account, including the currency in which the commitments are assumed. Upon investment of an insurance undertaking’s assets, optimum safety and proceeds shall be secured and, at the same time, the constant liquidity of the insurance undertaking and the diversification and adequate spread of the investments of the insurance undertaking shall be maintained.

Following is a description of the methods used to determine fair values, divided into three levels based on the degree of observability in the valuation. Level 1 contains financial instruments whose fair value is determined based on quoted market prices on an active market. This category primarily includes stocks, bonds, treasury bills, commercial paper and standardised derivatives, where the quoted price is used in the valuation. Level 2 contains financial instruments whose fair value is determined using valuation models based on observable market inputs, which are the prices of financial instruments that are as similar as possible and for which transactions have been executed. Level 3 contains financial instruments whose fair value is determined using valuation models based primarily on observable market inputs, also utilising own assumptions.

All assets of the Company that are recognised at fair value are grouped according to fair value hierarchy level 1. The measurements of fair value of assets of investment portfolio are provided by portfolio manager based on market information.

			31.12.2017		
In thousands of euros	Up to 3 months	3...12 months	1...2 years	Over 2 years	Total
Bonds	84	6 600	8 230	24 683	39 597
TOTAL	84	6 600	8 230	24 683	39 597
			31.12.2016		
Bonds	1 248	6 905	7 218	9 783	25 154
Term deposits	8 503	4 998	0	0	13 501
TOTAL	9 751	11 903	7 218	9 783	38 655

The Company outsources the investment management services from Swedbank Investeerimisfondid AS. Investment strategy of the Company has been very conservative and is stated in the Investment Policy. Investment declaration sets detailed limits on the investments (most important are indicated in the table below). Compliance of the investments to the stated limits is monitored monthly in order to manage market risks, including interest rate risk and credit risk. Investments are allowed only in euro denominated investments, and this requirement is adhered to.

Restriction	2017		2016	
Distribution of assets	Lower limit	Upper limit	Lower limit	Upper limit
Instruments of fixed interest rate	0%	70%	0%	70%
Term deposits	0%	80%	0%	80%
Cash	10%		10%	

As of the balance sheet date the investment portfolio of the Company consists of debt instruments, deposits and cash at bank.

Distribution of the investment portfolio

In thousands of euros	31.12.2017		31.12.2016	
Instruments of fixed interest rate	39 597	57.6%	25 154	48.1%
Term deposits	0	0%	13 501	25.8%
Cash in investment portfolio	29 142	42.4%	13 622	26.1%
TOTAL	68 739	100%	52 277	100%

As of the end of 2017, 57.6% of the portfolio was invested in bonds. Year ago this proportion amounted to 48.0%. The proportion of bonds within the investment portfolio of the Company was increased as negative interest rates were applied for the bank accounts of financial institutions. As of the end of 2017, there were no deposits in the investment portfolio of the Company.

By the end of 2016, duration of the portfolio was 1.7 years and this increased to 2.3 years during the year. With cash position taken into account the duration of the portfolio was within the set limit. As of the end of 2016, investment portfolio yield to maturity amounted to -0.005% and this increased to 0.01% as a result of general increase of duration of the portfolio. By the end of the year, 2.4% of bond portfolio positions were rated Aaa, 60.0% were rated Aa and the rest 38% were split between ratings A and Baa according to Moody's. By the end of the year, all set investment limits were met.

In 2017, return of the portfolio amounted to +0.14% while the benchmark index yield was -0.33%. Credit risk of the portfolio and its duration were higher compared to their benchmark indexes. According to our expectations, shorter maturity bonds' yield levels were relatively stable in 2017. During the year, Eesti Energia bonds position was increased as their yield is continuously attractive compared to their risk and alternatives in the market. Moreover, new investments into several international companies' bonds were made.

Global economy was growing steadily in 2017 resulting in investors choosing to invest in high-risk assets and increasing the portfolio risk. By the end of the year, Euribor stayed virtually flat slightly fluctuating around -0.32% mark and euro interest rate curve moved upwards. Both 2 and 10 year maturity financial instruments' yields fluctuated throughout the year and ended up at higher level compared to previous year same period.

