Annual Report 2009

IF P&C INSURANCE AS

Business name:	If P&C Insurance AS (since 12.06.2009)
Registry code:	10100168
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Web page:	www.if.ee
Main field of activity:	non-life insurance services (EMTAK 65121)
Beginning of financial year:	1 January 2009
End of financial report:	31 December 2009
CEO:	Andris Morozovs
Auditor:	Ernst & Young Baltic AS

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Management report

ORGANIZATION

On the 12th of June 2009, AS If Eesti Kindlustus changed its name to If P&C Insurance AS (Company). The company is fully owned by the leading Nordic P&C insurance group If P&C Insurance Holding Ltd, which is owned by the Finnish Sampo Plc. The company is operating in all three Baltic states.

On January the 5th, AS If Eesti Kindlustus bought 100% of the shares in If Latvia AAS and in AB If Draudimas, and the merge process of the three companies started. On July the 1st, the merger into one Baltic company was completed. The company is registered in Estonia and it operates also in Latvia and Lithuania through its branch offices. The aim of this structural change was to increase the operational efficiency and to improve the customer service and claims handling processes furthermore in the Baltic area. The company's business functions are now pan-Baltic, however the Sales and Customer Service functions remain country-based in order to adjust to the local clientele needs and practices.

The new Baltic company is managed by Baltic Management Team (BMT) which includes a board of Directors.

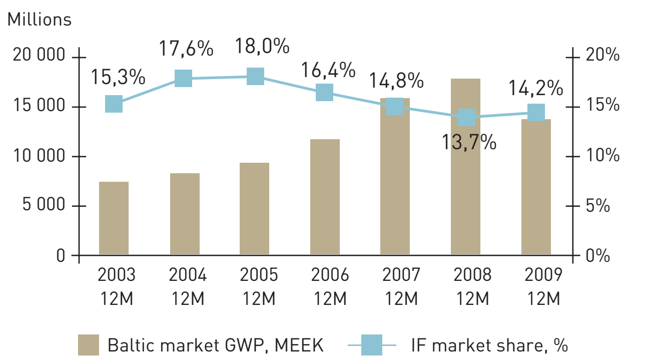
ECONOMIC OUTLOOK

2009 was a difficult year for the Baltic region's economy. Estonian gross domestic product (GDP) decreased by -15.3 % in the third quarter of 2009, forecast for the year 2009 is -14.2%. In the third quarter, Latvian GDP decreased the most in all Baltic countries – decrease level reached -19.0%, while in Lithuania the GDP decreased by -14.2% in the third quarter. Decrease in GDP is mainly due to the decrease in private consumption and industrial production volumes, lending volumes dropped throughout the year due to interest rate increases and overall uncertainty regarding the future economic development.

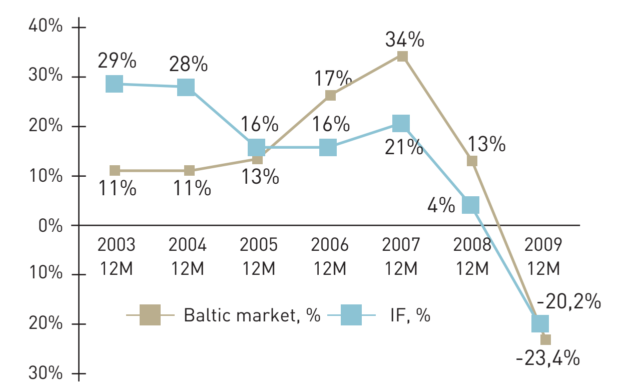
For the first time in Estonian history, the year 2009 saw deflation of -0.1%. The deflation was mainly influenced by the decrease in the prices of (motor) fuel and food products. Some impact derived also from the sudden drop in average gross wages. Deflation was also noticed in Latvia and Lithuania during the latest months of 2009, due to lower demand causing enormous price decreases in various sectors. Average inflation for the whole year of 2009 was 3.5% in Latvia and 4.2% in Lithuania. In 2010 consumer price index is expected to follow the trends of year 2009.

2010 is also likely to continue to be an uncertain period for the Baltic region's economy. In Estonia, the economic outlook is expected to become more optimistic, the Maastricht criteria might be fulfilled and Estonia might introduce Euro as the national currency in 2011. Stabilization in Latvia and Lithuania is also expected in 2010 and some recovery signs are expected during the second half of 2010; however annual economic development in terms of GDP growth is expected to turn to positive only in 2011.

IF Baltic market share development



Growth in Baltic market vs. IF (YTD)



NON-LIFE INSURANCE MARKET

Cooling economic environment has influenced also the insurance market development. The non- life insurance market decreased by -23.4% in 12M 2009. The main reason for negative growth lies in during the weak economic situation – decrease in private and corporate income, decrease of the loan and leasing market, increase of unemployment and decrease of overall consumption. Most affected by this was the motor own damage product line as new cars sales in 2009 in the Baltics decreased by approx. 75%, motor fleet in all three countries is getting older and due to tough competition and very good previous years profitability results big pressure is put to rates reduction. If market share increased in the Baltics by 0.5 p.p. (up to 14.2%). Non-life insurance market is expected to follow the overall economic development, showing some signs of recovery during the second half of 2010.

OPERATIONS

In 2009, the company was awarded as the "Best Insurer in the Nordic and Baltic region" in Euromoney's annual Insurance Survey. The company won in all insurance categories and received, in addition to the title of the best insurance company, recognition for the following categories: "Best loss adjustment", "Widest range of insurance solutions", "Best innovator", "Best price".

The company's business activities involve both direct sales of insurance products to corporate and private clients, and sales through brokers and partners. The company has 39 sales and customer service offices all over Estonia, with the largest centres located in Tallinn, Tartu and Pärnu. In Latvia there are 4 offices and in Lithuania 13 offices, located in the main towns. The number of customers in the Baltics is approximately 310 000 and this includes both private individuals as well as companies.

In 2009, new Internet-based self-service channels were launched in Latvia and Lithuania (letakpasam.lv and drauskpats.lt) as well as the new Internet-based e-office interface in Estonia. These investments have increased the number of possible distribution channels available on the Baltic markets for convenient customer service.

In 2009, the company has started to put significant effort into co-ordination with the IT systems among the Baltic countries. This co-ordination project, which is planned to be completed during 2010, is expected to reduce the complexity of the current system's structure and thereby not only decrease the system's maintenance costs but also will enable faster and more cost-efficient pan-Baltic IT development in the future. Updated IT support will also involve improvements in product and service sectors offered to the customers. Significant investment was also made into the development of the new compulsory motor third party liability insurance system in Estonia, in preparation for the expected changes in Estonian Traffic Insurance Office functions in 2010.

In July 2009, If in Estonia has taken over the insurance portfolio of the Estonian branch of the Finnish insurance company Fennia which has ceased its activity in Estonia. The company took over the risks Fennia has insured in Estonia. Transferred insurance portfolio was about 1 MEUR, the majority of which consists of commercial property and motor insurance policies.

In April, the first and only Estonian Insurance Museum opened its doors in the company's office at Pronksi 19, Tallinn. The Insurance Museum is unique in Estonia, in the Baltics, and is one of its kind among the few in the whole world. The aim of the museum is to raise interest and introduce to everyone, especially to young people, the history, development, prominent events and persons connected to insurance activities in Estonia as well as all over the world.

If Safety Fund continued to donate money to projects that were aimed at preventing damages and promoting general benefits. Since 2006, If Safety Fund has supported over 50 such projects, donations have been received mostly by kindergartens, schools, sports clubs, etc. In 2009, the company continued to support the installation of fire alarm systems as well as the acquisition of safety and security supplies such as reflective vests, reflectors, bike helmets, etc.

RESULTS FROM OPERATIONS

in thousands of Estonian kroons

Consolidation group	**2 009**	**2 008**
Premiums written, gross	1 937 681	2 412 115
Premiums earned, net of reinsurance	2 017 918	2 301 661
Claims incurred, net of reinsurance	1 146 292	1 395 878
Total operating expenses	583 738	640 850
Technical result	292 298	272 435
Net profit	392 213	224 652
Combined ratio	85,0%	87,7%
Expense ratio	28,2%	27,1%
Loss ratio	56,8%	60,6%
Financial assets	2 561 802	3 080 497
Return on investments per annum	4%	-1%
Balance sheet volume	3 330 530	4 144 055
Owner's equity	1 147 518	755 537
Formulas		

Expense ratio	Total contract conclusion fees and administrative expenses (-) investment expenses (+) reinsurance commissions / Premiums earned, net of reinsurance
Loss ratio	Claims incurred, net of reinsurance / Premiums earned, net of reinsurance
Combined ratio	Expense ratio + loss ratio
Annual return on investments	Return on investments (-) investment expenses / Weighted average volume of financial investments in the period

Results

In 2009, the technical result improved in comparison to the year before, and ended at MEEK 292 (2008: 272 MEEK).

Premium earned

Gross written premiums decreased MEEK 474 to MEEK 1,938 (2008: 2,412 MEEK). Decrease is in line with the overall market decrease due to the rapid overall macroeconomic slowdown in 2009. Premium volumes decreased in all three Baltic countries.

Claims and operating expenses

Claims, including claims adjustment expenses, decreased MEEK 250 to MEEK 1,146 (2008: 1,396 MEEK).

Operating expenses, excluding claims adjustment expenses, decreased MEEK 57 to MEEK 584 (2008: 641 MEEK). Continuous efforts to create more cost-efficient processes in distribution, customer service and claims handling had a favourable impact on costs development during the year.

Net profit and tax cost

Net profit improved to 392 MEEK (2008: 225 MEEK). Of total taxes, current tax costs accounted for 16 MEEK (2008: 14 MEEK) and the deferred tax cost for (-4) MEEK (2008: 1 MEEK)

Financial ratios

Company's expense ratio increased to 28.2% (27.1 %).

The loss ratio, meaning excluding claims adjustment expenses, improved during 2009 and amounted to 56.8% (60.6 %). Improvement in the risk ratio is explained by lower average claim cost, also claims frequency decreased in Motor (lines) sector. Results of motor product line were supported by mild winter weather and we also believe that economic recession has been holding back the cost inflation. Outcome of large claims was slightly lower than in 2008.

Combined ratio improved to 85% (87.7 %).

INVESTMENT RESULT

Merge of Estonian, Latvian and Lithuanian companies also resulted in a merger of portfolios of assets covering technical provisions of the three If Baltic companies. Due to the merger, portfolios experienced extraordinary in- and outflows and all the If Baltic portfolios were held relatively liquid throughout 2009 in order to be able to easily manage the flows and restructure the merged investment portfolio according to the legislative requirements. As of the end of the year, 43.1% of the portfolio has been invested in bonds (2008: 52.1%), 0% in bond funds (2008: 1.2%), 56.9% in term deposits (2008: 46.5%) and 0% in equity securities and equity funds (2008: 0.2%)

If P&C Insurance AS investment portfolio earned a return of 4% in 2009 ((-) 1 % in 2008). In general, factors affecting the return of the If P&C Insurance AS investments the most in 2009 were continually low level of interest rates in Eurozone and liquidity support to global financial system by the world's central banks. In terms of fixed income instruments, this translated into strong tightening in credit spreads and led to corporate and emerging market bonds to advance in price.

The following events affected the most the return of If P&C Insurance AS portfolio of assets covering technical provisions. First, a bond issued by Kolle AS was revalued to zero with nominal investment being approx. 8 MEEK , this revaluation resulted in a negative effect to the portfolio performance of approx. 0.6%. Secondly, in December the portfolio saw a 100% recovery from a previously written down investment into TR Majad bonds, where SEB bank as an arranger and trustee acknowledged its mistakes as a collateral agent and offered to compensate to bond investors both the principal and the accrued interest. The recovery was in the amount of approx. MEEK 23 and had a positive effect on the portfolio performance of approx. 0.9%.

SOLVENCY CAPITAL AND CASH FLOW

Solvency capital increased to MEEK 1,113 compared to MEEK 713 in 2008. Cash flow from insurance operations remained strong, amounting to MEEK 962 (2008: 55 MEEK).

RISK IN OPERATIONS

Risk comprises an essential part of the company's operations and is managed by using clearly defined strategies and responsibilities, in addition to strong commitment to risk management processes. The main risks within insurance operations are underwriting risks and provision risks. Furthermore, market risks (such as changes in interest rates, exchange rates and equity and commodity prices as well as in their volatility) and credit risks affect the market values of financial assets and liabilities.

PERSONNEL

As an employer, If P&C Insurance AS strives to create a work environment and an atmosphere where talented people can and want to grow. We know that we owe current and future success largely to the quality and high ambition level of our staff. Consequently – people's issues such as performance and competence development, leadership, legally correct employment relations, compensation and health management are the focus areas within the company.

On December the 31st, 2009 the number of full time employees in the company was 560 (2008: 693), two- third of them being women and one-third men. Employees are from all age groups which give good synergy in combining the fresh ideas and initiative of the younger people with the expertise and competence of the more senior ones. The company's personnel expenses totaled 264 MEEK in 2009, having decreased by 14% in a year (2008: 307 MEEK).

Like in previous years, competence development has been one of the focus areas also in 2009. Development plans which correspond both to the needs of the company, of the customer and the employee are created and different development activities are carried out on regular basis. The main development areas are insurance-related, such as product knowledge, risk management and sales techniques trainings but also development of leadership competences has been prioritized. Different training possibilities, like mentoring, classroom trainings with in-house and external trainers but also self –learning possibilities through new software solution Learning Manager which was implemented throughout If Group in 2009, are being used.

