

NOTE 8: RECEIVABLES RELATED TO INSURANCE ACTIVITIES

	31.12.2011	31.12.2010
Receivables related to direct insurance activities, incl.	10 810 588	12 902 870
- policyholders	7 303 054	9 181 731
- intermediaries	1 752 361	1 859 357
- recourses with significant recoverability	1 509 155	1 395 307
- salvages	191 303	425 396
- other	54 715	41 079
Receivables from reinsurance	1 616 529	1 818 090
- incl. from related parties	1 470 398	1 436 941
Other receivables	119 947	484 468
- incl. from related parties	37 923	37 821
TOTAL	12 547 064	15 205 428

Term of the receivables

Neither past-due nor impaired:

- not due yet *	10 095 293	12 088 022
Past-due but not impaired:		
- due for 1-3 months	823 686	1 587 573
- due for 3-6 months	75 022	512 404
- due for 6-12 months	1 456 135	113 961
- due for over 1 year	96 928	903 468

TOTAL	12 547 064	15 205 428
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*Receivables are due within 1 year

NOTE 9: ACCRUED INCOME AND PREPAID EXPENSES

	31.12.2011	31.12.2010
Deferred tax receivable	483 247	713 931
Net deferred acquisition costs	2 947 820	2 960 697
Prepaid expenses	580 337	580 570
Corporate income tax	122 046	-
TOTAL	4 133 450	4 255 198

All afore mentioned accrued income and prepaid expenses to be expected within 1 year.

Term of the accrued income and prepaid expenses:	31.12.2011	31.12.2010
Neither past-due nor impaired:		
- not due yet	4 133 450	4 255 198

Deferred acquisition costs	2011		
	Share of acquisition costs (gross)	Reinsurer's share of acquisition costs (gross)	Share of acquisition costs (net)
Balance as of January 1	3 028 714	-68 017	2 960 697
Acquisition costs deferred during the year	8 933 876	-248 110	8 685 766
Reversal of previously deferred acquisition costs	-8 951 005	241 677	-8 709 328
Exchange-rate difference	10 907	-222	10 685
Balance as of December 31	3 022 492	-74 672	2 947 820

Deferred acquisition costs	2010		
	Share of acquisition costs (gross)	Reinsurer's share of acquisition costs (gross)	Share of acquisition costs (net)
Balance as of January 1	3 385 856	-50 718	3 335 138
Acquisition costs deferred during the year	8 452 931	-278 061	8 174 870
Reversal of previously deferred acquisition costs	-8 810 058	260 807	-8 549 251
Exchange-rate difference	-15	-45	-60
Balance as of December 31	3 028 714	-68 017	2 960 697

NOTE 10: FINANCIAL ASSETS

Financial assets measured at fair value through profit and loss

	31.12.2011	31.12.2010
Classified as held for trading		
Shares, equity funds and bond funds	64	64
- listed	-	-
- unlisted	64	64
Bonds and other fixed income securities	121 897 841	72 419 944
- listed	121 855 416	72 351 647
- unlisted	42 425	68 297
incl. with a floating interest rate	61 616 518	1 664 462
incl. with a fixed interest rate (0.75%-6.0%)	60 281 323	70 755 482
Designated at fair value through profit and loss at inceptions		
Certificates of deposit	28 286 889	-
- unlisted with fixed interest rate (1.45%-2.09%)	28 286 889	-
TOTAL	150 184 794	72 420 008

Loans and receivables	31.12.2011	31.12.2010
Term deposits	45 654 284	107 855 059
TOTAL	45 654 284	107 855 059
FINANCIAL ASSETS TOTAL	195 839 078	180 275 067

Financial assets measured at fair value through profit and loss

	2011	2010
Classified as held for trading		
Balance at Jan.1	72 420 008	163 729 001
Shares, equity funds and bond funds		
Purchase	-	-
Sale	-	-334 314
Change in fair value through profit and loss	-	322 405
Bonds and other fixed income securities		
Purchase	104 454 303	61 687 039
Sale	-54 620 906	-59 112 535
Change in fair value through profit and loss	-153 044	-374 090
Change in accrued interest	-202 457	-407 596
Designated at fair value through profit and loss at inceptions		
Term deposits and certificates of deposit		
Purchase	136 123 447	-
Maturity	-108 192 532	-92 979 393
Change in fair value through profit or loss	46 014	-
Change in accrued interest	309 961	-126 138
Currency exchange rate differences	-	15 630
Balance at Dec. 31	150 184 794	72 420 008

