If P&C Insurance AS

ANNUAL REPORT

2011

ANNUAL REPORT

Business name: If P&C Insurance AS
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Main field of activity: non-life insurance services (EMTAK 65121)
Beginning of financial year: 1 January 2011
End of financial report: 31 December 2011
Chairman of the Management Board: Andris Morozovs
Auditor: Ernst & Young Baltic AS

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MANAGEMENT REPORT

ORGANIZATION

P&C Insurance AS (the Company, If) is fully owned by the leading Nordic P&C insurance group If P&C Insurance Holding Ltd, which is owned by Sampo Plc., a Finnish listed company on the Helsinki Stock Exchange. In addition to the property and casualty insurance operations conducted within If, the Sampo Group also conducts life insurance operations.

The company is registered in Estonia and also operates branches in Latvia and Lithuania. The current corporate structure contributes to making operations more efficient and improving claims handling processes even further in the Baltic region. The company's business divisions cover all of the Baltic States together, but each country has its own sales and customer service divisions in order to allow the company better adapt to its customers' needs and practices.
The company is headed by the Baltic management – BMT (Baltic Management Team) – consisting of the management board members.

ECONOMIC OUTLOOK

The economy in the Baltic States recovered rapidly in 2011. Estonia's gross domestic product (GDP) grew 8.5% in the third quarter of 2011, while both in Lithuania and Latvia, GDP growth was slower at 6.6% in the third quarter. In all Baltic countries GDP is expected to increase more than 5% in the year 2011. Economic recovery has primarily been fuelled by exports and increase in consumer spending, and also by a continued increase in industrial output. On the other hand the unemployment rate continues to be at a very high level and only mild improvement is expected in the years ahead.

During 2011 inflation picked up faster than expected in all of the Baltic countries. The inflation rate in Estonia was 5% in 2011; and in Latvia and Lithuania, 4%. The inflation was caused by an increase in some consumer basket components such as energy and food, which affected consumer prices more than anticipated. The inflation is expected to slow in 2012, but the challenges remain. In Latvia prices are affected by tax increases (VAT) and increase in the price of energy, while in Estonia an increase in the price of electricity, natural gas and thermal energy is expected at the beginning of 2012.

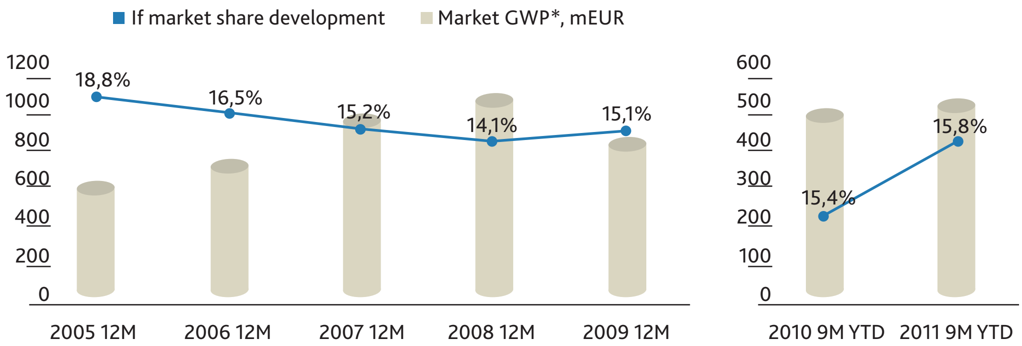
The economic development of the Baltic region's economy in 2012 will likely be fragile and relatively slow. Economic growth is forecasted to slow down in upcoming years and uncertainties in the external environment are on the rise. Further developments in Baltics as well as in Europe depend on how problems related to governmental deficits in number of European countries will be solved.