To compensate the employees for their input and results and to promote their willingness to do and achieve more, special bonus systems have been created for the sales staff, for the back-office

and for the managers. In addition to the before mentioned, several benefits which support healthy life style, important family events and education are made available for the employees.

APPLIED ACCOUNTING PRINCIPLES

The company's annual accounts report for 2009 has been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU.

The financial statements include the accounts of the company with its branches and subsidiary AS If Kinnisvarahaldus. The pooling of interest method was applied as it was merger between the companies under common control. Under the pooling of interest method, the share acquired in other companies is recognized by using the net book value of acquired net assets. The comparative information as on 01.01.2008 and 31.12.2008 was adjusted accordingly.

Andris Morozovs,
Chairman of the Management Board

Mihkel Uibopuu,
Member of the Management Board

Heinar Olak,
Member of the Management Board

Oskars Hartmanis,
Member of the Management Board

Dace Ivaska,
Member of the Management Board

Žaneta Stankevičiene
Member of the Management Board

Artur Praun,
Member of the Management Board

Financial statements

MANAGEMENT REPRESENTATION TO THE FINANCIAL STATEMENTS

The Management Board hereby takes responsibility for the correctness of the preparation of the financial statements 2009 of If P&C Insurance AS set out on pages 10-66 and confirms that, to the best of its knowledge:

- the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union;
- the consolidated financial statements give a true and fair view of the financial position of the group, as well as the results of its operations and cash flows;
- the group and the parent company are able to continue as a going concern

Andris Morozovs,
Chairman of the Management Board

Dace Ivaska,
Member of the Management Board

Mihkel Uibopuu,
Member of the Management Board

Žaneta Stankevičiene
Member of the Management Board

Heinar Olak,
Member of the Management Board

Artur Praun,
Member of the Management Board

Oskars Hartmanis,
Member of the Management Board

Riga, 18 February 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in thousands of Estonian kroons	Note	2009	2008
REVENUE			
PREMIUMS EARNED, NET OF REINSURANCE			
Premiums earned		2 135 009	2 434 246
Premiums ceded		-117 091	-132 585
TOTAL	3	**2 017 918**	**2 301 661**
OTHER INCOME			
Reinsurance commissions		4 410	7 502
Return on investments	4	112 289	-31 715
TOTAL		**116 699**	**-24 213**
TOTAL REVENUE		**2 134 617**	**2 277 448**
EXPENSES			
CLAIMS INCURRED, NET OF REINSURANCE			
Claims incurred, gross	5	-1 128 022	-1 389 293
Claims handling expenses	6	-66 895	-75 561
Reinsurer's share in claims paid	5	48 625	68 976
TOTAL		**-1 146 292**	**-1 395 878**
EXPENSES			
Insurance contract acquisition costs	6	-425 937	-480 179
Administrative expenses	6	-157 801	-160 671
TOTAL		**-583 738**	**-640 850**
TOTAL EXPENSES		**-1 730 030**	**-2 036 728**
NET RESULT BEFORE TAXES		**404 587**	**240 720**
INCOME TAX		-12 374	-16 068
NET PROFIT FOR THE FINANCIAL YEAR		**392 213**	**224 652**
OTHER COMPREHENSIVE INCOME			
Exchange differences on translating foreign operations		-232	4 205
TOTAL		**-232**	**4 205**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**391 981**	**228 857**
Total comprehensive income attributable to:			
Equity holders of the parent		391 981	228 857

The notes to the financial statements set out on pages 10 to 66 form an integral part to the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of Estonian kroons	Note	31.12.2009	31.12.2008 restated	31.12.2008
ASSETS				
Cash and cash equivalents	7	92 869	140 585	20 100
Financial assets	10	2 561 802	3 080 497	2 151 682
Receivables related to insurance activities	8	270 054	355 540	39 807
Accrued income and prepaid expenses	9,16	63 098	151 698	38 103
Reinsurance assets	15	212 175	266 556	101 331
Intangible assets	11	33 970	42 531	16 980
Property, plant and equipment	12	96 562	106 648	87 922
TOTAL ASSETS		**3 330 530**	**4 144 055**	**2 455 925**
LIABILITIES AND OWNER'S EQUITY				
Liabilities related to insurance activities	13	96 282	1 111 905	22 514
Accrued expenses and prepaid revenues	14,16	54 272	75 966	39 684
Liabilities arising from insurance contracts	15	2 032 458	2 200 647	1 100 695
Total liabilities		**2 183 012**	**3 388 518**	**1 162 893**
Share capital		100 000	100 000	100 000
Share premium		57 560	57 560	57 560
Mandatory reserve		36 962	36 962	36 962
Profit carried forward		560 783	336 363	914 529
Net profit for the year		392 213	224 652	183 981
Total owner's equity	18	**1 147 518**	**755 537**	**1 293 032**
TOTAL LIABILITIES AND OWNER'S EQUITY		**3 330 530**	**4 144 055**	**2 455 925**

The notes to the financial statements set out on pages 10 to 66 form an integral part to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

in thousands of Estonian kroons	Note	2 009	2 008
Cash flow from operating activities			
Premiums received	3, 8, 13	2 009 160	2 391 720
Premiums ceded	3, 13	-127 306	-112 555
Claims paid, incl. claims handling expenses	5, 6, 8	-1 146 125	-1 255 195
Cash flow from reinsurance		115 053	94 197
Employee-related and service-related expenses		-569 686	-614 161
Investments in shares		-121 529	-544
Proceeds from disposals of shares		152 461	156 051
Investments in fixed income securities		-861 091	-1 582 479
Proceeds from disposals of fixed income securities		1 556 077	1 723 003
Investments in term deposits		-8 091 705	-2 945 993
Return on term deposits		7 954 989	2 081 221
Interest received		94 312	119 989
Cash flow operating activities, net		**964 610**	**55 254**
Total cash flow from investing activities			
Acquisition of subsidiaries		-1 001 382	-
Purchase of property, plant and equipment, and intangible assets	11, 12	-11 419	-37 924
Proceeds from disposal of property, plant and equipment, and intangible assets		1 886	464
Cash flow from investing activities, net		**-1 010 915**	**-37 460**
Cash from from financing activities			
Issue of shares		-	31 294
Cash flow from financing activities, net		**-**	**31 294**
Change in cash flow, net		**-46 305**	**49 088**
Cash and cash equivalents at the beginning of the period	7	**140 585**	**92 545**
Effects of exchange rate changes on cash and cash equivalents		-1 411	-1 048
Cash and cash equivalents at the end of the period	7	**92 869**	**140 585**

The notes to the financial statements set out on pages 10 to 66 form an integral part to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of Estonian kroons	Attributable to equity holders of the parent					
	Restricted equity			Unrestricted		
	Share capital	Share premium	Mandatory reserve	Profit brought forward	Net profit for the year	Total equity
Equity at end of 2007 before restatement	**100 000**	**57 560**	**36 962**	**701 411**	**213 118**	**1 109 051**
Merger result	-	-	-	-582 371	-	**-582 371**
Equity at end of 2007 after restatement	**100 000**	**57 560**	**36 962**	**119 040**	**213 118**	**526 680**
Equity at beginning of 2008	**100 000**	**57 560**	**36 962**	**332 158**	**-**	**526 680**
Total comprehensive income	-	-	-	4 205	224 652	**228 857**
Equity at end of 2008	**100 000**	**57 560**	**36 962**	**336 363**	**224 652**	**755 537**
Equity at beginning of 2009	**100 000**	**57 560**	**36 962**	**561 015**	**-**	**755 537**
Total comprehensive income	**-**	**-**	**-**	-232	392 213	**391 981**
Equity at end of 2009	**100 000**	**57 560**	**36 962**	**560 783**	**392 213**	**1 147 518**

Additional information on owner's equity has been disclosed in Note 18.

The notes to the financial statements set out on pages 10 to 66 form an integral part to the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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

1. The group and its activities

If P&C Insurance AS (registry code: 10100168) is an insurance company which has registered at Pronksi 19, Tallinn (Republic of Estonia), consists of Estonian unit and branches in Latvia and Lithuania and forms the group together with its subsidiary AS If Kinnisvarahaldus.

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

2. Basis of preparation

The consolidated financial statements 2009 of the Company have been prepared in accordance with the International Financial Reporting Standards (IFRS), and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as passed by the European Union. The consolidated financial statements have been prepared on a historical cost basis, except for certain financial investments which are recorded at fair value through profit and loss.

The financial statements have been presented in thousands of Estonian kroons, unless another measurement unit is referred to.

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

The financial statements include the accounts of the Company and the accounts of the branch offices in Latvia and Lithuania. Branches as individuals entities prepare their financial statements for the same period, and use the same accounting principles in all material aspects applied for the Company as a whole. All inter-company balances, profits and transactions are eliminated in full.

In January 2009 AS If Eesti Kindlustus bought 100% of the shares in If Latvia AAS and in AB If Draudimas with the intention to merge bought subsidiaries into one company. In June 2009 the business name of the company was changed to If P&C Insurance AS and on the 1st of July the merge was finalized. The pooling-of interest method was applied as it was acquisition of subsidiaries and merger between the Companies under common control. Under the pooling-of interest method the share acquired in others company is recognized using the net book value of acquired net assets. The comparative information as at 01.01.2008 was adjusted accordingly. In the consolidated balance sheet initial balances are presented in three columns: initial balances, adjusted balances with comparatives restatement and reporting period balances. Comparative information in the balance sheet notes are presented only in two columns: reporting period balances and adjusted comparatives for last reporting period.

3. Changes in accounting policies

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

3.1. Revised International Financial Reporting Standards (IFRS), new IFRS standards and interpretations of the International Financial Reporting Interpretations Committee (IFRIC)

The accounting policies and presentation adopted in preparation of the current financial statements are consistent with those of the previous financial year. In addition, the following new/

revised standards have been adopted, which had no material effect on the financial results and disclosures of 2009:

a) Amendment to IAS 1 *Presentation of Financial Statements*;

This amendment introduces a number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements when they are restated retrospectively. The Group has elected to present its comprehensive income in one statement.

b) Amendments to IFRS 7 *Financial Instruments: Disclosures;*

This amendment requires disclosure of the level of the fair value hierarchy into which fair value measurements are categorised based on a three level fair value hierarchy for financial instruments. The amendment applies for financial years beginning on or after 1 January 2009. The Group has elected not to present comparative disclosures in the year of transition.

c) IFRS 8 *Operating Segments;*

IFRS 8 replaced IAS 14 *Segment Reporting*. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. The Group has elected not to disclosure information for operating segments in present financial statements.

The other standards and interpretations and their amendments adopted in 2009 did not impact the financial statements of the Group, because the Group did not have the respective financial statement items and transactions addressed by these changes.

- Amendment to IAS 23 *Borrowing Costs;*
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements*
- Amendment to IFRS 2 *Share-based Payment;*
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation;
- Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement* – Embedded derivatives;
- IFRIC 13 *Customer Loyalty Programmes;*
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction;*
- IFRIC 15 *Agreement for the Construction of Real Estate;*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation;*
- Improvements to IFRS (issued in 2008 and effective on 1 January 2009).

3.2. New IFRS standards and interpretations issued but not yet effective

In the opinion of the management of the Group the new or revised IFRS standards and their interpretations issued by the time of preparing the current consolidated financial statements, but not effective yet, and not applied early by the Group, do not have any significant effect on the value of the assets and liabilities of the Group as of 31 December 2009. These standards and interpretations will be applied where applicable starting from their effective date and are as follows:

a) Amendment to IFRS 2 *Share-based Payment* (effective for financial years beginning on or after 1 January 2010, once adopted by the EU).

b) Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements* (effective for financial years beginning on or after 1 July 2009).

c) IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2013, once adopted by the EU).

d) Amendments to IAS 24 *Related Party Disclosures* (effective for financial years beginning on or after 1 January 2011, once adopted by the EU).

e) Amendment to *IAS 39 Financial Instru-*

ments: Recognition and Measurement – Eligible Hedged Items (effective for financial years beginning on or after 1 July 2009).

f) IFRIC 12 *Service Concession Arrangements* (effective for financial years beginning on or after 29 March 2009).

g) Amendment to IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for financial years beginning on or after 1 January 2011, once adopted by the EU).

h) IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective for financial years beginning on or after 31 October 2009).

i) IFRIC 18 *Transfers of Assets from Customers* (effective for financial years beginning on or after 31 October 2009).

j) IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for financial years beginning on or after 1 April 2010, once adopted by the EU).

k) Improvements to IFRSs

Other amendments resulting from Improvements to IFRSs to the following standards will not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 2 *Share-based Payment;*
- IAS 1 *Presentation of Financial Statements;*
- IAS 17 *Leases;*
- IAS 38 *Intangible Assets;*
- IAS 39 *Financial Instruments: Recognition and Measurement;*
- IFRIC 9 *Reassessment of Embedded Derivatives;*
- IFRIC 16 *Hedge of a Net Investment in a Foreign Operation.*

4. Material judgements, estimates and resolutions

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

a) Evaluation of liabilities from insurance contracts

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

As of the end of 2009, insurance technical provisions amounted to 1,820,283 thousands kroons (2008: 1,934,091 thousands kroons), of which the reinsurer's share amounted to 212,175 thousands kroons (2008: 266,556 thousands kroons). Insurance technical provisions have been described in section n, o and q of Note 1.5.

b) Evaluation of regresses and salvages

Regresses and salvages are evaluated on a quarterly basis. The recoverability of each regress is evaluated separately in accordance with the management's best judgement. Only claims with significant recoverability are recorded in the balance sheet. As of the end of 2009, the total balance of regresses amounted to 193,840 thousand kroons of which 17,633 thousand kroons was deemed to be with significant recoverability by the management (in 2008, 183,354 thousand kroons and 24,870 thousand kroons, respectively). Salvages are evaluated on the basis of the sales price of similar assets on the market. As of the end of 2009, the management assessed the salvage value to amount to 4,056 thousand kroons (2008: 3,524 thousand kroons).

c) Financial assets measured at fair value

Calculation of the fair value of financial assets has been described in section h of Note 1.5. Financial assets measured at fair value through profit and loss amounted to 2,561,802 th. kroons as at the end of 2009 (3,080,497 th. kroons in 2008). All financial assets can be realised within 12 months and are therefore recognised as current assets. The fair value of financial assets is established on the basis of the Wall Street Systems (formerly known as Trema Suite and Finance Kit) report, where the price of financial assets has been previously established in accordance with the active market price listings of the Bloomberg system. The fair value of unlisted financial assets is determined on the basis of similar market transactions or, if no such transactions have been made, on the basis of the value determined by using the generally accepted valuation techniques. The fair value of deposits is estimated using discounted cash flow techniques.

d) Fair value of financial assets and liabilities

According to the management of the company, the carrying value of financial assets and liabilities does not significantly differ from their fair value, unless stated otherwise. The fair value of financial assets that are not designated at fair value through profit and loss (cash, borrowings and receivables) is determined based on the discounted cash flow method.