Loans and receivables	2011	2010
Balance at Jan.1	107 855 059	-
Term deposits		
Purchase	340 418 546	1 572 228 629
Maturity	-402 230 550	-1 464 816 625
Change in accrued interest	-388 771	443 055
Balance at Dec. 31	45 654 284	107 855 059

Term deposits earn an annual interest 1.23%-1.52% (as of 31.12.2010: 0.9%-1.76%).

Shares	31.12.2011	31.12.2010
Shares	64	64
TOTAL	64	64

Division of bonds and other fixed income securities by issuers

	31.12.2011	31.12.2010
Issued by Estonian companies	42 425	68 297
Issued by foreign governments	29 126 208	68 377 232
Issued by foreign financial institutions	102 525 884	3 974 415
Issued by foreign companies	18 490 213	-
TOTAL	150 184 730	72 419 944

Ratings of bond issuers (S&P)

	Percentage of fair value	
	31.12.2011	31.12.2010
AAA	22,7%	60,3%
AA	32,7%	16,9%
A	35,4%	9,6%
BBB	9,1%	0,0%
BAA	0,0%	0,9%
No rating	0,0%	12,2%
TOTAL	100%	100%

Division of bonds and other fixed income securities by maturity terms

	31.12.2011	31.12.2010
up to 1 year	50 173 394	26 709 293
1-2 years	63 348 727	23 404 007
2-5 years	36 662 609	22 306 644
TOTAL	150 184 730	72 419 944

Deposits by maturity terms

	31.12.2011	31.12.2010
Up to 6 months	45 654 284	38 407 549
6-12 months	-	69 447 510
TOTAL	45 654 284	107 855 059

Financial assets measured at fair value through profit and loss

	31.12.2011		31.12.2010	
	Fair value	Acquisition cost	Fair value	Acquisition cost
Classified as held for trading				
Shares	64	64	64	64
Bonds and other fixed income securities	121 897 841	122 390 327	72 419 944	72 556 930
Designated at fair value through profit and loss at inceptions:				
Certificates of deposit	28 286 889	27 930 915	-	-
TOTAL	150 184 794	150 321 306	72 420 008	72 556 994

Loans and receivables

	31.12.2011		31.12.2010	
	Fair value	Acquisition cost	Fair value	Acquisition cost
Term deposits	45 654 284	45 600 000	107 855 059	107 412 004
TOTAL	45 654 284	45 600 000	107 855 059	107 412 004

Financial assets measured at fair value through profit and loss

	31.12.2011 EUR	31.12.2010 EUR
Classified as held for trading		
Shares	64	64
Bonds and other fixed income securities	121 897 841	72 419 944
Designated at fair value through profit and loss at inceptions		
Certificates of deposit	28 286 889	-
TOTAL	150 184 794	72 420 008

Bonds with a fixed interest rate, by interest rates

Interest rate/currency	31.12.2011 EUR	31.12.2010 EUR
Interest rate: 0-1,9 %	31 954 707	21 885 574
Interest rate: 2.0-2.9%	26 867 089	-
Interest rate: 3.0-3.9%	12 030 961	20 808 445
Interest rate: 4.0-4.9%	10 316 044	16 266 750
Interest rate: 5.0-5.9%	4 826 115	11 794 713
Interest rate: 6.0-11.0%	2 573 295	-
TOTAL	88 568 212	70 755 482

Financial assets with a fixed interest rate measured at fair value through profit and loss, which are exposed to fair value interest rate risk

	31.12.2011	31.12.2010
Bonds with a fixed interest rate	60 281 323	70 755 482
Certificates of deposit	28 286 889	-
TOTAL	88 568 212	70 755 482

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 risk.

	31.12.2011	31.12.2010
Bonds with a floating interest rate	61 616 518	1 664 462
TOTAL	61 616 518	1 664 462

Determination of hierarchy of fair value

The financial instruments measured at fair value have been classified into three hierarchy levels in the notes, depending on e.g. if the market for the instrument is active, or the inputs used in the valuation technique are observable.