At the start of the year, Greece debt burden topic emerged again resulting in considerable increase of yield of Greece government bonds. In March, United Kingdom started the EU leaving process applying article 50. Its further effect on the economy of the European Union is continuously unclear. In April, first round of France elections took place resulting in Macron's victory. Macron's success had considerably lowered the risk premiums of the country's government bonds as the pressure of further collapse of the European Union has decreased. In June, Italy's government spent 17 billion euros in order to support Veneto banks. The main goal of the operation was protection of small investors. In October, European Central Bank announced that it is decreasing the bond purchasing programme to 30 billion in a month and will continue with it at least to September 2018. Such news was expected by the bond markets.

In 2018, we expect short-term bonds' rates to remain relatively stable. During the year, a slight interest rate increase could take place. The whole yield curve could be lifted up by ECB decision not to continue with bond buying beyond September. We expect that euro rates will not be hiked in 2018. Longer term interest rates could rise supported by the positive economy swing. By the end of the year, the interest rate curve could be steeper.

5 Prepaid expenses

In euros	31.12.2017	31.12.2016
Prepaid taxes	89 016	321
Other prepaid expenses	141 576	122 159
TOTAL	230 592	122 480

All prepayments are short term, i.e. are realizable within the next 12 months.

6 Reinsurance assets

In euros	31.12.2017	31.12.2016
Technical provisions	7 332 360	3 418 885
Reinsurer's share in provision for unearned premiums	1 558 962	778 422
Reinsurer's share in provision for outstanding claims	5 773 398	2 640 463
Receivables	2 720 652	1 711 359
Reinsurance commissions	863 811	461 813
Share of reinsurance in claims	1 663 326	1 141 722
Refundable reinsurance premium	193 515	107 824
TOTAL	10 053 012	5 130 244

39,883 euros of the technical provisions will be realised during a period longer than 12 months. All other provisions and receivables are realizable within the next 12 months and therefore they can be considered to be short-term.

7 Liabilities related to insurance activities

In euros	31.12.2017	31.12.2016
Technical provisions	34 611 291	23 511 766
Provision for unearned premiums	9 109 487	6 339 972
Provision for outstanding claims (see Note 11)	24 835 210	17 075 465
Unexpired risk reserve	666 594	96 329
Liabilities related to reinsurance	4 071 754	1 879 971
Reinsurance premium	3 896 142	1 755 409
Reinsurance share in recoveries	128 009	95 994
Refundable commissions	47 603	28 568
Other liabilities	723 345	490 087
Policyholders	150 681	101 727
Other	572 664	388 359
TOTAL	39 406 390	25 881 824

2,093,782 euros of the technical provisions is a non-current liability because it will be realised during a period longer than 12 months. All other liabilities from insurance activity are short-term.

Liability adequacy test
As of the balance sheet date liability adequacy test has been carried out. The test indicated a deficiency in amount of 666,594 euros (2016: 96,329) that was recognised in insurance technical liabilities as unexpired risk reserve.

8 Other liabilities

In euros	31.12.2017	31.12.2016
Accounts payable	66 983	56 340
Accrued expenses	1 331 127	1 272 605
Other liabilities	45 117	28 413
TOTAL	1 443 227	1 357 358

Accrued expenses

In euros	31.12.2017	31.12.2016
Liabilities from share-based bonus program	537 714	552 485
Deferred reinsurance commission	374 151	206 282
Reserve for unused vacation	189 243	143 180
Taxes payable	230 019	370 658
TOTAL	1 331 127	1 272 605

Deferred reinsurance commissions arise from proportional reinsurance program. This amount reflects unearned part of reinsurance commissions related with the policies in force at the balance sheet date.

Liabilities from share-based bonus program in the amount of 204,608 euros are long-term as they become collectible in a period longer than 12 months. All other liabilities in the current note are short-term.

9 Share capital

According to the Insurance Activities Act, the minimum share capital of an insurance undertaking engaged in certain insurance classes, incl. Motor third party liability insurance, is three million euros.

As of 31.12.2017 the share capital of the Company consists of 2,121,000 shares with a nominal value of 10 euros per share. The share capital of the Company is 21,210,000 euros. The 100% holder of the shares is Swedbank AS.