5. Main accounting principles

a) Basis of consolidation

The consolidated financial statements include the financial information of all subsidiaries controlled by the parent company, consolidated line-by-line. All intra-group transactions and balances have been eliminated.

Subsidiaries are consolidated from the date on which significant influence or joint control is transferred to the group, and cease to be consolidated from the date on which the significant influence or joint control is transferred out of the group.

Control is presumed to exist, if the parent company holds over 50% of the voting shares of the subsidiary, or is otherwise able to control the operating or financial policies of the subsidiary, or if the parent company has the right to appoint or remove a majority of the members of the Supervisory Board of the subsidiary.

Purchase of subsidiaries from the company under common control is recorded based on the pooling-of interest method. The pooling of interest method is generally considered to involve the following:

- The assets and liabilities of the combining entities are reflected at their carrying amounts.
- No adjustments are made to reflect fair values, or recognize any new assets or liabilities, that would otherwise be done under the purchase method. The only adjustments that are made are to harmonise accounting policies.
- No “new” goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid/transferred and the equity “acquired” is reflected within equity.
- The income statement reflects the results of the combining entities for the full year, irrespective of when the combination took place.
- Comparatives are presented as if the entities had always been combined.

The subsidiary prepared its financial statements on the same period, and uses the same accounting principles applied by the parent.

The reconciliation due to the effect of business combinations involving entities under common control is presented below (in thousands of Estonian kroons):

Net assets of AS If Eesti Kindlustus as of 31 December 2007 (as reported before)		1 109 051
If Latvia AS Net Assets as of 31 December 2007	(1)	136 117
AB If Draudimas Net Assets as of 31 December 2007	(2)	203 753
Capital contribution in If Latvia AS in 2008	(3)	31 548
2008 Net result AS If Eesti Kindlustus (as reported before)		183 981
2008 Net result If Latvia AS		52 013
2008 Net result AB If Draudimas		36 342
Translation difference		4 205
2009 Net result AS P&C Insurance AS		392 213
Translation difference		(323)
Payment for subsidiaries	(4)	(1 001 382)
Total AS P&C Insurance AS equity as of 31 December 2009		1 147 518
Presented as (1) + (2) + (3) (4)		(629 964)
Add back “financing charge” (note 4)		47 593
Merger result		(582 371)

b) Accounting for the subsidiary in the parent company’s unconsolidated financial statements

Investments in subsidiaries are recognised in the parent company’s unconsolidated financial statements at cost. This means that the investment is initially recognised at acquisition cost, consisting of the fair value of the payable amount, adjusted thereafter by the impairment losses arising from the drop in the value of the investment.

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

c) Segment reporting

The company only operates in single business segment – non-life insurance. The services are rendered in Estonia, Latvia and Lithuania. The Company is not a listed company and has elected to apart from disclosure of segment reporting by geographical segments.

d) Transactions, receivables and liabilities in foreign currency and translation of the accounts of foreign branches

The financial statements are presented in Estonian kroons, which is the functional and reporting currency of the Company. Items included in the financial statements of each of the Company’s entities are measured using their functional currency which is the currency of the primary economic environment in which entity operates. Foreign currency transactions are translated into Estonian kroons on the basis of the exchange rates of the European Central Bank, used in the entire If Group. Monetary assets and liabilities denominated in foreign currency are translated into Estonian kroons on the basis of the currency exchange rates of the European Central

Bank officially valid on the balance sheet date. Foreign exchange gains and losses resulting from the revaluation are recorded in the income statement of the reporting period.

Income statement items in foreign currency are translated to EEK using average exchange rate for the month during which they were reported. Branches' assets and liabilities in foreign currency are translated at the closing date exchange rates. The translation differences arising as a result of the use of different exchange rates for items in the balance sheet and income statement are reported directly against shareholders equity.

The following exchange rates have been applied in the financial statement:

	As at 31.12.2009	As at 31.12.2008
1 Estonian kroon (EEK) =		
Latvian lats (LVL)	22,0592	22,6682
Lithuanian litas (LTL)	4,5316	4,5689
Average exchange rate for the period	**2 009**	**2 008**
1 Estonian kroon (EEK) =		
Latvian lats (LVL)	22,1679	22,3526
Lithuanian litas (LTL)	4,5344	4,5316

e) Revenue recognition

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

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

Insurance premiums

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

Reinsurance commissions

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

f) Expenses

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

- acquisition costs – direct and indirect expenses arising from the acquisition of insurance contracts, incl. direct expenses, such as commission fees for mediators, expenses on preparation of insurance documents or inclusion of contracts in the portfolio, as well as indirect expenses, such as advertising expenses, administrative expenses related to the processing of applications and issue of policies.
- claims handling expenses – consist of expenses directly related to particular losses as well as administrative expenses indirectly related to claims handling. Claims handling expenses include both direct payments to third parties and the respective expenses incurred by the insurer, incl. wages and salaries, social tax and administrative expenses related to claims handling.
- administrative expenses – expenses related

to premium collection, portfolio management as well as bonus and benefit handling. Administrative expenses include insurance-related expenses which do not constitute acquisition costs or claims handling expenses.

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

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

g) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents consists of bank balances and overnight deposits made to the current accounts in insurance operations and funds transferred to asset management that have not been invested in investment assets.

Comparing to the last reporting period the restatement is done for components of cash and cash equivalents. Starting from the reporting year the Company considering all deposits not depending on the term as part of its investments portfolio. In 2008 Annual accounts demand deposits up to 3 months and money market funds were classified as cash and cash equivalents. In present financial statement all comparatives are restated in accordance with the new principle.

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

h) Financial assets

Financial assets are initially recognised at cost, being the fair value of the consideration given. The acquisition cost includes all expenditures directly related to the purchase of the financial asset, including service charges payable to brokers and advisors, non-refundable taxes and other similar expenditures, except for expenses related to the acquisition of financial assets recognised at fair value through profit and loss.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the day when the group commits (e.g. concludes a contract) to purchase or sell the particular financial asset. Regular way transactions are purchases and sales transactions that require delivery of the financial asset to be purchased or sold by the seller to the buyer within the time frame generally established by regulation or convention in the marketplace.

Following initial recognition, financial assets are divided into the following groups:

- financial assets measured at fair value through profit and loss (shares held for trading and bonds which are not intended to be held to maturity, as well as other securities and derivative instruments with a positive value);
- loans and receivables (loans granted, accounts receivable and other receivables);
- investments held to maturity (financial assets which are non-derivative instruments and have fixed or determinable payments and fixed terms of redemption, provided that the company is planning to and is capable of holding the assets to maturity);
- available–for-sale financial assets (all other financial assets not mentioned above; the group had no such investments in the reporting period and the comparative period).

The financial assets of the first group are measured at fair value on the balance sheet date. The fair value of listed securities is based on the closing price of the security, as well as the official exchange rate of the European Central Bank on the balance sheet date. Unlisted securities are measured at their fair value on the basis of the information available to the group on the value of the investment. Gains and losses from the changes in fair value are recorded under "Return on investments" in the income statement. Interest and dividends related to the financial assets of the first group are also recorded under "Return on investments" in the income statement.

Financial assets are classified as "financial assets recorded at fair value through profit and loss" on the basis of the following criteria:

- assets held for trading;
- assets classified as such, since this provides more relevant financial information

Financial assets which are not held for trading may be classified under this group if:

- this serves the purpose of eliminating any differences in the recognition of income and expenses arising from measurement of assets and the related liabilities – i.e. helps to reduce the so-called accounting discrepancy; or
- the group of financial assets is managed together, and the results measured at fair value in accordance with documented risk management or investment strategy, and the corresponding information is forwarded to the top management. Considering this condition deposits are classified as such financial assets in the present financial statements.

Equity instruments which have no listed market price on the active market and the fair value of which cannot be reliably determined, cannot be measured at fair value.

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

Investments held to maturity are initially recognised at their fair value which includes the transaction cost. Following initial recognition, the investments are measured at amortised cost by using the effective interest rate method.

Financial assets measured at amortised cost are written down, if it is probable that their recoverable amount is lower their carrying amount (the write-down of doubtful receivables is recorded under assets with a "-" sign, and doubtful receivables are written off from the balance sheet). The recoverable amount of a financial asset measured at amortised cost is the net present value of future cash flows from the financial asset, discounted, upon its initial recognition, with the effective interest rate. Receivables are measured on individual basis, considering the information available regarding the customer's solvency. The write-down of financial assets related to operating activities is charged to expenses in the income statement (under "Administrative expenses") while the write-down of financial assets related to investing activities is recognised as a reduction of the "Return on investments" in the income statement.

Collection of receivables that have been previously expensed is recorded as a reduction of the allowance for doubtful receivables, and as a reduction of expenses in the income statement of the reporting period.

Interest income from loans, receivables and investments intended to be held to maturity is recorded under "Return on investments" in the income statement.

The derecognition of financial assets will take place when the company no longer controls the rights arising from the financial assets, or when the all the cash flows attributable to the asset, and a majority of the risks and rewards related to the financial asset are transferred to a third party.

Receivables from customers, reinsurance receivables and other receivables are recognised at nominal value when incurred (on the transaction date), and, subsequent to initial recognition, at cost. Receivables are measured on individual basis. Receivables will be written down if they are unlikely to be recovered by the group under the established conditions. If a receivable has become uncollectible, it will be written off from the balance sheet.

The company has not classified any financial assets as "investments held to maturity" or "available-for-sale financial assets" in the reporting period. The company had no derivative instruments.

i) Property, plant and equipment

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

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

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

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

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

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

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

j) Intangible assets

Intangible assets are initially recorded at acquisition cost, consisting of the purchase price and expenses directly related to the acquisition. Subsequent recognition depends on whether the asset has a finite or indefinite useful life. Intangible assets with a finite useful life are carried in the balance sheet at cost, less accumulated amortisation and any accumulated impairment losses. These assets are amortised on a straight-line basis, on the basis of the useful life of the asset item:

– Patents, licenses and other contractual rights, computer software: 3-5 years.

Intangible assets with a finite useful life are written down to the recoverable amount (the higher of the fair value, less sales expenses, or the value-in-use), if the carrying amount is no longer recoverable. Impairment tests will be conducted to determine whether the recoverable amount has dropped below the carrying amount, if there is any indication that the carrying amount may not be recoverable. Impairment losses are charged to expenses in the income statement, under "Insurance contract acquisition costs", "Claims handling expenses", and "Administrative expenses" in accordance with the functionality.

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

k) Financial liabilities

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

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

l) Insurance contracts

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

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

m) Deferred acquisition costs

Acquisition costs directly related to premiums that are carried over to the next period are recognized in the balance sheet as deferred acquisition costs. Direct acquisition costs are deferred on the basis of the ratio of the provision for unearned premiums to premiums written. Deferred acquisition costs include direct insurance contract acquisition costs, such as commission fees to mediators, provision fees to sales employees (incl. taxes) and policy sheet expenses.

n) Provision for unearned premiums

The provision for unearned premiums is set up for future losses and operating expenses that may arise during the term of the insurance contract, depending on which share of the collected insurance premium has been received for the future insurance service. The provision for unearned premiums is calculated separately for each contract, based on the share of the unexpired term of the contract of the total term of the contract.

o) Provision for claims outstanding

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

The provision for claims outstanding is calculated using case-by-case valuation method for single reported claims as well as statistical methods (IBNR provision). The provision for claims outstanding is not discounted, except the motor third party liability annuities that are discounted to the net present value using standard actuarial methods, and the index of the pension increase and the discount rate recommended by the guarantee fund in Estonia and the discount rate recommended by Insurance Supervisory Authority in Lithuania. In Latvia two annuities estimated with very low loss of income amounts are reserved under Case reserves.

p) Liability adequacy test

The insurer assesses the adequacy of insurance technical provisions on each balance sheet date, by using current estimates on future cash flows from insurance contracts. The liability adequacy test is performed for each insurance category. The test is based on the current estimates on all future contractual cash flows and the related cash flows, including claims handling expenses. If the test reveals that the total liability is inadequate for all insurance categories, the deficit will be recorded in the income statement by initially writing down deferred costs or assets transferred in the course of merger, and subsequently establishing a provision in accordance with the liability adequacy test (provision for outstanding risks).