On level 1, the measurement of the instrument is based on quoted prices in active markets for identical assets. An active market for the asset is a market in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Assets in this category include most government guaranteed bonds.

On level 2, inputs for the measurement of the instrument include also other than quoted prices observable for the asset, either directly or indirectly by using valuation techniques. For model-valued instruments with observable input data, market interest rates and underlying prices are updated every month or more frequently, depending on the situation in the particular market. This category includes most interest-bearing assets, such as corporate bonds, certificates of deposit.

On the level 3, the measurement is based on other inputs rather than observable market data. This category comprises none quoted instruments and distressed assets encountering financial difficulties.

Financial assets at fair value through profit or loss

31.12.2011	Level 1	Level 2	Level 3	Total fair value
Equity securities			64	64
Debt securities	29 126 208	92 729 004	42 628	121 897 841
Certificates of deposit	-	28 286 889	-	28 286 889
TOTAL	29 126 208	121 015 894	42 692	150 184 794

Financial assets at fair value through profit or loss

31.12.2010	Level 1	Level 2	Level 3	Total fair value
Equity securities	-		64	64
Debt securities	64 727 611	7 623 862	68 470	72 419 944
Term deposits	-	1 456 785	-	1 456 785
TOTAL	64 727 611	7 623 862	68 534	72 420 008

Reconciliation of movements in Level 3 fin. instruments measured at fair value

Financial assets at fair value through profit or loss	At 1 January 2011	Total gains/ losses in income statement	Sales	Transfers from level 1 and level 2	At 31 December 2011	Total gains or losses for the period included in profit or loss for assets held at 31 December 2011
Equity securities	64	-	-	-	64	-
Debt securities	68 470	226	-26 068	-	42 628	-470
TOTAL	68 534	226	-26 068	-	42 692	-470

Financial assets at fair value through profit or loss	At 1 January 2010	Total gains/ losses in income statement	Sales	Transfers from level 1 and level 2	At 31 December 2010	Total gains or losses for the period included in profit or loss for assets held at 31 December 2010
Equity securities	64	-	-	-	64	-
Debt securities	122 095	-3 801	-	-49 824	68 470	-3 801
TOTAL	122 159	-3 801	-	-49 824	68 534	-3 801

	Realised gains	2011 Fair value gains and losses	TOTAL	Realised gains	2010 Fair value gains and losses	TOTAL
Total gains or losses included in profit or loss for the period	696	-470	226	1 616	-5 417	-3 801
Total gains or losses included in profit and loss for assets held at the end of the reporting period	-	-470	-470	1 616	-5 417	-3 801

NOTE 11: INTANGIBLE ASSETS

	<u>Computer software</u>
Net book value 31.12.2009	2 171 053
Acquisition (incl. prepayment)	1 855 055
Disposals	-1 200 143
Reclassification	-
Acquisition cost 31.12.2010	6 920 653
-incl. fully depreciated	3 429 852
Depreciation charge for the year	-577 134
Depreciation of disposals	726 162
Accumulated depreciation 31.12.2010	-3 945 661
Translation differences	-518
Net book value 31.12.2010	2 974 474
Acquisition (incl. prepayment)	1 850 957
Disposals	-
Reclassification	-
Acquisition cost 31.12.2011	8 209 466
-incl. fully depreciated	3 604 130
Depreciation charge for the year	-515 621
Depreciation of disposals	-
Accumulated depreciation 31.12.2011	-4 340 448
Translation differences	14 832
Net book value 31.12.2011	3 883 850

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 31.12.2009	383 937	4 782 671	1 004 888	6 171 496
Acquisition	-	43 665	348 017	391 682
Reclassification	-	-	-	-
Write-off	-	-75 069	-489 743	-564 813
Disposal	-	-	-26 178	-26 178
Acquisition cost 31.12.2010	383 937	6 863 153	4 515 181	11 762 271
-incl. fully depreciated	-	-	3 917 711	3 917 711
Depreciation charge for the year	-	-138 196	-387 804	-526 000
Depreciation charge of sales and disposals	-	10 057	503 469	513 526
Accumulated depreciation 31.12.2010	-	-2 240 025	-3 562 533	-5 802 558
Translation differences	-	-	33	33
Net book value 31.12.2010	383 937	4 623 128	952 681	5 959 746
Acquisition	-	-	396 873	396 873
Reclassification	-	-10 336	10 336	-
Write-off	-	-	-715 862	-715 862
Disposal	-	-	-63 472	-63 472
Acquisition cost 31.12.2011	383 937	6 852 817	4 143 056	11 379 810
-incl. fully depreciated	-	-	2 142 536	2 142 536
Depreciation charge for the year	-	-138 573	-579 234	-717 807
Depreciation charge of sales and disposals	-	-	777 901	777 901
Depreciation of reclassified assets	-	654	-654	-
Accumulated depreciation 31.12.2011	-	-2 377 944	-3 364 520	-5 742 464
Translation differences	-	-	4 338	4 338
Net book value 31.12.2011	383 937	4 474 873	782 874	5 641 684