NON-LIFE INSURANCE MARKET

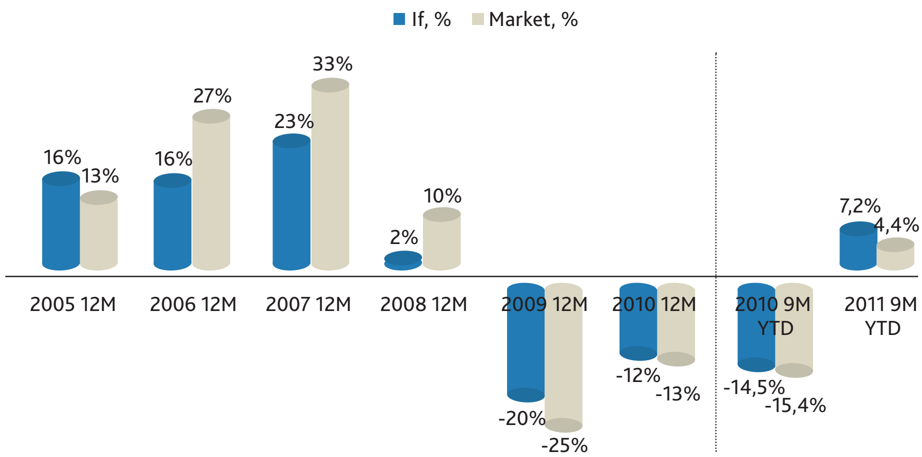
The improvement in the economy has had a positive impact on the development of the insurance market. The Baltic non-life insurance market increased by 4.4% in the first nine months of 2011 (the data for Latvia are published at a staggered interval; 12-month data was not available as of this writing). The insurance market in Lithuania showed strongest growth in Baltic region, 11.7% in the first 9 months. The Lithuanian non-life insurance market showed positive results in all insurance product lines, with especially strong growth in the corporate segment. The primary reason for the growth was increase in average premiums. Estonian non-life insurance market showed a moderate drop during the first nine months of 2011 (the market trend has turned to positive since October). The decrease was mainly supported by motor insurance products (third party liability and motor own damage) – the average insurance premium decreased due to competition and the increased age of vehicles.

If has performed well compared to competition in 2011 – during first nine months of 2011 If increased its market share by 0.4 percentage points, to 15.8%. In Estonia If holds solid market leadership, with a 29.4% market share (9 months 2011); in Latvia with a 12.1% market share (9 months 2011); and in Lithuania with a 9.1% market share (9 months 2011).

If market share development



Baltic P&C market volume* change vs. If



OPERATIONS

Tough competition, slowly increasing volumes in the insurance market and the increasing amount of damages have created many challenges for the insurance sector in recent years. Price pressure from competitors and the proportionally small number of new clients sets our company in the direction of growth through efficiency. In 2011 If saw stable financial results and solid growth that confirms we have adjusted to the situation well. By volume held in the Baltics, If holds second position among insurance companies. By the end of 2011, the company grew its number of clients in the Baltics to 337,000.

The company's business activity includes direct sales of insurance products to corporate and private customers and sales via brokers and partners. The company has 36 sales outlets and customer service offices Estonia-wide, with the largest ones located in Tallinn, Tartu and Pärnu. There are four offices in Latvian and ten in Lithuania, located in the primary county seats.

If has maintained an innovative style, and for better customer service, the company has introduced product modifications at home insurance and at private unemployment insurance. At the Estonian entrepreneurship competition, If, with its mobile travel insurance, was chosen as one of the three outstanding nominees. Launching a private health product in Latvia promoted If's innovative image and consumer interest for If grew.
In addition to the implementation of the new compulsory third party motor liability insurance system in 2010, the company launched a new sales system to manage commercial customer voluntary insurance contracts at the end of 2011.
In order to satisfy clients, the company has focused on claims handling throughout the Baltics. The company is aiming to keep the highest standard in claims handling in Baltics. The process of claims handling is well-done and client friendly, and company can say confidently that it is "Claims handling, the way it should be".
In order to show the company's appreciation especially to customers who have been staying with If for a long time period, and who buy most of their insurance needs from If, the company introduced a loyalty program. To date, these customers have been able to reduce their own cost related to claims in total by more than 100,000 euros.
As the leading insurance company in the Baltics, If is aware of its social responsibility. The company is making contributions to different claims prevention related projects through sponsoring and funds. If also is committed to increasing knowledge about insurance products in the societies, especially in areas where insurance coverage is low or in many cases lacking totally.
In the coming years, If will emphasize client satisfaction even more. Investments will be made in IT systems and work processes related to claims handling and customer service. Also insurance products will be adjusted going forward in line with customer needs and preferences. If recognizes that clients' purchasing habits have become more e-channel friendly and is confident that this trend will not change in the coming years.