The test conducted in 2009 revealed no deficit in insurance liabilities.

q) Reinsurance

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

Reinsurance premiums and indemnities are recorded in the income statement and the balance sheet by using the gross method.

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

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

r) Accounting for lease

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

The group as the lessee

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

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

The group as the lessor

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

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

s) Corporate income tax

Pursuant to the valid Income Tax Act, Estonian companies are not subjected to pay income tax on the profit since 1 January 2000. Rather, they are subjected to income tax on the paid dividends. The established tax rate is 21/79 from 1 January 2009 (21/79 until 31 December 2008) of the net dividend paid. Corporate income tax paid before 1 January 2000 can be deducted from the tax on the basis of the corresponding coefficient. All temporary differences between the tax bases and carrying values of assets and liabilities thus cease to exist.

Corporate income tax on the payment of dividends is recorded under income tax expense in the income statement at the moment of announcing the dividends, irrespective of the period for which the dividends were announced or when the dividends are actually paid. The maximum possible income tax liability related to dividend payment is disclosed in Note 18.

Because of different corporate income tax laws in Latvia and Lithuania the Group tax expenses is calculated in accordance with IAS 12 Income taxes. This entails that current as well as deferred tax is calculated and reported. Current taxes are calculated for every unit in accordance with the tax rules in each country. Branch offices are taxed on their results in the country concerned. In Estonia the company is liable for taxation only on the income not taxed in branches and only when dividends will be paid out. For Latvian branch tax rate is 15% (2008: 15%) and for Lithuanian branch 20% (2008: 15%).

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

Current and deferred tax disclosure is made in Note 16.

t) Mandatory reserve

The company has set up a mandatory reserve in accordance with the Commercial Code of the Republic of Estonia. Pursuant to the Articles of Association of If P&C Insurance AS, the company's reserve capital amounts to 20,000 thousand kroons. Reserve capital can be used for covering the loss or for increasing the share capital of the company. The mandatory reserve cannot be paid out as dividends.

u) Events after the balance sheet date

Material circumstances that have an effect on the valuation of assets and liabilities and became evident between the balance sheet date (31 December 2009) and the date of preparing the financial statements, but are related to transactions that took place in the reporting period or earlier periods, are recorded in the financial statements.

Note 2 Risk management

One of the main keywords of insurance as a field of activity is taking risks and managing the risks taken. The main risks in insurance activities include selecting the risks insured, their correct assessment and selecting suitable reinsurers. Investment related risks need to be hedged as well, in order to ensure the fulfillment of liabilities arising out of insurance contracts in the future.

The aim of risk management is to ascertain, manage and evaluate the risks related to the company's operations, secure a stable revenue structure and ensure the company's reliability, stability and profitability.

a) Management of insurance risk and risk assessment strategy

The aim of insurance risk management in If P&C Insurance is to guarantee the sufficiency of insurance premiums for fulfilling the established objectives (incl. the insurance technical profits) and obligations.

One of the most important components of the main activities of an insurance company is the management of risk related to the indemnification of the material damages sustained as result of an insurance event in accordance with the risks covered under the insurance contracts concluded with the customers. Defining insurance events in a manner that ensures the clarity and unambiguous comprehensibility for our customers and the determination of the obligations of our company are under constant supervision. However, risks arising out of changes in the external environment (e.g. changes in legislation increasing liability effected during an insurance period, change in weather conditions etc.) are of the nature that affects the frequency and extent of losses in the observed period of time. An insurance company is not entirely immune to such risks, but it is possible to limit the effect of these risks on a larger scale. The risks can be limited by way of reinsurance contracts and establishing strictly monitored rules of conduct upon including the risks in the insurance portfolio. If P&C Insurance uses both solutions simultaneously.

The Company also uses several internal rules and regulations applicable in the company and the Baltic business units for managing insurance risks. The company has established overall risk evaluation guidelines as well as risk management guidelines separately for all the products sold and determined insurance liability limits, within which the particular representatives of the company act when concluding contracts. Compliance with the insurance liability limits is checked automatically with the help of filters in the information systems, plus regular audits are performed. The development of insurance price is a centralized function for all the products. A separate structural unit has been created for the development and functional improvement of that.

The company divides insurance risks into two groups: risks priced on the basis of an automatic rate and risks priced on the basis of individual solutions. The company has developed codes of conduct for both processes and the sufficiency of pricing is regularly inspected. In addition, the company has established those risk categories where insurance coverage is only provided in exceptional cases.

In order to ensure the stability of the insurance portfolio, the company aims to achieve a balance in the portfolio by balancing the liability between smaller and bigger insurance liabilities for the types of insurance, where very high levels of insurance liability are possible on individual objects (e.g. corporate property insurance). This makes ensuring the stability of results considerably easier.

As new activity (in order to have more balanced risk profile) company implemented customer pricing scheme for private clients linked products in 2009.

Depending on the characteristics of the insurance risks covered, the company has established allocation formation guidelines, which consider the scale of the insurance events, the specific features of their occurrence and notification. For instance, the allocation formation guidelines have been developed in consideration of liability insurance products, where notification of insurance events may be delayed and the determination of the damages to be indemnified is considerably more difficult compared to less complicated types of insurance (e.g. comprehensive insurance, property insurance etc.).

Another inevitable characteristic of insurance activities is the accumulation of insurance risks due to the location of insurance objects and the summation of insurance risks. Such risks are managed via reinsurance contracts, which consider the possibility of concentration and the summation of risks arising from different types of insurance as a result of one insurance event. The company has established a procedure for risk evaluation, which sets limits to the extent of concentration in case of more sensitive risks.

The realization of insurance risks is evaluated periodically, improving the procedures and rules, if necessary.

The company issues the following types of P&C insurance contracts: compulsory motor TPL, motor own damage, household and corporate property, personal insurance (incl. personal accident and travel insurance), liability insurance, health insurance.

The tables below sets out the concentration of insurance contract liabilities by type of contract.

in thousands EEK			31.12.2009
Type of insurance	**Gross liabilities related to insurance contracts**	**Reinsurers' share of liabilities**	**Net liabilities**
Compulsory Motor TPL	661 843	30 162	631 681
Motor Own Damage	369 580	1 019	368 561
Private Property	174 521	8 820	165 701
Corporate Property	259 690	73 516	186 174
Liability	348 599	37 353	311 246
Personal Accident	30 473	134	30 339
Health	50 824	0	50 824
Other	136 927	61 171	75 756
TOTAL	**2 032 457**	**212 175**	**1 820 282**

			31.12.2008
Type of insurance	**Gross liabilities related to insurance contracts**	**Reinsurers' share of liabilities**	**Net liabilities**
Compulsory Motor TPL	627 722	29 726	597 996
Motor Own Damage	511 313	430	510 883
Private Property	173 639	9 196	164 443
Corporate Property	290 996	62 469	228 527
Liability	312 912	40 996	271 916
Personal Accident	38 572	99	38 473
Health	53 586	0	53 586
Other	191 907	123 640	68 267
TOTAL	**2 200 647**	**266 556**	**1 934 091**

Overview of most important types of insurance:

MOTOR THIRD PARTY LIABILITY INSURANCE

Motor third party liability insurance covers the territory limited by the Green Card Convention Agreement. The convention also gives rise to the obligation to indemnify the damages in accordance with the rules of the country of location (or the place the insurance events occurred in). The damages under this type of insurance are divided into property damage and personal injury. Personal injury events are in turn divided into medical expenses and periodically paid pensions.

Risk management

The conformity of rates to the assumed insurance obligation is monitored on the basis of monthly reports. The company adjusts the rates as necessary.

PROPERTY, MOTOR OWN DAMAGE, PERSONAL ACCIDENT AND LIABILITY INSURANCE

The portfolio generally includes risks, the location of which can be limited to Estonia, Latvia, Lithuania (Baltic countries) or interest related to Baltic countries abroad. In case of real estate, the location of the property is the criterion, while for motor vehicles and legal persons it is their place of registration and for private persons the fact whether they are residents of any of Baltic country. Making exceptions is regulated with relevant procedures.

In order to evaluate the insurance technical results more accurately, various reservation methods have been established depending on the nature of the insurance events. In case of liability insurance, allowance is made for the practice of learning and giving notice of insurance events with a delay.

Risk management

The majority of the types of insurance sold on a large-scale basis are priced by automatic tarification. The software solution used supports the risk evaluation process in the company. The sufficiency of rate in relation to insurance obligations is similarly to motor TPL insurance evaluated on the basis of monthly reports. The rates are adjusted as necessary. The company has established a pricing process, which guides all the activities.

Special codes of conduct have been established for unusual risks, in order to minimize the risk to the company.

The company’s reinsurance is disproportionate both for individual risks and risks arising from the accumulation of damages as a sum of several types of insurance or the geographic concentration of risks.

Key assumptions

Material judgment is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

Sensitivity analysis

The general insurance claims provision is sensitive to the some key assumptions. The sensitivity of certain assumptions like legislative change, uncertainty in the estimation process, etc, is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim provisions are not known with certainty at the balance sheet date.

The table below demonstrates the effect of change in key assumptions whilst other assumptions remain unchanged, if these assumptions were changed in a single calendar year. The correlation of assumptions will have a significant effect in determining the ultimate liabilities, but to demonstrate the impact on the liabilities due to changes in assumptions, these assumptions changes had to be done on an individual basis. It should also be stressed that these assumptions are non linear and larger or smaller impacts cannot easily be gleaned from these results.

Key-assumptions	Change in assumptions	Result in 2009 12m, TEEK	Change on gross general insurance contracts liabilities, TEEK	Change on net general insurance contracts liabilities, TEEK	Impact on 2009 net profit and reduction of shareholders' equity, TEEK
Premiums earned (net of reinsurance)	decrease 5%	2 017 919		-100 896	-100 896
Claim costs (gross)	increase 5%	1 128 021	56 401	56 401	-56 401
One big claim	1 additional claim		55 000	20 000	-20 000
Increase of claims handling expenses	increase 5%	66 895	3 345	3 345	-3 345

The company has reviewed all previously made assumptions used to measure insurance assets and insurance liabilities and found that changes of previously made assumptions have not given a material effect on financial statements.

b) Concentration risk management and control

Concentration risk is the exposure to increased losses associated with inadequately diversified portfolios of assets and /or liabilities.

Concentration risks are mainly market and credit risks related to the individual segments' investment portfolios. These risks are managed by taking into account the total exposure on the If P&C Group level when setting individual limits in the investments policy for If P&C Insurance AS and the others subsidiaries within the If Group. Investment risks are monitored and controlled by the Investment Commitees set locally and in the If P&C Group level. Total Sampo Group exposures are monitored and controlled by Sampo's Chief Investment Officer, Sampo's Chief Risk Officer and Sampo's Audit Committee.

c) Management of financial risk

Components of financial risk include credit risk, liquidity risk and market risk. In order to minimize the possible risks, financial assets are spread across different financial instruments. The management of aforementioned risks is based on the principles approved by the parent company. The investment policy is reviewed and approved on an annual basis for every coming year in accordance with the economic situation. The main objective of this is to earn sufficient income, hedge risks and fulfill the possible obligations arising from insurance contracts. The said policy establishes credit, interest and currency risk limits for the investments and the regional distribution thereof. Under aforementioned policy is established also limits to currencies, types of financial assets, ratings, geographical regions and as well for single financial asset separately. The investment committee reviews and, if necessary, adjusts the investment policy once a quarter. The requirements deriving from the Insurance Activities Act are also taken into account.

How the management determines credit, liquidity and market risk you can find from graphs pages 32-36.

CREDIT RISK

The realization of credit risk may result in a situation, where the contractual partner is unable to fulfill its contractual obligations due to insolvency. Credit risk includes fluctuations in the company's income, which is caused by the nonfulfillment of obligations by the counter-party or changes in the credibility of the other party.

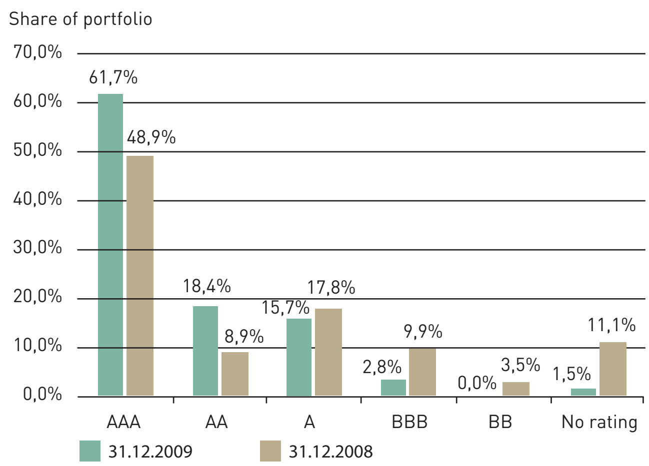
The company's credit risk is related to the solvency of the insured persons and insurance brokers, the organisation of reinsurance and the management of financial investments.