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

	31.12.2011	31.12.2010
Liabilities related to direct insurance activities, incl.	3 716 357	3 797 539
-policyholders	2 182 151	2 073 887
-intermediaries	1 357 850	1 587 234
-others	176 356	136 418
Liabilities related to reinsurance	1 461 969	1 524 499
Other liabilities	371 446	489 553
TOTAL	5 549 772	5 811 591

All above mentioned liabilities are current liabilities.

NOTE 14: ACCRUED EXPENSES AND DEFERRED INCOME

	31.12.2011	31.12.2010
Taxes payable	321 801	1 046 055
Employee-related liabilities	428 062	291 324
Vacation and social tax reserve	921 434	560 850
Performance pay reserve (incl. wage-based taxes)	1 403 793	1 396 994
Deferred income tax	13 764	51 006
Other accrued expenses	623 704	755 209
TOTAL	3 712 558	4 101 438

Terms of liabilities

Up to 12 months	3 712 558	4 101 438
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Taxes payable are divided into the following categories:

Value added tax	55 398	105 116
Personal income tax	210 007	143 559
Social tax	19 264	269 043
Unemployment insurance	21 606	31 585
Funded pension	12 945	9 996
Corporate income tax	-	473 689
Other taxes	2 581	13 067
TOTAL	321 801	1 046 055

**NOTE 15: LIABILITIES RELATED TO INSURANCE
CONTRACTS AND REINSURANCE ASSETS**

Gross	31.12.2011	31.12.2010
Provision for incurred and reported claims and claims handling expenses	38 270 777	54 091 085
Provision for incurred but not reported claims	32 266 006	33 767 364
Provision for unearned premiums	37 899 787	37 270 647
TOTAL	108 436 570	125 129 096

Reinsurer's share

Provision for incurred and reported claims and claims handling expenses	2 560 096	9 818 815
Provision for incurred but not reported claims	388 796	358 911
Provision for unearned premiums	896 685	812 549
TOTAL	3 845 577	10 990 275

Net

Provision for incurred and reported claims and claims handling expenses	35 710 681	44 272 270
Provision for incurred but not reported claims	31 877 210	33 408 453
Provision for unearned premiums	37 003 102	36 458 098
TOTAL	104 590 993	114 138 821

2011

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	87 858 449	-10 177 726	77 680 723
Change in the provision for claims incurred but not yet settled, related to current year	13 619 508	-360 323	13 259 185
Change in the provision for claims incurred but not yet settled, related to previous years*	-28 897 453	7 640 873	-21 256 580
Change in the provision for claims incurred but not reported, related to current year	6 029 724	-46 463	5 983 261
Change in the provision for claims incurred but not reported, related to previous years*	-7 614 935	16 579	-7 598 356
Change in the provision for claims handling expenses*	-627 409	-	-627 409
Translation difference	168 899	-21 832	147 067
Balance as of December 31	70 536 783	-2 948 892	67 587 891

	2010		
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	88 092 704	-12 028 498	76 064 206
Change in the provision for claims incurred but not yet settled, related to current year	17 600 883	-76 284	17 524 599
Change in the provision for claims incurred but not yet settled, related to previous years	-18 030 526	1 896 614	-16 133 912
Change in the provision for claims incurred but not reported, related to current year	7 350 128	-57 133	7 292 995
Change in the provision for claims incurred but not reported, related to previous years	-7 253 098	87 685	-7 165 413
Change in the provision for claims handling expenses	99 700	-	99 700
Translation difference	-1 342	-110	-1 452
Balance as of December 31	87 858 449	-10 177 726	77 680 723

*Due to the harmonization of reserving methodology in the Baltic countries, there have been significant reserving assumptions overviews, which finalized in total outstanding claims provision decrease by approx. 6 MEUR during 2011, of which approx. 4.3 MEUR were changes in IBNR (different types of insurance, major effects being in liability insurance approx. 1.7 MEUR and compulsory motor third party liability insurance approx. 1.2 MEUR) and the rest is provision for claims incurred but not yet settled or respective claims handling expenses provision decrease.