RESULTS FROM OPERATIONS

Consolidated group (EUR)	2011	2010
Premiums written, gross	113 931 859	108 469 894
Premiums earned, net of reinsurance	110 034 638	109 286 657
Claims incurred, net of reinsurance	58 238 957	64 636 946
Total operating expenses	31 933 233	30 977 345
Technical result	20 228 653	14 078 358
Net profit	21 466 118	16 187 482
Combined ratio	81.7%	87.2%
Expense ratio	28.8%	28.1%
Loss ratio	52.9%	59.1%
Financial assets	195 839 078	180 275 067
Return on investments per annum	1.0%	1.0%
Total assets	228 750 544	224 565 832
Owner's equity	111 051 644	89 523 707

Formulas

Expense ratio	$\dfrac{\text{Total insurance contract aquisition costs and administrative expenses (+) reinsurance commissions}}{\text{Premiums earned, net of reinsurance}}$
Loss ratio	$\dfrac{\text{Claims incurred, net of reinsurance}}{\text{Premiums earned, net of reinsurance}}$
Combined ratio	Expense ratio + loss ratio
Annual return on investments	$\dfrac{\text{Return on investments including investment expenses}}{\text{Weighted average volume of financial investments in the period}}$

Results

Despite the unstable outlook in Central Europe, the Baltic states as a whole have demonstrated positive development. The results of If P&C Insurance AS in the Baltics in 2011 were good and stable.

In 2011, the technical results increased in comparison to the year before, and ended at MEUR 20.2 (2010: 14.1 MEUR). The increase in the technical results was supported by an increase in premiums and favourable claims outcome - lower outcome of large claims and excellent outcome in motor lines supported by mild weather in Q4.

Premium earned

Gross written premiums increased by MEUR 5.5 to MEUR 114.0 (2010: 108.5 MEUR). The increase is in line with the overall market increase followed by the macroeconomic development. Premium volumes increased in all three Baltic countries. Growth derives from first-rate customer and claims service, improved efficiency and, to some extent, price adjustments.

Claims and operating expenses

Claims, including claims handling costs, decreased MEUR 6.4 to MEUR 58.2 (2010: 64.6 MEUR). Operating expenses, excluding claims handling costs, increased MEUR 1.0 to MEUR 32 (2010: 31 MEUR). During 2011, personnel costs due to new employments, commission cost to intermediaries increased with the volumes, and IT cost increased due to further development of customer and claims service related IT systems.

Net profit and tax cost

Net profit improved to 21.5 MEUR (2010: 16.2 MEUR). Current tax costs accounted for 0.73 MEUR (2010: 0.16 MEUR).

Financial ratios

The company's expense ratio increased to 28.8% (2010: 28.1%).

The loss ratio, meaning including claims handling costs, improved during 2011 and amounted to 52.9% (2010: 59.1%). The significantly improved results of Lithuania were due to a lower level of large claims and profitability measures taken. Risk ratios improved for all major products because of the lower outcome of large claims and decrease in the average claim; also claim inflation was at a low level. Results for motor products were

supported by mild winter weather at the end of the year, while at the same time results for property products were negatively affected by storms at the end of the year.
The combined ratio decreased to 81.7% (2010: 87.2%). The decrease is explained by an excellent loss ratio outcome.

INVESTMENT RESULT

The assets of the company have grown from 224.6 MEUR as of the beginning of the year to 228.7 MEUR as at 31 December 2011. The volume of financial assets (195.8 MEUR as at 31 December 2011) is 91.2 MEUR more than the obligations under insurance contracts net of reinsurance assets, which gives the company a strong solvency position.
March 2011 was a transition period, as portfolio management responsibility was handed over from Danske Capital to Sampo Plc. At the beginning of the year, the investment portfolio was defensive as 63% of assets was invested into money market instruments and 34% into government bonds. In the course of the year the weight of credit bonds was increased gradually. At the end of 2011 the allocation was as follows: credit bonds 46%, money market instruments 37% and government bonds 14%. The portfolio did not have any exposure to government bonds from Greece, Ireland, Portugal or Spain. There was no open currency exposure in the investment portfolio, that is, all investments were in euros.
If P&C Insurance AS investment portfolio earned an investment return of 1 % in 2011 (2010: 1%). The overall duration of the portfolio is 0.6 years as of the end of December. The average weighted credit rating for the holdings in the investment portfolio as of 31 December 2011 was A+ using Standard & Poor's scale (2010: AA-).
Investment yield going forward is strongly dependent on how the problems related to governmental deficits in a number of European countries will be solved.