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

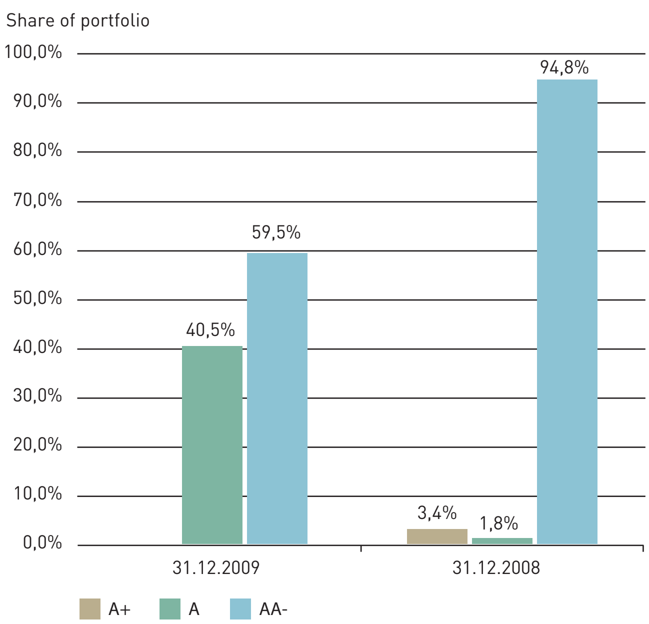
Reinsurance contracts are concluded mainly with the parent company. Every individual reinsurance contract is concluded on the basis of an analysis of the reinsurer's solvency and credibility.

The management of financial investments is regulated with the Investment Policy developed by the investment committee. The distribution of assets related to credit risks both by the issue's rating and geographic regions is presented in detail in the below graph.

Ratings of bond issuers (S&P)



Ratings of term deposits (S&P)



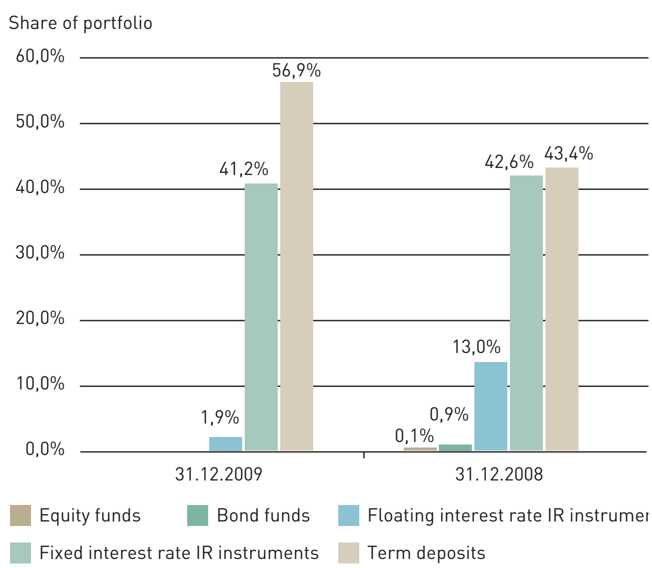
The table below shows the maximum exposure to credit risk for the components of the balance sheet.

in thousand EEK	31.12.2009	31.12.2008
Cash and cash equivalents	92 869	140 585
Financial assets	2 561 802	3 080 497
Receivables related to insurance activities	270 054	355 540
Reinsurance assets	212 175	266 556
Total credit risk exposure	**3 136 900**	**3 843 178**

LIQUIDITY RISK

The realization of this risk may result in a situation, where financial assets may have to be realized at a price considerably below the market price. Liquidity risk means the company's inability to fulfill its obligations due to the financial market situation or incorrect decisions in the management of the balance sheet structure. Liquidity management includes inter-coordinated decisions in regards to the structure of the term of assets and obligations and the financial instruments. The main objective in liquidity management is to ensure the company's ability to fulfill all its obligations arising from insurance contracts and insurance activities in a timely manner. It is also aimed at ensuring the fulfillment of the requirements established under the Insurance Activities Act and adequately responding to significant changes in the business environment. In order to maintain an adequate level of liquidity, the company keeps some of its assets in liquid instruments like demand deposits, short-term bank deposits and bonds. The volume, distribution and instruments of liquid assets are established by the investment committee. A more detailed classification of financial assets is presented in the below graph.

Financial assets at fair value through profit and loss



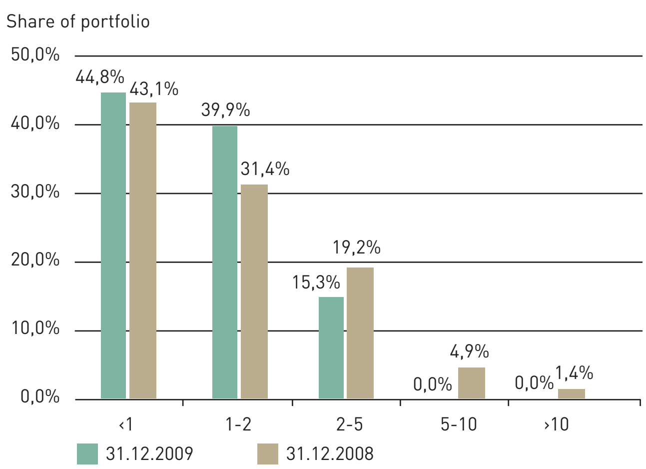
It is unknown, as of the moment of acquisition of the bonds and other debt instruments, whether these debt instruments will be held to maturity, or when they will be realized. The below graph shows the division of the acquired bonds and other fixed income securities by maturity terms if the financial assets are planned to be held to maturity. This information is required by the company for managing cash flows and monitoring that the contingent liabilities arising from insurance contracts are timely fulfilled to customers.

MARKET RISK

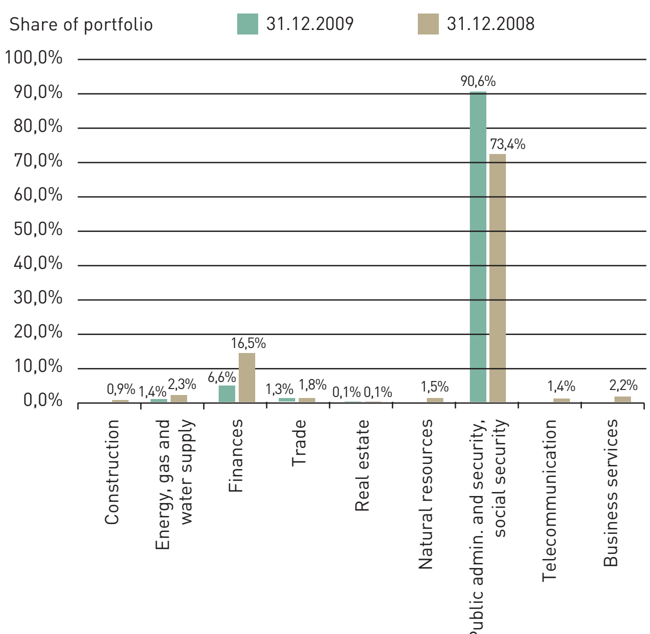
Market risk arises from changes in interest rates, exchange rates and the prices of financial assets. The company monitors the said risks on a daily basis and market risk limits have been set by the investment committee.

The below tables show the division of bonds and other fixed income securities by geographical areas and branches of industry. Changes in the economy of different geographical areas as well as changes in the branches of industry may have an effect on the fair value of financial assets invested in these areas and branches of industry.

Division of bonds and other fixed income securities by maturity terms

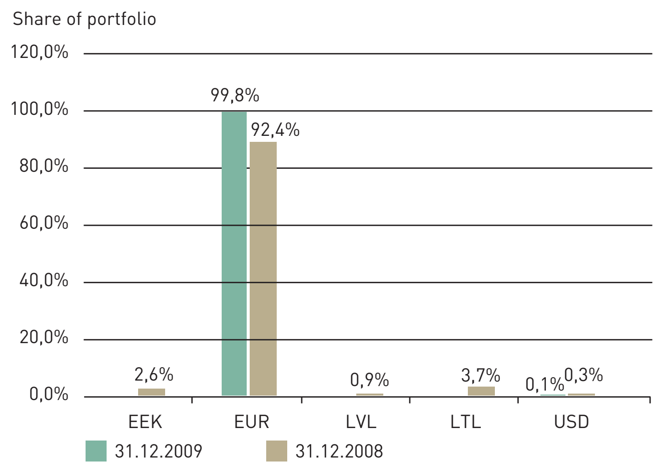


Division of bonds and other fixed income securities by branches of industry



Currency risk means a potential loss arising from changes in the exchange rates. The company has hedged this risk by keeping financial investments only in euro which is approved by investment policy of the Company. At the end of 2009 almost 100% of investments are in euros. As the rate of euros is fixed in relation to the Baltic currencies, the currency risk is estimated to be very low.

Division of financial assets by currencies



Interest rate risk is understood to mean an adverse change in the amount of net interest income or the market value of the company's balance sheet assets and liabilities, caused by changes in the absolute level of interest rates, the difference in the interest rates of lending and borrowing, the shape of the interest curve or other aspects related to interest rates. The company measures and monitors interest risk using the interest sensitive assets and liabilities difference method, while also applying different interest risk scenarios for the evaluation of possible losses arising from changes in the interest rates. Interest risk is defined as potential loss arising from a parallel shift in the interest curve by 100 base points. The overall limit for the interest risk is approved by the investment committee and the investment manager of If Group. The market risk of bond investments in the trading portfolio is measures and monitored on a daily basis.

Sensitivity analysis

The below table brings out some of the key assumptions indicating the effect of potential changes, other factors remaining constant. The analysis is based on the investment portfolio as of

31.12.2009 and shows the potential effect of the key assumptions on the return on investment.

in millions of EEK	Parallel shift in the interest curve		Change in share prices	
Market risk sensitivity analysis	up by 100 bps	down by 100 bps	+10%	-10%
Effect on financial results	-14.9	15,3	0	0

d) Management and hedging of operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, from personnel and systems, or from external events. The definition includes legal and reputation risk, but excludes strategic and business risk. Characteristics for operational risks, to distinguish from strategic and business risks, are that they are often event based and their effects can be tracked to a single place and point in time.

If identifies operational risks through several different sources with different processes. The main processes used for identifying operational risks in If include the environmental and macro analysis, the operational risk assessment process and incident reporting.

Environmental and macro analysis is conducted on an annual basis. Each year the key trends affecting the insurance industry are identified and their implications to If are assessed. On this basis, the main opportunities and threats are identified and prioritized. These assessments outline the most important external operational and business risks.

Operational risk assessment (ORA) is an annual process where operational risks are identified and assessed in the different business units through interviews and workshops. After quarterly ORA follow-up meetings, the separate risk categories are reported to ORC. In addition, legal risks and some business risks are captured in the ORA process.

Preparation for Solvency II

After intensive negotiations between the Commission, the European Parliament and the European Council, the Solvency II Framework Directive was adopted by the European Parliament in April 2009.

The introduction of a new economic risk based solvency regime aims to deepen the integration of the insurance and reinsurance market, enhance the protection of policyholders and beneficiaries, to improve international competitiveness of EU insurers and reinsures and to promote a better regulation. Compared to the existing Solvency I regulation, the regulatory capital requirements in Solvency II will more closely reflect the specific risk profile of each company. This will encourage companies to focus on sound risk management and internal control procedures and thus embed risk awareness throughout the organization.

During 2009, the entire If Group have made extensive efforts to monitor, evaluate and comment on the draft implementing measures, which encompass detailed regulations to complement the Framework Directive.

Note 3 Premiums earned, net of reinsurance

	2 009	2 008
Premiums written, gross	1 937 681	2 412 115
incl. 100% of the reinsured portion	30 338	53 897
Change in the provision for unearned premiums	197 328	22 131
Premiums earned, gross of reinsurance	**2 135 009**	**2 434 246**
Reinsurance premiums	-117 755	-145 100
Change in the provision for unearned premiums	664	12 515
Premiums earned, ceded	**-117 091**	**-132 585**
TOTAL	**2 017 918**	**2 301 661**

Note 4 Return on investments

	2 009	2008
Interest income/expense		
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other fixed income securities	32 549	80 683
Designated at fair value through profit and loss at inceptions:		
From deposits	14 088	56 824
From cash and cash equivalents	1 747	2 781
Financial charge calculated due to retrospective application of pooling of interest method	-	-47 685
TOTAL	**48 384**	**92 603**

Profit from disposals		
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other fixed income securities	14 918	11 684
From shares	-	-
From equity funds	-	5 759
From bond funds	119	-
From cash and cash equivalents	29	413
TOTAL	**15 066**	**17 856**

Loss from disposals		
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other fixed income securities	-39 325	-28 813
From shares	-830	-2 138
From equity funds	-	-35 393
From bond funds	-834	-
From cash and cash equivalents	-	-54
TOTAL	**-40 989**	**-66 398**

Profit/loss from change in fair value		
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other fixed income securities*	89 641	-68 497
From shares	621	-2 105
From equity funds	-	-4 682
From bond funds	-434	-488
From cash and cash equivalents	-	-4
TOTAL	**89 828**	**-75 776**
TOTAL RETURN ON INVESTMENTS	**112 289**	**-31 715**

*Bonds and other fixed income securities measured at fair value through profit and loss and held for trading include a gain from the compensation of 2008 write-down TR Majad bond in amount of 23,128 thousand EEK.