Provision for unearned premiums	2011		
	Liabilities arising from insurance contracts	Reinsurer's share of liabilities	Net
Balance as of January 1	37 270 647	-812 549	36 458 099
Premiums written in the year	113 931 859	-3 479 751	110 452 108
Premiums earned during the year	-113 432 736	3 398 098	-110 034 638
Translation difference	130 017	-2 484	127 533
Balance as of December 31	37 899 787	-896 686	37 003 101

Provision for unearned premiums	2010		
	Liabilities arising from insurance contracts	Reinsurer's share of liabilities	Net
Balance as of January 1	41 805 004	-1 531 972	40 273 032
Premiums written in the year	108 469 894	-2 995 271	105 474 624
Premiums earned during the year	-113 004 828	3 718 171	-109 286 657
Translation difference	577	-3 477	-2 900
Balance as of December 31	37 270 647	-812 549	36 458 099

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

EUR	31.12.2011	31.12.2010
up to 1 year	57 153 632	60 477 163
1-2 years	13 165 724	17 449 668
2-5 years	20 093 659	23 475 386
5-10 years	12 034 404	15 204 133
Over 10 years	5 989 151	8 522 746
TOTAL	108 436 570	125 129 096

NOTE 16: CORPORATE INCOME TAX

a) Income tax expense

	2011	2010
Current tax	531 769	609 353
Deferred tax	192 983	-593 261
Total income tax expense	724 752	16 092

Specification of current taxes

Latvia	494 067	576 348
Lithuania	230 685	-560 256
Total	724 752	16 092

b) Reconciliation of tax charge

	2011	2010
Profit subject to taxation	3 273 930	3 578 870
Tax at 15%	491 091	536 830
Permanent differences	22 437	48 224
Temporary differences	64 191	-15 711
Recognition of previously unrecognized tax asset	-13	2 576
Prior year tax adjustment	-1 278	-12 458
Donation	-21 513	-12 674
Differences arising from unrealized gains and losses	169 837	-530 695
Total tax charge for the year	724 752	16 092

c) Deferred tax liability

Deferred tax liability	31.12.2011	31.12.2010
Accelerated capital allowances	130 382	165 503
Provision for amounts recoverable by subrogation	71 290	57 932
Total deferred tax liability	201 672	223 435
Deferred tax asset		
Vacation reserve and other accruals	-137 395	-129 511
Doubtful debts	-207 385	-278 614
Asset valuation allowance for doubtful receivables	39 219	53 852
Loss carried forward	-365 594	-532 087
Total deferred tax asset	-671 155	-886 360
Net deferred tax asset	-469 483	-662 925

Specification of deferred taxes	2011	2010
Deferred tax liability		
Latvia	130 382	165 503
Lithuania	71 290	57 932
Total deferred tax liability	201 672	223 435

Deferred tax asset		
Latvia	-116 618	-114 497
Lithuania	-554 537	-771 863
Total deferred tax asset	-671 155	-886 360

Net deferred tax liability/(asset)		
Latvia	13 764	51 006
Lithuania	-483 247	-713 931
Net deferred tax liability/(asset)	-469 483	-662 925

d) Current corporate income tax liability/receivable (-)

	31.12.2011	31.12.2010
At 1 January	473 689	266 368
Calculated	531 769	609 353
Paid	-1 130 046	-401 606
Translation difference	2 542	-426
At 31 December	-122 046	473 689