SOLVENCY CAPITAL

Solvency capital increased to 107 MEUR, compared with 87 MEUR in 2010.

RISK IN OPERATIONS

The core of P&C insurance is the transfer of risk from the insured clients to the insurer. For If P&C Insurance AS, the result depends on both underwriting result and the return on investment assets. The company's risk management approach is to ensure that sufficient return is obtained for the risks taken in all business transactions and pricing decisions.
The key objectives for risk management are to ensure that the Company has sufficient capital in relation to the risks in the business activities and to limit fluctuations in financial results. This requires all risks to be properly identified and monitored.
The Company's risks, exposures and risk management are described in Note 2 of the report.

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. Consequently – people's issues such as performance management, competence and leadership development are the focus areas within the company.
On 31 December 2011 the number of full-time employees in the company was 559 (2010: 532). The company's expenses for personnel totalled 15.5 MEUR in 2011, an increase by 4% during the year (2010: 14.9 MEUR).
During the last few years, a constant theme in the company has been to strengthen the competence of our employees and to increase employee engagement and commitment. During 2011, people strategy continued to be dominated by the corporate strategy theme

“Skills and Initiatives” launched in 2010. The aim of this initiative is to bolster If’s value creation by increasing the company’s focus on the customers, competence culture and innovation ability. A structured “Business Initiative Process” for idea creation and idea implementation was launched in 2011. It has helped employees constantly contribute their improvement ideas to If’s customer promise “Relax, we’ll help you”.

Investment in building competence for the future continued. Tailor-made leadership and specialist training programs were launched both locally and in co-operation with If Group – If Academy School.

If performs a semi-annual employee satisfaction survey called Temper. In 2011, Temper revealed a very high and increasing employee satisfaction.

APPLIED ACCOUNTING PRINCIPLES

The 2011 Annual Accounts of the Company have been prepared in accordance with 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.

Andris Morozovs,
Chairman of the Management Board

Dace Ivaska,
Member of the Management Board

Sanita Livdane,
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

Jukka Laitinen,
Member of the Management Board

Ville Haapalinna,
Member of the Management Board

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

REVENUE (EUR)	Note	2011	2010
Premiums earned, net of reinsurance			
Premiums earned		113 432 736	113 004 828
Premiums ceded		-3 398 098	-3 718 171
TOTAL	3	**110 034 638**	**109 286 657**
Other income			
Reinsurance commissions		257 805	276 143
Return on investments	4	1 962 216	2 125 216
Other income		108 401	129 849
TOTAL		**2 328 422**	**2 531 208**
TOTAL REVENUE		**112 363 060**	**111 817 865**
EXPENSES			
Claims incurred, net of reinsurance			
Claims incurred, gross	5,6	-51 745 343	-64 867 215
Reinsurer's share in claims paid	5	-6 493 614	230 269
TOTAL		**-58 238 957**	**-64 636 946**
Expenses			
Insurance contract acquisition costs	6	-20 520 305	-22 445 937
Administrative expenses	6	-11 412 928	-8 531 408
TOTAL		**-31 933 233**	**-30 977 345**
TOTAL EXPENSES		**-90 172 190**	**-95 614 291**
NET RESULT BEFORE TAXES		**22 190 870**	**16 203 574**
Income tax	16	-724 752	-16 092
NET PROFIT FOR THE FINANCIAL YEAR		**21 466 118**	**16 187 482**
Other comprehensive income			
Exchange differences on translating foreign operations		61 819	-3 615
TOTAL		**61 819**	**-3 615**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**21 527 937**	**16 183 867**
Total comprehensive income attributable to:			
Equity holders of the parent		21 527 937	16 183 867