Note 5 Claims incurred, net of reinsurance

	2 009	2 008
Gross		
Claims paid during the year related to that year	-809 470	-979 940
Claims paid related to previous years	-359 390	-355 577
Amounts recovered from salvage and regresses	81 234	148 488
Change in the provision for claims outstanding	-40 396	-202 264
TOTAL	**-1 128 022**	**-1 389 293**
Reinsurer's share		
Claims paid during the year related to that year	3 175	6 114
Claims paid related to previous years	103 686	58 562
Change in the provision for claims outstanding	-58 236	4 300
TOTAL	**48 625**	**68 976**
Net		
Claims paid during the year related to that year	-725 060	-825 339
Claims paid related to previous years	-255 704	-297 015
Change in the provision for claims outstanding	-98 632	-197 964
TOTAL	**-1 079 396**	**-1 320 318**

The development of claims: 2006-2009

The overview of claims 2006-2009 has been provided in the below tables. The claims have been presented separately for each year. For accident years older than 2006 only claim developments since 2006 are shown, because in the financial systems of the Company there is information available to report claims development triangles backwards in time only since year 2006 (*).

The tables provides an overview of the accumulated estimates (claims paid, incl. regresses and salvages, provision for incurred and reported loss, and IBNR provision) on the gross and net basis. The information on the indemnifications paid is presented in the last table of claims development disclosure. The tables do not include information on actual claims handling expenses and the provision for claims handling expenses.

The company believes the estimates on claims outstanding as of the end of 2009 to be adequate. Due to the imprecision of the reservation process, the possibility of changes cannot, however, be ruled out.

Development of claims in TEEK, gross	...-2006	2007	2008	2009
At 31 December				
Accident year*	1 257 812	1 333 908	1 481 234	1 226 130
1 year later	1 164 437	1 250 145	1 363 169	
2 years later	1 149 796	1 222 839		
3 years later	1 195 801			
Provision for outstanding claims (incl. IBNR) as of 31.12.2009 (TEEK)	488 042	147 133	233 210	460 280

Claims paid, regresses and salvages (accumulated) in TEEK, gross				
	...-2006	2007	2008	2009
At 31 December				
Accident year*	932 350	826 370	906 359	765 850
1 year later	1 226 273	1 058 139	1 129 959	
2 years later	1 274 477	1 075 706		
3 years later	1 354 876			

Development of claims in TEEK, net				
	...-2006	2007	2008	2009
At 31 December				
Accident year*	971 825	1 291 119	1 407 845	1 209 393
1 year later	877 613	1 201 244	1 312 123	
2 years later	873 661	1 173 658		
3 years later	865 905			
Provision for outstanding claims (incl. IBNR) as of 31.12.2009 (TEEK)	340 695	135 785	217 265	446 716

Claims paid, regresses and salvages (accumulated) in TEEK, net				
	...-2006	2007	2008	2009
At 31 December				
Accident year*	815 114	820 750	900 117	762 677
1 year later	1 033 460	1 022 635	1 094 858	
2 years later	1 052 107	1 037 873		
3 years later	1 059 276			

Note 6 Operating expenses

	2 009	2 008
Personnel expenses	-263 586	-307 203
Commissions to intermediaries	-139 927	-185 284
Data processing	-68 963	-68 337
Expenses on premises	-42 190	-41 974
Office expenses (incl. communication expenses)	-26 440	-30 709
Other operating expenses	-109 529	-82 903
TOTAL	**-650 635**	**-716 410**
Division of costs on the basis of functions		
Insurance contract acquisition costs	-425 937	-480 179
Administrative expenses	-160 438	-161 875
incl. investment expenses	-11 206	-9 877
Other income	2 637	1 204
Claims handling expenses	-66 895	-75 561
TOTAL	**-650 633**	**-716 411**

Note 7 Cash and cash equivalents

	31.12.2009	31.12.2008
Cash	92 869	140 585
TOTAL	**92 869**	**140 585**

The annual interest earned from the current account balances amounts to 0.19 - 5.5% (in 2008: 0.2-5.15% p.a.).

Note 8 Receivables related to insurance activities

	31.12.2009	31.12.2008
Receivables related to direct insurance activities, incl.	250 488	334 623
- policyholders	192 469	251 419
- intermediaries	35 160	51 870
- salvages	4 080	5 238
- regresses with significant recoverability	17 633	24 870
-other	1 147	1 226
Receivables from reinsurance	17 207	17 874
- incl. from related parties	12 887	15 253
Other receivables	2 359	3 043
- incl. from related parties	577	178
TOTAL	**270 054**	**355 540**
Term of the receivables		
Neither past-due nor impaired:		
- not due yet	233 108	298 347
-due for up to 3 month	28 054	41 575
Past-due but not impaired:		
-due for 3-6 months	6 209	4 898
-due for 6-12 months	2 576	1 299
-due for over 1 year	107	9 421
TOTAL	**270 054**	**355 540**

All afore-mentioned receivables are not impaired except for receivable of Lithuanian branch in amount of 1 332 thousand kroons to National Paying Agency.

Note 9 Accrued income and prepaid expenses

	31.12.2009	31.12.2008
Deferred tax asset	2 599	970
Deferred acquisition costs (incl. the reinsured portion)	52 184	69 136
Prepaid expenses	8 315	13 884
Money on the way from investment transactions	0	67 708
TOTAL	**63 098**	**151 698**

All afore mentioned accrued income and prepaid expenses to be expected within 12 months.

Term of the accrued income and prepaid expenses:	**31.12.2009**	**31.12.2008**
Neither past-due nor impaired:		
- not due yet	63 098	151 698

Deferred acquisition costs	**2 009**		
	Share of acquisition costs (gross)	**Reinsurer's share of acquisition costs (gross)**	**Share of acquisition costs (net)**
Balance as of January 1	**70 401**	**-1 265**	**69 136**
Acquisition costs deferred during the year	146 989	-2 111	144 878
Reversal of previously deferred acquisition costs	-163 690	2 601	-161 089
Exchange-rate difference	-723	-18	-741
Balance as of December 31	**52 977**	**-793**	**52 184**

Deferred acquisition costs	**2 008**		
	Share of acquisition costs (gross)	**Reinsurer's share of acquisition costs (gross)**	**Share of acquisition costs (net)**
Balance as of January 1	**75 277**	**-915**	**74 362**
Acquisition costs deferred during the year	196 738	-2 510	194 228
Reversal of previously deferred acquisition costs	-202 024	2 169	-199 855
Exchange-rate difference	410	-9	401
Balance as of December 31	**70 401**	**-1 265**	**69 136**

Note 10 Financial assets

	31.12.2009	31.12.2008
Financial assets measured at fair value through profit and loss		
Classified as held for trading		
Shares, equity funds and bond funds	187	32 450
- listed	186	32 449
- unlisted	1	1
Bonds and other fixed income securities	1 104 830	1 712 476
- listed	1 102 922	1 568 727
- unlisted	1 908	143 749
incl. with a floating interest rate	49 695	399 666
incl. with a fixed interest rate (0.05-11%)	1 055 135	1 312 810
Designated at fair value through profit and loss at inceptions		
Term deposits	1 456 785	1 335 571
- unlisted	1 456 785	1 335 571
TOTAL	**2 561 802**	**3 080 497**

Financial assets measured at fair value through profit and loss		
Classified as held for trading	**2 009**	**2008**
Balance at Jan.1	**3 080 497**	**2 680 856**
Shares, equity funds and bond funds		
Purchase	121 529	83 649
Sale	-153 952	-292 380
Change in fair value through profit and loss	315	-7 404
Bonds and other fixed income securities		
Purchase	1 611 888	1 680 471
Sale	-2 257 834	-1 832 069
Change in fair value through profit and loss	55 705	-67 770
Change in accrued interest	-8 711	-8 507
Term deposits		
Purchase	8 091 705	4 318 443
Sale	-7 951 906	-3 488 656
Change in accrued interest	-14 806	14 137
Currency exchange rate differences	-12 628	-275
Balance at Dec. 31	**2 561 802**	**3 080 497**

Shares		
	31.12.2009	**31.12.2008**
Shares	187	180
Equity funds	-	4 416
Bond funds	-	27 854
TOTAL	**187**	**32 450**

Division of bonds and other fixed income securities by issuers		
	31.12.2009	**31.12.2008**
Issued by Estonian financial institutions	-	39 994
Issued by Estonian companies	1 908	74 181
Issued by foreign governments	1 001 009	1 256 317
Issued by foreign financial institutions	71 587	242 364
Issued by foreign companies	30 326	99 620
TOTAL	**1 104 830**	**1 712 476**

Ratings of bond issuers (S&P)	Percentage of fair value	
	31.12.2009	**31.12.2008**
AAA	62%	49%
AA	18%	9%
A	16%	18%
BBB	3%	10%
BA	0%	0%
BB	0%	3%
B	0%	0%
No rating	2%	11%
TOTAL	**100%**	**100%**

Division of bonds and other fixed income securities by maturity terms		
	31.12.2009	**31.12.2008**
up to 1 year	495 474	737 791
1-2 years	440 378	537 865
2-5 years	168 978	328 197
5-10 years	-	84 608
Over 10 years	-	24 015
TOTAL	**1 104 830**	**1 712 476**

Term deposits earn an annual interest 0.64%-1.08% (as of 31.12.2008: 4.43%-7.75%).

Financial assets measured at fair value through profit and loss				
		31.12.2009		**31.12.2008**
Classified as held for trading	**Fair value**	**Acquisition cost**	**Fair value**	**Acquisition cost**
Shares	187	5 231	32 450	37 679
Bonds and other fixed income securities	1 104 830	1 094 002	1 712 476	1 749 532
Designated at fair value through profit and loss at inceptions:				
Term deposits	1 456 785	1 454 811	1 335 571	1 318 751
TOTAL	**2 561 802**	**2 554 044**	**3 080 497**	**3 105 962**

Financial assets measured at fair value through profit and loss by currencies, as of 31.12.2008						
Classified as held for trading	EEK	EUR	LVL	LTL	USD	TOTAL
Shares	7 063	23 903	1 304	180	-	**32 450**
Bonds and other fixed income securities	50 065	1 615 554	27 066	9 905	9 887	**1 712 477**
Designated at fair value through profit and loss at inceptions:						
Term deposits	24 191	1 208 323	621	102 436	-	**1 335 571**
TOTAL	**81 319**	**2 847 780**	**28 991**	**112 521**	**9 887**	**3 080 498**

Bonds with a fixed interest rate, by interest rates and currencies, as of 31.12.2009						
Interest rate/currency	**EEK**	**EUR**	**LVL**	**LTL**	**USD**	**TOTAL**
Interest rate: 0-1,9 %	1 129	2	-	-	-	**1 131**
Interest rate: 2.0-2.9%	-	167 906	-	-	-	**167 906**
Interest rate: 3.0-3.9%	-	294 897	-	-	-	**294 897**
Interest rate: 4.0-4.9%	-	205 295	-	-	-	**205 295**
Interest rate: 5.0-5.9%	-	317 283	-	-	-	**317 283**
Interest rate: 6.0-11.0%	-	67 843	780	-	-	**68 623**
TOTAL	**1 129**	**1 053 226**	**780**	**-**	**-**	**1 055 135**

Bonds with a fixed interest rate, by interest rates and currencies, as of 31.12.2008						
Interest rate/currency	**EEK**	**EUR**	**LVL**	**LTL**	**USD**	**TOTAL**
Interest rate: 0.1-1,9 %	-	108 743	15 483	-	-	**124 226**
Interest rate: 2.0-2.9%	-	216 396	-	-	-	**216 396**
Interest rate: 3.0-3.9%	-	320 904	6 720	5 317	2 292	**335 233**
Interest rate: 4.0-4.9%	-	309 415	920	4 587	-	**314 922**
Interest rate: 5.0-5.9%	-	210 268	2 996	-	-	**213 264**
Interest rate: 6.0-15.0%	-	107 823	946	-	-	**108 769**
TOTAL	**-**	**1 273 549**	**27 065**	**9 904**	**2 292**	**1 312 810**

Financial assets with a fixed interest rate measured at fair value through profit and loss, which are exposed to fair value interest rate risk		
	31.12.2009	**31.12.2008**
Bonds with a fixed interest rate	1 055 135	1 312 810
Term deposits	1 456 785	1 335 571
TOTAL	**2 511 920**	**2 648 381**

Financial assets with a floating interest rate measured at fair value through profit and loss, which are exposed to changes of market interest rates and thereby are exposed to cash flow		
	31.12.2009	**31.12.2008**
Bonds with a floating interest rate	49 695	399 666
TOTAL	**49 695**	**399 666**

Determination of fair value and fair values hierarchy

Financial assets designated at fair value through profit or loss

	Level 1	Level 2	Level 3	Total fair value
Equity securities	186	-	1	**187**
Debt securities	869 056	233 864	1 910	**1 104 830**
Term deposits	-	1 456 785	-	**1 456 785**
TOTAL	**869 242**	**1 690 649**	**1 911**	**2 561 802**

Note 11 Intangible assets

	Computer software
Net book value 31.12.2007	**43 609**
Acquisition (incl. prepayment)	23 238
Write-off	-12 277
Acquisition cost 31.12.2008	95 767
-incl. fully depreciated	25 619
Depreciation charge for the year	-11 935
Depreciation of written-off non-current assets	-
Accumulated depreciation 31.12.2008	-53 236
Net book value 31.12.2008	**42 531**
Acquisition (incl. prepayment)	8 318
Write-off	-4 962
Reclassification	297
Acquisition cost 31.12.2009	99 420
-incl. fully depreciated	41 652
Depreciation charge for the year	-14 013
Depreciation of written-off non-current assets	2 361
Accumulated depreciation 31.12.2009	-64 888
Translation differences	-562
Net book value 31.12.2009	**33 970**

Amortisation charge of intangible assets is recorded in the income statement, under “Insurance contract acquisition costs”, “Claims handling expenses”, and “Administrative expenses” in accordance with the functionality.