NOTE 17: INVESTMENT INTO SUBSIDIARY

AS If Kinnisvarahaldus

Field of activity: real estate management

Legal address: Pronksi 19, Tallinn 10124

	31.12.2011	31.12.2010
Acquisition cost of shares	88 060	4 711 865
Number of shares	25 000	8 790 000
Participation	100%	100%
Total owner's equity	1 819 871	7 397 902
Share capital	25 000	5 617 834
Share premium	63 060	63 060
Mandatory reserve	401 207	331 954
Retained earnings	1 315 802	1 261 341
Profit for the period	14 802	123 713
Investment in the parent company's statement of financial position	88 060	4 711 865

As of 1 January 2011 the number of issued shares was 8.79 MEUR with nominal value 10 kroons. The Company, the sole shareholder of the subsidiary, decided to decrease the share capital in amount of EUR 5,592,833.91 to the share capital amount of EUR 25,000 which consists of 25,000 shares with nominal value 1 EUR.

All 8.79 million shares with a nominal value of 10 kroons have been replaced with new shares, a total of 25,000 with nominal value 1 euro. The replacement factor was of 0.002844141 shares in new shares to existing one. The amendments to the articles of association of subsidiary are registered in the Commercial Register as of 21 December 2011.

NOTE 18: OWNER'S EQUITY

Share capital

As of 1 January 2011 the number of issued shares was 10 million and they have been paid for completely. The nominal value was 10 kroons. In accordance with the articles of association, the minimum number of shares is 5 million and the maximum is 20 million, and the parent company of If P&C Insurance AS is If P&C Insurance Holding Ltd, which is headquartered in Sweden.

On 30 June 2011, the sole shareholder decided to convert the share capital into euros (using official exchange rate the share capital amounted to EUR 6,391,164, 85) and to increase it by 0.15 euros, following which the new amount of share capital is EUR 6,391,165. It was decided to increase share capital by way of a fund issue from retained earnings in previous periods in order to have share capital converted to the nearest euro. The sole shareholder decided that all 10 million shares with a nominal value of 10 kroons have been replaced with new shares, a total of 6,391,165 with nominal value 1 euro. According to the amended articles of association the minimum share capital of If Insurance is 3 million euros and the maximum share capital is 12 million euros.

The amendments to the articles of association are registered in the Commercial Register as of 29 August 2011.

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 31.12.2011, share premium amounted to EUR 3,678,730 (31.12.2010: EUR 3,678,730).

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.

As of 31.12.2011, mandatory reserve amounted to EUR 2,362,314 (31.12.2010: EUR 2,362,314).

Profit carried forward

On 14 March 2011, the sole shareholder resolved the profit for 2010 in amount of EUR 16,187,482 to be carried forward.

Net profit for 2011 was EUR 21,466,118 and as of 31.12.2011 profit to be carried forward amounted to EUR 98,619,435.

The company's potential income tax liability

As of 31.12.2011 the company's retained earnings amounted to EUR 98,619,435 and the net book value of intangible assets to EUR 3,883,850 (31.12.2010: EUR 77,091,498 and EUR 2,974,474, respectively).

The maximum possible income tax liability related to the payment of the company's retained earnings as dividends is EUR 19,894,473 (2010: EUR 15,564,575). The company could thus pay EUR 78,724,962 (2010: EUR 61,526,923) 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 2011 would not exceed the distributable profit as of 31.12.2011.

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 EUR 2,323,157 (2010: EUR 2,127,463).

As of 31.12.2011, the company had the following deferred liabilities arising from operating lease contracts:

- up to 1 years	1,110,596	EUR	(as of 31.12.2010 EUR 1,102,661)
- 1 to 5 years	687,115	EUR	(as of 31.12.2010 EUR 2,697,712)
- more than 5 years	-	EUR	(as of 31.12.2010 EUR 1,460,420)

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 EUR 7,297 were concluded with the Management Board members in the financial period (2010: EUR 6,991). The Management Board members received a total of EUR 750,503 in remuneration in 2011, including social tax (2010: EUR 737,964). Termination benefits were paid to member of the Management Board during 2011 EUR 183,605 (2010: EUR 0) according to the conditions of the contract with the member of the Management Board. No remuneration was paid to members of the Supervisory Board in 2011 and 2010.

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

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 P&C Insurance Holding Ltd group.