The notes to the financial statements set out on pages 14 to 64 form an integral part to the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS (EUR)	Note	31.12.2011	31.12.2010
Cash and cash equivalents	7	2 859 841	4 905 644
Financial assets	10	195 839 078	180 275 067
Receivables related to insurance activities	8	12 547 064	15 205 428
Accrued income and prepaid expenses	9,16	4 133 450	4 255 198
Reinsurance assets	15	3 845 577	10 990 275
Intangible assets	11	3 883 850	2 974 474
Property, plant and equipment	12	5 641 684	5 959 746
TOTAL ASSETS		228 750 544	224 565 832
LIABILITIES AND OWNER'S EQUITY			
Liabilities related to insurance activities	13	5 549 772	5 811 591
Accrued expenses and prepaid revenues	14,16	3 712 558	4 101 438
Liabilities arising from insurance contracts	15	108 436 570	125 129 096
Total liabilities		**117 698 900**	**135 042 125**
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		77 153 317	60 904 016
Net profit for the year		21 466 118	16 187 482
Total owner's equity	18	**111 051 644**	**89 523 707**
TOTAL LIABILITIES AND OWNER'S EQUITY		228 750 544	224 565 832

The notes to the financial statements set out on pages 14 to 64 form an integral part to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

CASH FLOW FROM OPERATING ACTIVITIES (EUR)	Note	2011	2010
Premiums received	3, 8, 13	115 822 714	112 020 740
Premiums ceded	3, 13	-3 542 280	-3 427 989
Claims paid, incl. claims handling expenses	5, 6, 8	-69 115 663	-65 533 118
Cash flow from reinsurance		1 216 418	1 638 922
Employee-related and service-related expenses		-31 509 335	-29 324 471
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		3 246 586	2 417 323
CASH FLOW OPERATING ACTIVITIES, NET		**41 724**	**1 202 339**
TOTAL CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment, and intangible assets	11, 12	-2 109 517	-2 246 736
Proceeds from disposal of property, plant and equipment, and intangible assets		15 346	14 838
CASH FLOW FROM INVESTING ACTIVITIES, NET		**-2 094 171**	**-2 231 898**
CHANGE IN CASH FLOW, NET		**-2 052 447**	**-1 029 559**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	7	**4 905 644**	**5 935 342**
Effects of exchange rate changes on cash and cash equivalents		6 644	-139
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	7	**2 859 841**	**4 905 644**

The notes to the financial statements set out on pages 14 to 64 form an integral part to the consolidated financial statements.

CONSOLIDATED 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**	**60 907 631**	**-**	**73 339 840**
Total comprehensive income	-	-	-	-3 615	16 187 482	**16 183 867**
Equity at end of 2010	**6 391 165**	**3 678 730**	**2 362 314**	**60 904 016**	**16 187 482**	**89 523 707**
Equity at beginning of 2011	**6 391 165**	**3 678 730**	**2 362 314**	**77 091 498**	**-**	**89 523 707**
Total comprehensive income	-	-	-	61 819	21 466 118	**21 527 937**
Equity at end of 2011	**6 391 165**	**3 678 730**	**2 362 314**	**77 153 317**	**21 466 118**	**111 051 644**

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

The notes to the financial statements set out on pages 14 to 64 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.
The consolidated financial statements of the Company for the year ended 31 December 2011 were authorized for issue in accordance with a resolution of the Management Board on 15 February 2012.

2. Basis of preparation

The consolidated financial statements 2011 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.

Staring from the 1st of January 2011 joined Estonia euro zone and Estonian kroon (EEK) has been replaced by euro (EUR). From this date the Company accounting has been converted into euro and all reports in 2011 are presented in euro. All comparatives for the year 2010 have been converted to euro by official exchange rate 15,6466 EEK for 1 EUR. The consolidated financial statements values are presented in euros (EUR), unless otherwise indicated.

The Annual Report which is prepared by the Management Board and reviewed 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 reviewed 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.

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. Amended 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/amended standards have been adopted, which had no material effect on the financial results and disclosures of the Group in 2011, because the Group did not have the respective financial statement items and transactions addressed by these changes:

a) Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement ;
b) IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments;
c) Amendment to IAS 24 Related Party Disclosures;
d) Amendment to IAS 32 Classification on Rights Issues;
e) Improvements to IFRS (May 2010).

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

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 3 Business Combinations;
- IFRS 7 Financial instruments: Disclosures;
- IAS 1 Presentation of Financial Statements;
- IAS 27 Consolidated and Separate Financial Statements;
- IAS 34 Interim Financial Reporting;
- IFRIC 13 Customer Loyalty Programmes.