10 Premiums earned net of reinsurance

In euros	2017	2016
Gross premium (see Note 12)	90 045 642	71 118 023
Change in provisions for unearned premiums	-2 769 515	-909 814
Premiums earned	**87 276 127**	**70 208 209**
Reinsurance premium	-6 850 735	-4 099 294
Reinsurers' share in change of unearned premiums provision	780 540	91 281
Reinsurance premium	**-6 070 195**	**-4 008 013**
TOTAL	81 205 932	66 200 196

11 Claims incurred net of reinsurance

In euros	2017	2016
Claims incurred, gross amount	**54 149 553**	**40 890 915**
Claims paid (see Note 12)	49 687 118	42 240 180
Change in the claims provision	7 759 745	2 248 479
Amounts recovered from salvage and recourses	-3 867 575	-3 596 793
Change in Unexpired risk reserve	570 265	-951
Claims handling expenses	**3 257 861**	**2 675 022**
Direct claims handling expenses	1 670 993	1 317 595
Indirect claims handling expenses	1 586 868	1 357 427
Staff costs	1 241 075	1 013 461
Depreciation of fixed assets	1 280	3 559
Other	344 513	340 407
Reinsurers` share of claims incurred	**-5 840 898**	**-2 851 287**
Reinsurers` share in claims paid	-2 707 963	-2 098 445
Reinsurers` share in change of claims provisions	-3 132 935	-752 842
TOTAL	51 566 516	40 714 650

In euros	2017	2016
Outstanding claims provision at the beginning of year	**17 075 465**	**14 826 986**
Claims paid amount from the reported claims provision related with previous years claims	-7 680 761	-5 793 768
Change in the reported claims provision, related with current year claims	14 913 000	9 986 422
Change in the reported claims provision related with previous years claims	-1 398 976	-2 634 587
Change in the incurred but not reported claims provision	1 694 960	626 025
Change in the provision for claims handling costs	231 522	64 387
Outstanding claims provision at the end of year (see Note 7)	**24 835 210**	**17 075 465**

12 Gross premiums and claims paid by products

In euros	2017	2016
Gross premium		
Motor own damage insurance	28 627 108	24 209 422
Home insurance	35 062 074	29 723 769
Motor third party liability insurance	11 099 680	6 373 955
Travel insurance	6 905 795	4 749 129
Payment protection insurance	7 723 829	5 441 707
Apartment building insurance	376 840	338 445
Other	250 316	281 596
TOTAL	90 045 642	71 118 023
Claims paid		
Motor own damage insurance	19 889 353	18 977 926
Home insurance	18 373 544	14 180 785
Motor third party liability insurance	5 126 443	4 227 483
Travel insurance	4 590 889	3 674 802
Payment protection insurance	1 418 094	1 069 428
Apartment building insurance	175 530	64 880
Other	113 265	44 876
TOTAL	49 687 118	42 240 180

13 Acquisition costs and reinsurance commissions

In euros	2017	2016
Staff costs	0	6 398
Other operating expenses	1 187 031	1 516 597
Outsourced services	4 481 911	3 378 658
Reinsurance commissions	-1 402 928	-902 674
Change of accrued reinsurance commissions	167 869	-24 189
TOTAL	4 433 883	3 974 790

14 Administrative expenses

In euros	2017	2016
Staff costs	1 594 453	1 537 889
Other operating expenses	3 281 691	2 616 677
Outsourced services	605 884	557 032
Depreciation and impairment on fixed assets	3 391	5 294
TOTAL	5 485 419	4 716 892

15 Compensation

The remuneration of Swedbank P&C Insurance AS Members of Management Board and employees is based on the Swedbank Group remuneration policy. The aim is to encourage employees to live up to their individual goals and at the same time attract employees with the competence that the Group needs, within established cost limits, so that it has a positive impact on Group activity. Swedbank Group has established remuneration policy in a way that would be consistent with and promoting sound and effective risk management not encouraging excessive risk-taking.

The majority of employees have fixed and variable compensation components, which, together with other benefits, represent their total compensation. The goal is to achieve a sound balance between variable and fixed components. Total compensation should be competitive and responsive to market conditions, while also reflecting Swedbank Group principle values – open, simple and caring. Also support business strategy, goals, long-term value and vision. Fixed remuneration constitutes the primary component of remuneration. Managers' manager approves the decision about the remuneration and assesses also the achievement of the goals and their consistency with the Group values.