	Calculated reinsurance premiums		Indemnifications and commissions received	
	2011	2010	2011	2010
If P&C Insurance Ltd (Sweden)	2 068 278	1 383 601	236 311	105 009
If P&C Insurance Company Ltd (Finland)	102 673	33 903	2 659	96 742

Receivables and payables related to the above transactions as of 31.12.2011 and 31.12.2010:

	31.12.2011	31.12.2010
Receivables		
If P&C Insurance Ltd (Sweden)	1 470 398	1 436 941
If P&C Insurance Company Ltd (Finland)	5 000	94 236
Payables		
If P&C Insurance Ltd (Sweden)	375 087	1 105 239
If P&C Insurance Company Ltd (Finland)	5 018	-

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

	Services purchased		Services rendered	
	2011	2010	2011	2010
Mandatum Life Insurance Baltic SE	136	180	24 538	61 309
Nordea Group companies	224 236	111 272	668 704	677 711
Sampo plc.	313 000	-	-	-
If IT Services	-	-	47 957	-

Receivables and payables related to the above transactions as of 31.12.2011 and 31.12.2010:

	31.12.2011	31.12.2010
Receivables		
Mandatum Life Insurance Baltic SE	3 173	3 277
Nordea Group companies	34 340	33 789
If P&C Insurance Ltd (Sweden)	410	410
If P&C Insurance Company Ltd (Finland)	-	345
If IT Services AS	23 949	-
Payables		
Mandatum Life Insurance Baltic SE	214	45
Nordea Group companies	14 638	17 617
Sampo Plc.	97 000	-

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

Financial assets	31.12.2011	31.12.2010
Nordea Group companies	12 242 540	18 662 857
Investment income/expense	2011	2010
Nordea Group companies	352 170	170 924

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

REVENUE (EUR)	2011	2010
PREMIUMS EARNED, NET OF REINSURANCE		
Premiums earned	113 432 736	113 004 828
Premiums ceded	-3 398 098	-3 718 171
TOTAL	110 034 638	109 286 657
OTHER INCOME		
Reinsurance commissions	257 805	276 143
Return on investments	2 917 416	2 107 475
Other income	108 401	129 849
TOTAL	3 283 622	2 513 467
TOTAL REVENUE	113 318 260	111 800 124
EXPENSES		
CLAIMS INCURRED, NET OF REINSURANCE		
Claims incurred, gross	-48 372 053	-61 203 406
Claims handling expenses	-3 358 555	-3 669 341
Reinsurer's share in claims paid	-6 493 614	230 269
TOTAL	-58 224 222	-64 642 478
EXPENSES		
Insurance contract acquisition costs	-20 471 902	-22 460 104
Administrative expenses	-11 477 040	-8 617 682
TOTAL	-31 948 942	-31 077 786
TOTAL EXPENSES	-90 173 164	-95 720 264
INCOME TAX (EUR)	-724 752	-16 092
NET PROFIT FOR THE FINANCIAL YEAR	22 420 344	16 063 768
OTHER COMPREHENSIVE INCOME		
Exchange differences on translating foreign operations	61 819	-3 615
TOTAL	61 819	-3 615
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	22 482 163	16 060 153

PARENT COMPANY'S UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS (EUR)	31.12.2011	31.12.2010
Cash and cash equivalents	2 556 577	2 444 365
Financial assets	195 927 138	184 986 931
Receivables related to insurance activities	15 836 305	15 196 801
Accrued income and prepaid expenses	4 133 172	4 254 755
Reinsurance assets	3 845 577	10 990 275
Intangible assets	3 883 850	2 974 475
Property, plant and equipment	799 958	1 001 109
TOTAL ASSETS	226 982 577	221 848 711
LIABILITIES AND OWNER'S EQUITY		
Liabilities related to insurance activities	5 554 281	5 820 916
Accrued expenses and prepaid revenues	3 671 894	4 061 030
Liabilities arising from insurance contracts	108 436 570	125 129 096
Total liabilities	117 662 745	135 011 042
Share capital	6 391 165	6 391 165
Share premium	3 678 730	3 678 730
Mandatory reserve	2 362 314	2 362 314
Profit carried forward	74 467 279	58 341 692
Net profit for the year	22 420 344	16 063 768
Total owner's equity	109 319 832	86 837 669
TOTAL LIABILITIES AND OWNER'S EQUITY	226 982 577	221 848 711