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 2011.
These amendments, new standards and interpretations will be applied where applicable starting from their effective date. All amendments and new standards have not yet been endorsed by the EU.
The Group is in the process of assessing the impact of the following amendments and new standards on the financial position or performance of the Group:

a) IAS 1 Financial Statement Presentation (Amended) – Presentation of Items of Other Comprehensive Income. The amendment is effective for annual periods beginning on or after 1 July 2012.
b) IAS 12 Income Taxes (Amended) – Recovery of Underlying Assets. The amendment is effective for annual periods beginning on or after 1 January 2012.
c) IAS 27 Separate Financial Statements (Revised) .The Standard is effective for annual periods beginning on or after 1 January 2013.

d) IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities. The amendment is effective for annual periods beginning on or after 1 January 2014.
e) IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities. The amendment is effective for annual periods beginning on or after 1 January 2013.
f) IFRS 9 Financial Instruments - Classification and Measurement. The new standard is effective for annual periods beginning on or after 1 January 2015.
g) IFRS 10 Consolidated Financial Statements. The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements.
h) IFRS 12 Disclosures of Involvement with Other Entities. The new standard is effective for annual periods beginning on or after 1 January 2013.
i) IFRS 13 Fair Value Measurement. The new standard is effective for annual periods beginning on or after 1 January 2013.

Management has assessed the following amendments and new standards and concluded that those will not have any impact on the accounting policies, financial position or performance of the Group:

a) IAS 19 Employee Benefits (Amended). The amendment is effective for annual periods beginning on or after 1 January 2013.
b) IAS 28 Investments in Associates and Joint Ventures (Revised). The Standard is effective for annual periods beginning on or after 1 January 2013.
c) IFRS 11 Joint Arrangements. The new standard is effective for annual periods beginning on or after 1 January 2013.
d) IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine. The interpretation is effective for annual periods beginning on or after 1 January 2013.
e) IFRS 7 Financial Instruments: Disclosures (Amended) - Enhanced Derecognition Disclosure Requirements. The amendment is effective for annual periods beginning on or after 1 July 2011.

4. Material judgments, estimates and resolutions

Preparation of financial statements requires the passing of resolutions on the basis of previous judgments and estimates. These judgments 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 judgments 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

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

As of the end of 2011, gross insurance technical provisions amounted to EUR 108,436,570 (2010: EUR 125,129,096), of which the reinsurer's share amounted to EUR 3,845,577 (2010: EUR 10,990,275). Insurance technical provisions have been described in section n, o and p of Note 1.5

b) Evaluation of recourses and salvages
Recourses and salvages are evaluated on a quarterly basis. The recoverability of each recourse is evaluated separately in accordance with the management's best judgment. Only claims with significant recoverability are recorded in the statement of financial position. As of the end of 2011, the total balance of recourses amounted to EUR 12,343,231 of which EUR 1,509,155 was deemed to be with significant recoverability by the management (in 2010, EUR 12,260,293 and EUR 1,395,307, respectively). Salvages are evaluated on the basis of the sales price of similar assets on the market. As of the end of 2011, the management assessed the salvage value to amount to EUR 191,303 (2010: EUR 425,396).

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 EUR 150,184,794 as at the end of 2011 (EUR 72,420,008 in 2010). 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. Certificates' of deposit fair value has been determined through annualized discount factors which are in the range 0.985-0.992.

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.

e) Deferred tax assets and liabilities
Uncertainties exist with respect to the amount and timing of future taxable income. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Further details on taxes are disclosed in Note 16.

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 poli-

cies 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.

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

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

Investments in subsidiaries are recognized in the parent company's unconsolidated financial statements at cost. This means that the investment is initially recognized 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 euros, 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 euro 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 euro 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 EUR 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 31.12.2011 EUR	As at 31.12.2010 EUR
Latvian lat (LVL)	1.4296	1.4096
Lithuanian litas (LTL)	0.2896	0.2896

Average exchange rate for the period	2 011 EUR	2 010 EUR
Latvian lat (LVL)	1.4197	1.4113
Lithuanian litas (LTL)	0.2896	0.2896

e) Revenue recognition

Revenue is recognized 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 recognized 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 recognized as a prepayment. There are differences in the recognition of insurance premiums in Estonia comparing to Latvia and Lithuania. The majority of first installments of insurance premium in Estonia are recognized after the cash receipt from the client, but in Latvia and Lithuania first installment of insurance premium is recognized in gross written premium on accrual basis. This difference has no material impact on the financial results of the Company because the lag between signing the policy and receiving the first installment from the policyholder is in period 1-15 days and significant part of the amount is deferred as unearned premium provision (UPR).