Bonuses are paid regarding to Swedbank Group principles of ethics and conflict avoidance and other internal rules. The bonuses are paid in multiple years delay, that it would be able to take into consideration Swedbank Group long term and sustainability oriented growth strategy, the cyclical nature of the economy and the risks to be taken. Furthermore, the bonus payment considers the establishment by the employee with internal and external rules. In 2017, based on bonus program of Swedbank Group, 12,363 shares of Swedbank AB were transferred to the Company´s employees and the Board Members for the performance in year 2013.

Staff costs are recognised in accordance with the nature of work in indirect claims handling expenses, acquisition costs or administrative expenses (see Notes 11, 13, 14).

16 Investment income and expenses

In euros	2017	2016
Interest income	677 574	609 600
Change in value of financial assets at fair value with changes through statement of profit and loss	-551 188	-352 759
Net gains/losses from financial investments	-82 349	64 116
Realised losses from changes in currency rates	-12 605	-7 510
Other investment management expenses	-130 686	-111 847
TOTAL	-99 254	201 600

17 Income tax

Dividends payable in Estonia are subject to income tax which is recognised as expense at the moment of declaration thereof and is recorded as “Income tax” in the Statement of Comprehensive Income. In March 2017, the Sole Shareholder approved the decision to pay out dividends in the amount of 8.7 million euros. Dividends were partly paid out from the profits of Latvian and Lithuanian branches. Income tax calculated on the dividend distribution was 985.6 thousand euros.

In euros	Estonia	Latvia	Tax rate	Lithuania	Tax rate	Total
Profit before tax	13 349 540	1 757 864		3 795 354		18 902 758
Income tax on dividends	985 601					985 601
Effect of tax rates in foreign jurisdictions		263 680	15%	569 303	15%	832 983
Income tax on non-deductible expenses		1 900		6 486		8 386
Deferred income tax on non-deductible expenses		-12 598		3 343		-9 255
Income tax expense in Other Comprehensive Income	**985 601**	**252 982**		**579 132**		**1 817 715**

Income earned in the Latvian branch is subject to income tax at the rate of 14%. Considering non-deductible expenses, the effective tax rate was as well 15%. Income earned in the Lithuanian branch is subject to income tax at the rate of 15% which was also the effective tax rate.

Latvian branch

In euros	2017	Tax rate	2016	Tax rate
Profit before tax	1 757 864		2 324 551	
Effect of Latvian tax rate	263 680	15%	348 683	15%
Income tax on non-deductible expenses	1 900	0%	2 038	0%
Deferred income tax on non-deductible expenses	-9 548	-1%	-8 741	0%
Other	-3 050	0%	-359	0%
Income tax expense	252 982	14%	341 621	15%
Deferred income tax	20 336		-20 336	
Deferred tax assets	0		20 336	

Lithuanian branch

In euros	2017	Tax rate	2016	Tax rate
Profit before tax	3 795 354		3 248 834	
Effect of Lithuanian tax rate	569 303	15%	487 325	15%
Income tax on non-deductible expenses	6 486	0%	5 755	0%
Deferred income tax on non-deductible expenses	3 343	0%	1 947	0%
Income tax expense	579 132	15%	495 027	15%
Deferred income tax	-1 396		-524	
Deferred tax assets	3 343		1 947	

18 Contingent income tax

According to the Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to corporate income tax, instead the tax is due on the distribution of dividends or distribution of profit in any other forms. Income tax should be calculated also on payments made from equity that exceed the monetary and non-monetary contributions made to the equity. According to the aforementioned Act the dividends and profit distributed in any other forms are subject to income tax with the tax rate 20/80 starting from 2015 on the actual distribution.

The contingent tax liability that may occur if all distributable retained earnings should be distributed or in case the capital is decreased is not reported on the statement of financial positions. The income tax due on dividend distribution or any other distribution of equity is expensed in the income statement when respective disbursements are declared.

Retained earnings of the Company as of 31 December 2017 amounted to 19.1 million euros. Taking into account that of distributable profit 4.6 million euros has already been taxed in other countries, the maximum contingent income tax liability, which would become payable if retained earnings were fully distributed, would be 5.9 million euros.