**PARENT COMPANY'S UNCONSOLIDATED STATEMENT
OF CASH FLOWS**

Cash flow from operating activities (EUR)	2011	2010
Premiums received	115 783 342	112 021 090
Premiums ceded	-3 542 280	-3 416 632
Claims paid, incl. claims handling expenses	-69 100 927	-64 227 332
Proceeds from reinsurance	1 216 418	1 638 922
Employee-related and service-related expenses	-31 694 233	-30 953 216
Proceeds from disposals of shares	-	17 993
Investments in fixed income securities	-240 577 736	-61 687 039
Proceeds from disposals of fixed income securities	162 688 995	59 512 589
Investments in term deposits	-340 418 546	-1 572 228 629
Return on term deposits	402 230 571	1 557 796 018
Interest received	3 314 135	2 399 582
Cash flow from operating activities, net	-100 261	873 346
Total cash flow from investing activities		
Proceeds from subsidiaries	2 300 000	-
Acquisition of non-current assets and intangible assets	-2 109 517	-2 200 483
Disposals of non-current assets and intangible assets	15 346	14 838
Cash flow from investing activities, net	205 829	-2 185 645
CHANGE IN CASH FLOW, NET	105 568	-1 312 299
Cash and cash equivalents at the beginning of the period	2 444 365	3 756 803
Effects of exchange rate changes on cash and cash equivalents	6 644	-139
Cash and cash equivalents at the end of the period	2 556 577	2 444 365

**PARENT COMPANY'S UNCONSOLIDATED STATEMENT
OF CHANGES IN EQUITY**

	Restricted equity (EUR)				Unrestricted (EUR)	
	Share capital	Share premium	Mandatory reserve	Profit brought forward	Net profit for the year	Total equity
Equity at beginning of 2010	6 391 165	3 678 730	2 362 314	58 345 307	-	70 777 516
Total comprehensive income	-	-	-	-3 615	16 063 768	16 060 153
Equity at end of 2010	6 391 165	3 678 730	2 362 314	58 341 692	16 063 768	86 837 669
Equity at beginning of 2011	6 391 165	3 678 730	2 362 314	74 405 460	-	86 837 669
Total comprehensive income	-	-	-	61 819	22 420 344	22 482 163
Equity at end of 2011	6 391 165	3 678 730	2 362 314	74 467 279	22 420 344	109 319 832

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

	31.12.2011	31.12.2010
Parent company's unconsolidated equity	109 319 832	86 837 669
Investment in the parent company's statement of fin. position (-)	-88 060	-4 711 865
Subsidiary's value under the equity method (+)	1 819 871	7 397 902
Total	111 051 643	89 523 706



AUDITOR'S REPORT



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VAT payer code: EE 100770654

Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS If P&C Insurance

We have audited the accompanying consolidated financial statements of AS If P&C Insurance and its subsidiary (hereafter "the Group"), which comprise the balance sheet as at 31 December 2011, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.



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 a whole.

Tallinn, 23 February 2012

A handwritten signature in black ink, appearing to read 'Ivar Kligemägi', written over a vertical line that extends downwards.

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



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	EUR 77,153,317
Net profit for the financial year 2011	EUR 21,466,118
Total fund available as of 31.12.2011:	EUR 98,619, 435

The Management Board proposes that the amount be appropriated as follows:

To be distributed as dividends to shareholders	EUR 42,195,848
To be carried forward	EUR 56,423,587


Andris Morozovs,
Chairman of the Management Board


Sanita Livdane,
Member of the Management Board



Heinar Olak,
Member of the Management Board


Jukka Laitinen,
Member of the Management Board


Dace Ivaska,
Member of the Management Board


Zaneta Stankeviciene,
Member of the Management Board


Artur Praun,
Member of the Management Board


Ville Haapalinna,
Member of the Management Board



SIGNATURES OF THE MANAGEMENT BOARD TO THE ANNUAL REPORT 2011

The Management Board of AS If P&C Insurance has prepared the management report and financial statements for 2011.

Management Board:

Andris Morozovs
Chairman of the Management Board

Sanita Livdane
Member of the Management Board

Heinar Olak
Member of the Management Board









Artur Praun
Member of the Management Board

Dace Ivaska
Member of the Management Board

Zaneta Stankeviciene
Member of the Management Board

Jukka Laitinen
Member of the Management Board

Ville Haapalinna
Member of the Management Board

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