Note 12 Property, plant and equipment

	Land	Buildings	Other PPE	TOTAL
Net book value 31.12.2007	**6 007**	**78 068**	**21 823**	**105 898**
Acquisition	-	977	13 709	14 686
Write-off	-	-	-6 557	-6 557
Disposal	-	-	-2 372	-2 372
Acquisition cost 31.12.2008	6 007	107 784	78 836	192 627
-incl. fully depreciated	-	-	37 160	37 160
Depreciation charge for the year	-	-2 149	-3 186	-5 335
Depreciation charge of write-off and disposals	-	-	-348	-348
Accumulated depreciation 31.12.2008	-	-30 888	-55 091	-85 979
Net book value 31.12.2008	**6 007**	**76 896**	**23 745**	**106 648**
Acquisition	-	93	3 008	3 101
Reclassification	-	-	-297	-297
Write-off	-	-	-1 061	-1 061
Disposal	-	-	-6 461	-6 461
Acquisition cost 31.12.2009	6 007	107 876	74 025	187 908
-incl. fully depreciated	-	-	43 668	43 668
Depreciation charge for the year	-	-2 156	-8 347	-10 503
Depreciation charge of write-off and disposals	-	-	5 467	5 467
Accumulated depreciation 31.12.2009	-	-33 044	-57 971	-91 015
Translation differences	-	-	-331	-331
Net book value 31.12.2009	**6 007**	**74 832**	**15 723**	**96 562**

Depreciation charge of property, plant and equipment is recorded in the income statement, under "Insurance contract acquisition costs", "Claims handling expenses", and "Administrative expenses" in accordance with the functionality.

Note 13 Liabilities related to insurance activities

	31.12.2009	31.12.2008
Liabilities related to direct insurance activities, incl.	59 237	63 498
- policyholders	27 955	27 576
- intermediaries	28 648	35 362
-others	2 633	561
Liabilities related to reinsurance	30 446	37 475
Other liabilities (Note 1.5a)	6 599	1 010 932
TOTAL	**96 282**	**1 111 905**

All above mentioned liabilities are current liabilities.

Note 14 Accrued expenses and deferred income

	31.12.2009	31.12.2008
Taxes payable	12 151	17 366
Employee-related liabilities	4 638	6 346
Vacation and social tax reserve	9 696	12 023
Performance pay reserve (incl. wage-based taxes)	18 201	18 796
Deferred income tax	1 509	3 718
Other accrued expenses	8 077	17 717
TOTAL	**54 272**	**75 966**

Taxes payable are divided into the following categories:		
Value added tax	728	1 084
Personal income tax	2 316	2 870
Social tax	4 216	4 794
Unemployment insurance	499	123
Funded pension	62	251
Corporate income tax	4 168	8 014
Other taxes	162	230
TOTAL	**12 151**	**17 366**

All afore mentioned accrued expenses and deferred income to be expected within 12 months.

Note 15 Liabilities related to insurance contracts and reinsurance assets

	31.12.2009	31.12.2008
Gross		
Provision for incurred and reported claims and claims handling expenses	851 518	879 927
Provision for incurred but not reported claims	526 834	463 869
Provision for unearned premiums	654 106	856 851
TOTAL	**2 032 458**	**2 200 647**
Reinsurer's share		
Provision for incurred and reported claims and claims handling expenses	182 111	235 063
Provision for incurred but not reported claims	6 094	10 489
Provision for unearned premiums	23 970	21 004
TOTAL	**212 175**	**266 556**
Net		
Provision for incurred and reported claims and claims handling expenses	669 407	644 864
Provision for incurred but not reported claims	520 740	453 380
Provision for unearned premiums	630 136	835 847
TOTAL	**1 820 283**	**1 934 091**

		2 009	
The provision for claims reported by policy holders and claims incurred but not yet reported (IBNR)	**Liabilities arising from insurance contracts**	**Reinsurer's share of liabilities**	**Net**
Balance as of January 1	**1 343 796**	**-245 552**	**1 098 244**
Change in the provision for claims incurred but not yet settled, related to current year	297 869	-11 262	286 607
Change in the provision for claims incurred but not yet settled, related to previous years	-324 760	65 136	-259 624
Change in the provision for claims incurred but not reported, related to current year	162 515	-2 296	160 219
Change in the provision for claims incurred but not reported, related to previous years	-96 301	6 659	-89 642
Change in the provision for claims handling expenses	1 073	0	1 073
Translation difference	-5 840	-890	-6 730
Balance as of December 31	**1 378 352**	**-188 205**	**1 190 147**

The provision for claims reported by policy holders and claims incurred but not yet reported (IBNR)	2 008 Liabilities arising from insurance contracts	Reinsurer's share of liabilities	Net
Balance as of January 1	**1 136 552**	**-244 244**	**892 308**
Change in the provision for claims incurred but not yet settled, related to current year	398 532	-65 541	332 991
Change in the provision for claims incurred but not yet settled, related to previous years	-322 199	62 645	-259 554
Change in the provision for claims incurred but not reported, related to current year	176 517	-1 759	174 758
Change in the provision for claims incurred but not reported, related to previous years	-55 860	356	-55 504
Change in the provision for claims handling expenses	5 274	0	5 274
Translation difference	4 980	2 991	7 971
Balance as of December 31	**1 343 796**	**-245 552**	**1 098 244**

Provision for unearned premiums	2 009		
	Liabilities arising from insurance contracts	Reinsurer's share of liabilities	Net
Balance as of January 1	**856 851**	**-21 004**	**835 847**
Premiums written in the year	1 937 681	-117 755	1 819 926
Premiums earned during the year	-2 135 009	117 091	-2 017 918
Translation difference	-5 417	-2 302	-7 719
Balance as of December 31	**654 106**	**-23 970**	**630 136**

Provision for unearned premiums	2 008		
	Liabilities arising from insurance contracts	Reinsurer's share of liabilities	Net
Balance as of January 1	**874 438**	**-8 347**	**866 091**
Premiums written in the year	2 412 115	-145 100	2 267 015
Premiums earned during the year	-2 434 246	132 585	-2 301 661
Translation difference	4 544	-142	4 402
Balance as of December 31	**856 851**	**-21 004**	**835 847**

The table below summarises the maturity analysis of recognised gross insurance liabilities which is based on expected cash outflows.

	31.12.2009	31.12.2008
up to 1 year	946 030	1 196 792
1-2 years	281 169	296 959
2-5 years	283 346	306 578
5-10 years	193 576	235 823
Over 10 years	328 337	164 495
TOTAL	**2 032 458**	**2 200 647**

Note 16 Corporate income tax

(a) Income tax expense	2009	2008
Current tax	16 154	14 778
Deferred tax	-3 780	1 290
Total income tax expense	**12 374**	**16 068**
Specification of current taxes		
Latvia	6 774	11 054
Lithuania	5 600	5 014
Total	**12 374**	**16 068**

(b) Reconciliation of tax charge	2009	2008
Profit before tax	**404 587**	**240 720**
Tax at 15%	**7 510**	**16 783**
Tax at 20%	**9 056**	**-**
Differences arising from tax rate changes	867	-240
Permanent differences	1 468	-1 244
Temporary differences	-4 000	1 179
Recognition of previously unrecognized tax asset	111	74
Prior year tax adjustment	-115	-119
Donation	-686	-640
Differences arising from unrealized gains and losses	-1 837	275
Total tax charge for the year	**12 374**	**16 068**

(c) Deferred tax liability	31.12.2009	31.12.2008
Deferred tax liability		
Accelerated capital allowances	3 010	3 408
Unrealized profit from not-quoted bonds	-	24
Provision for amounts recoverable by subrogation	710	1 215
Elimination of equalisation reserve	-	1 505
Deferred tax asset		
Vacation reserve	-1 724	-1 971
Doubtful debts	-3 844	-1 787
Asset valuation allowance for doubtful receivables	757	355
Net deferred tax liability/(asset)	**-1 091**	**2 749**

(d) Current corporate income tax liability	31.12.2009	31.12.2008
At 1 January	8 014	2 463
Calculated	16 155	14 778
Paid	-19 872	-9 169
Translation difference	-129	-58
At 31 December	**4 168**	**8 014**

Note 17 Investment into subsidiary

AS If Kinnisvarahaldus
Field of activity: real estate management
Legal address: Pronksi 19, Tallinn 10124

	31.12.2009	31.12.2008
Acquisition cost of shares	**73 725**	**73 725**
Number of shares	8 790	8 790
Participation	**100%**	**100%**
Total owner's equity	113 816	108 946
Share capital	87 900	87 900
Share premium	987	987
Mandatory reserve	2 388	2 388
Retained earnings	17 671	12 069
Profit for the period	4 870	5 602
Investment in the parent company's balance sheet	**73 725**	**73 725**

Note 18 Owner's equity

Insurance is a highly regulated business and there are formal rules for minimum capital and capital structure. Capital adequacy and solvency are reported regularly to the supervisory authorities and company originates principle that capitalization should meet the minimum statutory capital requirements at each moment. Every insurance undertaking shall have an adequate available solvency margin to ensure that the insurance undertaking is capable of meeting the obligations arising from insurance contracts at all times, which shall be at least equal to the requirements and conforming to the structure provided by Insurance Activities Act. The required solvency margin of an insurance undertaking shall be equal at least EUR 3.2 million. The required available solvency margin of an insurance undertaking engaged in non-life insurance shall be calculated pursuant to Insurance Activities Act. Group fulfilled all minimum requirements to amount of assets included in available solvency margin of insurance undertakings during 2009 (also during 2008).

	31.12.2009	31.12.2008
Owner's equity	1 147 518	755 537
Intangible assets	33 970	42 531
Available solvency margin	1 113 548	713 006
Required solvency margin	375 787	375 790
Surplus of solvency margin	**737 761**	**337 216**

Share capital

As of 31.12.2009, the company had issued a total of 10,000,000 shares (2008: 10,000,000 shares), paid for in full. The shares have a nominal value of 10 kroons per share (2008: 10 kroons). The minimum number of shares allowed by the Articles of Association is 5,000,000 and the maximum number of shares 20,000,000. The Insurance Activities Act stipulates that share capital must amount to at least 3 million euros. The group thus met the share capital requirement established by law. The company has one type of common shares. Common shares grant their owner all the rights stipulated in the Commercial Code – the right to participate at the General Shareholders' Meeting, profit allocation, division of assets upon dissolution, the right to receive information on the company's activities from the management board at the General Shareholders' Meeting, the pre-emptive right to register new shares proportionally with the nominal value of shares held in case of share capital increase, etc.

From November 2005, If P&C Insurance AS parent company is If P&C Insurance Holding Ltd who, in turn, is owned by Sampo Plc group. The headquarters of If P&C Insurance Holding Ltd are located in Sweden.

Share premium

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

As of 31.12.2009, share premium amounted to 57,560 thousand kroons (31.12.2008: 57,560 thousand kroons).

Mandatory reserve

The mandatory reserve is set up, in accordance with the Commercial Code, of annual net profit allocations and other transfers to mandatory reserve in accordance with the Commercial Code or the Articles of Association. The mandatory reserve requirements are stipulated in the Articles of Association. The mandatory reserve must amount to no less than 1/10 of the share capital. Every year, at least 1/20 of the net profit must be transferred to the mandatory reserve. Once the reserve meets the requirements of the Articles of Association, the reserve will no longer be increased at the expense of net profit. With the resolution of the General Shareholders' Meeting, the mandatory reserve can be used for covering the loss, if loss cannot be covered from the available shareholder's equity (at the expense of retained earnings and the reserve stipulated in the Articles of Association). Mandatory reserve can also be used for increasing the share capital of the company. The mandatory reserve cannot be paid out as dividends to shareholders.

The company's mandatory reserve amounts to 20,000 thousand kroons in accordance with the Articles of Association, as is in the required amount. As of 31.12.2009, mandatory reserve amounted to 36,962 thousand kroons (31.12.2008: also 36,962 thousand kroons).

Profit carried forward

On 3 April 2009, the sole shareholder resolved the profit for 2008 to be carried forward.

Before restatement of comparatives profit carried forward amounted to 1,098,510 thousand kroons and after comparatives restatement profit to be carried forward was 561,015 thousand kroons. Net profit for 2009 was 392,213 thousand kroons and as of 31.12.2009 profit to be carried forward amounted to 952,996 thousand kroons.