19 Related parties

Transactions with related parties are transactions with the parent company and other Group companies, Members of the Supervisory Board and Management Board, persons related to them and companies in which they have a considerable holding, and key personnel of the parent. The parent company of the Company is Swedbank AS, which holds 100% of the voting rights. The parent company of Swedbank AS is Swedbank AB (publ), Sweden.

The Company purchases a significant amount of services from Swedbank Group companies. Transactions and balances with related parties have been reported as follows:

In euros	Swedbank AS	Other Group companies	TOTAL
Receivables and liabilities as of 31.12.2017			
Cash and deposits	13 595 375	15 546 543	29 141 918
Receivables from insurance activities	274 532	196 736	471 268
Other receivables	0	518	518
TOTAL	**13 869 907**	**15 743 797**	**29 613 704**
Other liabilities	216	9 439	9 655
TOTAL	**216**	**9 439**	**9 655**
Receivables and liabilities as of 31.12.2016			
Cash and deposits	5 729 854	12 891 918	18 621 772
Receivables from insurance activities	212 557	170 740	383 297
Accrued interest	0	-1 632	-1 632
TOTAL	**5 942 411**	**13 061 026**	**19 003 437**
Other liabilities	0	8 855	8 855
TOTAL	**0**	**8 855**	**8 855**

In euros	2017	2016
Intermediary fee		
Swedbank AS	-1 916 861	-1 647 484
Other Group companies	-2 535 260	-1 701 171
TOTAL	-4 452 121	-3 348 655
Revenue from insurance premium		
Swedbank AS	2 943 397	1 738 352
Other Group companies	2 490 451	2 086 908
TOTAL	5 433 848	3 825 260
Paid/received interests		
Swedbank AS	-1 780	1 362
Other Group companies	-37 745	2 487
TOTAL	-39 525	3 849
Other purchases		
Swedbank AS	-1 830 064	-1 620 975
Other Group companies	-1 666 309	-1 468 589
TOTAL	-3 496 373	-3 089 564

Swedbank Group banks are settlement and depositary banks of the Company in Estonia, Latvia and Lithuania. Settlement, deposit and securities transactions with Swedbank Group banks take place under market conditions.

The Company has entered into agency contracts for selling insurance products with Swedbank AS and Swedbank Liising AS in Estonia, with AS Swedbank and Swedbank Līzings SIA in Latvia and with Swedbank AB and Swedbank Lizingas UAB in Lithuania. In 2017, the Company paid intermediary's fee in Estonia in an amount of 2,145 thousand euros (2016: 1,860), in Latvia 1,180 thousand euros (2016: 1,008) and in Lithuania 1,128 thousand euros (2016: 481).

In addition, Swedbank AS provides services to the Company in respect of several functions, like personnel records, salaries accounting and legal consultation. At the Group level IT development and management activities and internal audit has centralized.

The Company does not provide services to other related parties, except the conclusion of insurance contracts. Insurance contracts with members of the Supervisory and Management Board are entered into on a general basis.

Key management personnel within the definition of IAS 24 are members of the Management Board and key management personnel of the parent. The remuneration paid to members of the Management Board in 2017 amounted to 140.5 thousand euros (2016: 141.3 thousand euros) and under employment contracts 50.8 thousand euros (2016: 35.2 thousand euros). In 2017, based on bonus program of Swedbank Group, 1,192 shares of Swedbank AB were transferred to Board Members for the performance in year 2013. According to the Board Member contract, Members of the Management Board have the right, upon termination of a contract, to receive remuneration of a member of the management board for three to six months. The Company did not calculate or pay any remuneration to members of the Supervisory Board.

20 Fair value of financial instruments

	31.12.2017			31.12.2016		
In thousands of euros	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
ASSETS						
Cash and cash equivalents	29 142	29 142	0	13 622	13 622	0
Debt securities at fair value through profit or loss	39 597	39 597	0	25 154	25 154	0
Term deposits	0	0	0	13 501	13 501	0
Receivables and prepaid expenses	14 274	14 274	0	8 908	8 908	0
Non-financial assets	237	237	0	151	151	0
Total assets	**83 250**	**83 250**	**0**	**61 336**	**61 336**	**0**
LIABILITIES						
Liabilities	40 850	40 850	0	27 239	27 239	0
Total liabilities	**40 850**	**40 850**	**0**	**27 239**	**27 239**	**0**

Independent Certified Auditor's report

To the Shareholder of Swedbank P&C Insurance AS:

Opinion

We have audited the financial statements of Swedbank P&C Insurance AS (hereinafter also „the Entity"), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Accounting Act and International Financial Reporting Standards as adopted by the European Commission.

Basis for Opinion

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

Key Audit Matters

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

Valuation of insurance liabilities

As disclosed in Note 7 to the financial statements, insurance liabilities amount to 34.6 million Euros as at 31 December 2017 and comprise prepaid premiums and claims reserve.

The valuation of actuarially determined insurance liabilities, which amount to 85% of the Entity's total liabilities, involves a significant degree of judgement, due to the use of assumptions in respect of various factors including the application of historical statistics and the anticipated future outcome of effective insurance contracts, and complexity due to the segmentation of insurance contracts. Insurance liabilities represent estimates of future payments for reported and unreported claims based on information available at the date of preparation of the financial statements.

Due to the size and nature of insurance liabilities, their valuation is considered to be a key audit matter.

Our audit procedures included, but were not limited to:

- Evaluating the design, implementation and operating effectiveness of key internal controls over the insurance liabilities for claims and unearned premiums;
- Assessing the Entity's methodology, models, assumptions and data inputs used to develop the insurance liabilities recognized with the involvement of our actuarial experts;
- Consideration of the reasonableness of the projected cash flows used in the entity's liability adequacy test; and
- Assessing the disclosures relating to insurance liabilities to assess compliance with disclosure requirements included in IFRSs (EU).

Accuracy of premium income

As disclosed in Note 12 to the financial statements, premium income amounted to 90 million Euros for the financial year ended 31 December 2017.

The recognition of premium income, which represents 100% of total income, is a key area of focus for our audit given the risk that premium income may be recognised when not all recognition criteria have been met. The Entity recognises premium income based on the earlier of effective date of the policy and the due date for relevant premium collection.

Our audit procedures included, but were not limited to:

- Evaluating the design, implementation and operating effectiveness of key internal controls over recognition of premium income around the balance sheet date;
- Comparing the provision for unearned premiums as per the Entity's financial statements to the balance calculated by the Entity's actuary;
- Recalculating the provision for unearned premiums based on the earning period of insurance contracts existing as of 31 December 2017; and
- Assessing the disclosures relating to premium income to assess compliance with disclosure requirements included in IFRSs (EU).

Other Information

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

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 Board and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Appointment of the Auditor

We were appointed as the statutory auditor by the Entity's Shareholder's General Meeting on 13.01.2006. The length of our total uninterrupted engagement including previous renewals of the engagement and our reappointments as the statutory auditors is 11 years.

Consistency with the Additional Report to the Audit Committee

Our audit opinion expressed herein is consistent with the additional report prepared for the Audit Committee, which we issued on 12.02.2018.

Independence

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

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

Veiko Hintsov
Certified Auditor, No. 328

Triin Liis Kuhlberg
Certified Auditor, No. 660

AS Deloitte Audit Eesti
Licence No. 27

Roosikrantsi 2
10119 Tallinn
05 March 2018

Profit distribution proposal

The Board confirmed the 17,066,103 thousand euros net profit of Swedbank P&C Insurance AS. In accordance with the audited financial results, the Board recommends the annual shareholders´ meeting that the Swedbank P&C Insurance AS 2017 net profit of 17,066,103 thousand euros and retained earnings from previous financial periods of 2,003,258 thousand euros, all totalling to 19,069,361 thousand euros, to be distributed as shown below:

In euros	2017
Swedbank P&C Insurance AS net profit for the financial year of 2017	17 066 103
Retained earnings from previous periods	2 003 258
Total retained earnings	**19 069 361**
To be paid as dividends	**-13 700 000**
Balance of undistributed profit	**5 369 361**

Name	Position	Signature / Date
Rasa Balevičienė	Chair of the Management Board	/digital signature/
Margus Liigand	Member of the Management Board	/digital signature/
Peeter Kabbun	Member of the Management Board	/digital signature/
Mihkel Mandre	Member of the Management Board	/digital signature/
Vaida Janušytė	Member of the Management Board	/digital signature/