Latvian and Lithuanian legal companies' shares were bought by Estonian company at market price which was set based on the indicative fair market equity valuation performed by the independent audit and consulting company. In order to complete the merge, Estonian company has bought shares of Latvian and Lithuanian legal companies. Price paid for the shares was 1,001,382 thousand EEK and at the acquisition moment value of net assets of Latvian and Lithuanian company has been less than consideration paid which has resulted in loss from the merger.

The company's potential income tax liability

As of 31.12.2009 the company's retained earnings amounted to 952,995 thousand kroons and the net book value of intangible assets to

33,970 thousand kroons (31.12.2008: 561,015 thousand kroons and 42,531 thousand kroons, respectively).

The maximum possible income tax liability related to the payment of the company's retained earnings as dividends is 192,995 thousand kroons (2008: 108,882 thousand kroons). The company could thus pay 726,030 thousand kroons (2008: 409,602 thousand kroons) in net dividends. The potential income tax liability calculation has not been taken into account that the profits allocated to the permanent establishments in Latvia and Lithuania are exempt from Estonian income tax.

The maximum possible income tax liability has been calculated based on the assumption that the net dividends to be paid, and the related total income tax expenses to be recorded in the income statement of 2009 would not exceed the distributable profit as of 31.12.2009.

The possible income tax liability has been calculated in accordance with the Insurance Activities Act which allows to pay the shareholders a part of the profit, by deducting (among other things) the net book value of intangible assets. The profit available for distribution may be further limited by the solvency margin requirements.

Note 19 Operating lease

The company leases office space and passenger cars under operating lease terms. Total rental expenses carried in the consolidated income statement amount to to 29,196 thousand kroons (2008: 19,999 thousand kroons).

As of 31.12.2009, the company had the following deferred liabilities arising from operating lease contracts:

- up to 1 years	17 371	th.kroons	(as of 31.12.2008 22 547 thousands kroons)
- 1 to 5 years	44 025	th.kroons	(as of 31.12.2008 63 695 thousands kroons)
- more than 5 years	30 222	th.kroons	(as of 31.12.2008 37 169 thousands kroons)

Note 20 Related party transactions

The company's shareholders, enterprises under the joint control of or enterprises controlled by the company, the company's staff, Management Board and Supervisory Board members, their close relatives and other individuals over whom the above persons have significant influence, are considered related parties.

1. Transactions with members of the Management Board, members of the Supervisory Board, and other management individuals

Insurance contracts with total premiums of 139 thousand kroons were concluded with the management individuals in the financial period (same period in 2008: 201 thousand kroons). The Management Board members received a total of 17,408 thousand kroons in remuneration, including social tax (2008: 10,228 thousand kroons). Of which the termination benefits paid to members of the Management Board during the reporting year constituted 3 019 thousand kroons (2008: 885 thousand kroons). Loans given to the members of the Management Board amounted to 662 thousand kroons (2008: 703 thousand kroons). No remuneration was paid to members of the Supervisory Board in 2009 and 2008.

2. Other related party transactions, transactions with other group companies

2.1. The company has concluded reinsurance contracts with If P&C Insurance Ltd (Sweden) and If P&C Insurance Company Ltd (Finland), insurance companies incorporated under the parent company If PC Insurance Holding Ltd group.

	Calculated reinsurance premiums		Indemnifications and commissions received	
	2009	**2008**	**2009**	**2008**
If P&C Insurance Ltd (Sweden)	86 725	89 699	1 671	11 207
If P&C Insurance Company Ltd (Finland)	299	337	22	25

Receivables and payables related to the above transactions as of 31.12.2009 and 31.12.2008:

	31.12.2009	**31.12.2008**
Receivables		
If P&C Insurance Ltd (Sweden)	12 887	15 253
Payables		
If P&C Insurance Ltd (Sweden)	24 494	28 993

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

	Services purchased		Services rendered	
	2009	**2008**	**2009**	**2008**
SE Sampo Life Insurance Baltic	17	14	942	863
If P&C Insurance Ltd (Sweden)	0	0	10	11
If P&C Insurance Company Ltd (Finland)	0	0	21	50

Receivables and payables related to the above transactions as of 31.12.2009 and 31.12.2008:

	31.12.2009	31.12.2008
Receivables		
SE Sampo Life Insurance Baltic	53	0
Nordea Bank Finland	519	178
If P&C Insurance Ltd (Sweden)	2	0
If P&C Insurance Company Ltd (Finland)	2	0
Payables		
SE Sampo Life Insurance Baltic	1	0
Nordea Bank Finland	248	9

Note 21 The parent company's unconsolidated financial statements, as required by the Accounting Act of the Republic of Estonia

The parent company's unconsolidated financial statements have been prepared in accordance with the Accounting Act of the Republic of Estonia, and do not constitute parent company's separate financial statements in the meaning of IAS 27 "Consolidated and separate financial statements".

PARENT COMPANY'S UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in thousands of Estonian kroons	2009	2008
REVENUE		
PREMIUMS EARNED, NET OF REINSURANCE		
Premiums earned	2 135 010	2 434 245
Premiums ceded	-117 091	-132 585
TOTAL	**2 017 919**	**2 301 660**
OTHER INCOME		
Reinsurance commissions	4 407	7 504
Return on investments	110 423	-33 108
TOTAL	**114 830**	**-25 604**
TOTAL REVENUE	**2 132 749**	**2 276 056**
EXPENSES		
CLAIMS INCURRED, NET OF REINSURANCE		
Claims incurred, gross	-1 128 021	-1 389 293
Claims handling expenses	-66 981	-75 804
Reinsurer's share in claims paid	48 625	68 975
TOTAL	**-1 146 377**	**-1 396 122**
EXPENSES		
Insurance contract acquisition costs	-426 161	-480 985
Administrative expenses	-160 494	-163 832
TOTAL	**-586 655**	**-644 817**
TOTAL EXPENSES	**-1 733 032**	**-2 040 939**
NET RESULT BEFORE TAXES	**399 717**	**235 117**
INCOME TAX	-12 374	-16 068
NET PROFIT FOR THE FINANCIAL YEAR	**387 343**	**219 049**
OTHER COMPREHENSIVE INCOME		
Exchange differences on translating foreign operations	-231	4 206
TOTAL	**-231**	**4 206**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**387 112**	**223 255**

PARENT COMPANY'S UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of Estonian kroons	31.12.2009	31.12.2008 restated	31.12.2008
ASSETS			
Cash and cash equivalents	58 781	137 584	17 099
Financial assets	2 635 527	3 130 030	2 201 406
Receivables related to insurance activities	269 981	355 540	39 805
Accrued income and prepaid expenses	63 093	151 691	37 906
Reinsurance assets	212 175	266 556	101 331
Intangible assets	33 970	42 531	16 980
Property, plant and equipment	16 314	24 479	5 753
TOTAL ASSETS	**3 289 841**	**4 108 411**	**2 420 280**
LIABILITIES AND OWNER'S EQUITY			
Liabilities related to insurance activities	96 553	1 112 212	22 821
Accrued expenses and prepaid revenues	53 403	75 236	38 953
Liabilities arising from insurance contracts	2 032 457	2 200 647	1 100 695
Total liabilities	**2 182 413**	**3 388 095**	**1 162 469**
Share capital	100 000	100 000	100 000
Share premium	57 560	57 560	57 560
Mandatory reserve	36 962	36 962	36 962
Profit carried forward	525 563	306 745	884 910
Net profit for the year	387 343	219 049	178 379
Total owner's equity	**1 107 428**	**720 316**	**1 257 811**
TOTAL LIABILITIES AND OWNER'S EQUITY	**3 289 841**	**4 108 411**	**2 420 280**

PARENT COMPANY'S UNCONSOLIDATED STATEMENT OF CASH FLOWS

in thousands of Estonian kroons	2 009	2 008
Cash flow from operating activities		
Premiums received	2 009 160	2 391 720
Premiums ceded	-127 306	-112 555
Claims paid, incl. claims handling expenses	-1 146 211	-1 255 439
Proceeds from reinsurance	115 053	94 197
Employee-related and service-related expenses	-575 035	-620 956
Investments in shares	-121 529	-544
Proceeds from disposals of shares	152 461	156 051
Investments in fixed income securities	-861 091	-1 582 479
Proceeds from disposals of fixed income securities	1 556 077	1 748 538
Investments in term deposits	-8 036 705	-2 885 993
Return on term deposits	7 875 989	2 019 685
Interest received	92 254	118 788
Cash flow from operating activities, net	**933 117**	**71 013**
Total cash flow from investing activities		
Acquisition of subsidiaries	-1 001 382	-
Acquisition of non-current assets and intangible assets	-11 011	-36 308
Disposals of non-current assets and intangible assets	1 886	464
Cash flow from investing activities, net	**-1 010 507**	**-35 844**
Cash from from financing activities		
Issue of shares	-	31 294
Cash flow from financing activities, net	**-**	**31 294**
Change in cash flow, net	**-77 390**	**66 463**
Cash and cash equivalents at the beginning of the period	**137 584**	**72 167**
Effects of exchange rate changes on cash and cash equivalents	**-1 413**	**-1 046**
Cash and cash equivalents at the end of the period	**58 781**	**137 584**

PARENT COMPANY'S UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of Estonian kroons	Restricted equity			Unrestricted		
	Share capital	Share premium	Mandatory reserve	Profit brought forward	Net profit for the year	Total equity
Equity at end of 2007 before restatement	**100 000**	**57 560**	**36 962**	**680 067**	**204 843**	**1 079 432**
Merger result	-	-	-	-582 371	-	**-582 371**
Equity at end of 2007 after restatement	**100 000**	**57 560**	**36 962**	**97 696**	**204 843**	**497 061**
Equity at beginning of 2008	**100 000**	**57 560**	**36 962**	**302 539**	**-**	**497 061**
Total comprehensive income	-	-	-	4 206	219 049	**223 255**
Equity at end of 2008	**100 000**	**57 560**	**36 962**	**306 745**	**219 049**	**720 316**
Equity at beginning of 2009	**100 000**	**57 560**	**36 962**	**525 794**	**-**	**720 316**
Total comprehensive income	**-**	**-**	**-**	-231	387 343	**387 112**
Equity at end of 2009	**100 000**	**57 560**	**36 962**	**525 563**	**387 343**	**1 107 428**

Parent company's adjusted unconsolidated equity in accordance with the requirements of the Commercial Code of Estonia:

	31.12.2009	**31.12.2008**
Parent company's unconsolidated equity	1 107 428	720 316
Investment in the parent company's balance sheet (minus)	-73 725	-73 725
Subsidiary's value under the equity method (plus)	113 816	108 946
Total	**1 147 519**	**755 537**

Auditor's report

Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS If P&C Insurance

We have audited the consolidated financial statements of AS If P&C Insurance and its subsidiary (hereafter "the Group"), which comprise the statement of financial position as of 31 December 2009, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The audited financial statements, which we have identified on the accompanying pages, are enclosed with the current report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The financial information of AS If P&C Insurance as a parent company in Note 21 is presented because it is required by the Estonian Accounting Law and is not a required part of the consolidated financial statements prepared under International Financial Reporting Standards as adopted by the European Union. Such financial information has been subject to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, is prepared in all material respects in accordance with the requirements of the Estonian generally accepted accounting principles and in relation to the consolidated financial statements taken as whole.

Tallinn, 23 February 2010

Ivar Kiigemägi
Ernst & Young Baltic AS

Tiina Sõmer
Authorised Auditor

Proposed appropriation of earnings

Funds available for appropriation by the Annual Meeting in accordance with the statement of financial position amount to:

Profit carried forward	560,783 thousand kroons
Net profit for the financial year 2009	392,213 thousand kroons
Total fund available as of 31.12.2009:	**952,996 thousand kroons**

The Management Board proposes not allocate the financial period profit and transfer to the profit carried forward.

Andris Morozovs,
Chairman of the Management Board

Mihkel Uibopuu,
Member of the Management Board

Heinar Olak,
Member of the Management Board

Oskars Hartmanis,
Member of the Management Board

Dace Ivaska,
Member of the Management Board

Žaneta Stankevičiene
Member of the Management Board

Artur Praun,
Member of the Management Board

Signatures of the management board and the supervisory board to the annual report 2009

The Management Board of AS If P&C Insurance has prepared the management report and financial statements for 2009.

Management Board:

Andris Morozovs	Chairman of the Management Board		18.02 2010
Mihkel Uibopuu	Member of the Management Board		18/02/ 2010
Heinar Olak	Member of the Management Board		18.02 2010
Artur Praun	Member of the Management Board		18.2. 2010
Dace Ivaska	Member of the Management Board		18.2 2010
Zaneta Stankeviciene	Member of the Management Board		18.02 2010
Oskars Hartmanis	Member of the Management Board		18.02 2010

The Supervisory Board has reviewed the annual report submitted by the Management Board, consisting of the management report and financial statements, and submitted it to the General Shareholders' Meeting for approval.

Supervisory Board:

Timo Pekka Vuorinen	Chairman of the Supervisory Board		12.3 2010
Dag Rehme	Member of the Supervisory Board		12.03 2010
Ake Ricard Wennerklint	Member of the Supervisory Board		12.03 2010
Darius Kamuntavicius	Member of the Supervisory Board		12.03 2010
Mans Fredrik Mattias Edsman	Member of the Supervisory Board		12.03 2010
Carl Anders Johan Dahlgren	Member of the Supervisory Board		12.03 2010