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:

- Insurance contract 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 statement of comprehensive income.

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.

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

h) Financial assets

Based on the measurement practice, financial assets are classified in the following categories upon the initial recognition:

- 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);
- loans and receivables (deposits, loans, 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 that are designated as available for sale or not mentioned above into any other category)

According to the entire If Group's risk management policy, investments are managed at fair value in order to have the most realistic and real-time picture of investments, and they are reported to the group management at fair value. Investments are primarily classified as financial assets at fair value through profit and loss. Deposits are classified as loans and receivables.

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

<u>Recognition and derecognition</u>

Financial assets are initially recognized 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 recognized at fair value through profit and loss.

All regular way purchases and sales of financial assets are recognized 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. Loans and receivables are recognized when cash is advanced.

The derecognition of financial assets will take place when the company no longer controls the rights arising from the financial assets, or when 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.

<u>Financial assets at fair value through profit or loss</u>

Financial assets at fair value through profit or loss are assets which held for trading except for certificates of deposit which are designated upon initial recognition at fair value through profit or loss. For investments designated as at fair value through profit or loss, the following criteria are met:

- The assets are part of a group of financial assets, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy

They are initially recognized at cost which is the fair value of the consideration given, and subsequently re-measured at fair value on the balance sheet date. Gains and losses arising from changes in fair value, or realized on disposal, together with the related interest income and dividends, are recognized under "Return on investments" in the consolidated statement of comprehensive income.

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. If a market for a financial instrument is not active, or the instrument is not quoted, the fair value is established by using generally accepted valuation techniques.

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

Loans and receivables comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in short term. Loans and receivables are initially recognized at cost which is the fair value of the consideration given, including transaction costs that are directly attributable to the acquisition of the asset. Loans and receivables are subsequently measured at their amortized cost by using the effective interest rate method. Amortized 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.

Interest income from loans, receivables and deposits is recorded under "Return on investments" in the consolidated statement of comprehensive income.

Receivables from customers, reinsurance receivables and other receivables are recognized 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 statement of financial position.

Impairment of financial assets

The company assesses at the end of each reporting period whether there is any objective evidence that a financial asset, other than those at fair value through profit and loss, may be impaired. A financial asset is impaired and impairment losses are incurred, if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset, and if that event has an impact, that can be reliably estimated, on the estimated future cash flows of the financial asset.

There is objective evidence of impairment, if an issuer or debtor e.g. encounters significant financial difficulties that will lead to insolvency and to estimation that the customer will probably not be able to meet the obligations to the Company.
When there is objective evidence of impairment of a financial asset carried at amortized cost, the amount of the loss is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows discounted at the receivable's original effective interest rate. The difference is recognized as an impairment loss in profit or loss. The impairment is assessed individually.

Impairment loss of financial assets related to operating activities is charged to expenses in the income statement (under "Administrative expenses") while the impairment loss of financial assets related to investing activities is recognized as a reduction of the "Return on investments" in the consolidated statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases, and the decease can objectively be related to an event occurring after the impairment was recognized (e.g. default status is removed), the previously recognized impairment loss shall be reversed through profit or loss.

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 statement of comprehensive income, under "Insurance contract acquisition costs", "Claims handling expenses", and "Administrative expenses" in accordance with the functionality.

On each statement of financial position 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.

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 amortized 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 amortization and any accumulated impairment losses. These assets are amortized 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 amortized 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 derecognized 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

Insurance contracts acquisition costs directly related to premiums that are carried over to the next period are recognized in the statement of financial position 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 related print-outs 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. For contracts which are presented to company later than financial book-close (delayed contracts) 1/24th method is applied to Gross Forecasted Premium for purpose of UPR calculation in Lithuania.

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, consumer price index and the discount rate (0.75%) recommended by the guarantee fund in Estonia and the discount rate (2.63%) recommended by Insurance Supervisory Authority in Lithuania. In Latvia five annuities estimated with very low loss of income amounts are reserved under case provisions.

p) 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 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 statement of comprehensive income.

q) 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 recognized 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 recognized 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.

r) 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 2011 (21/79 until 31 December 2010) 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% (2010: 15%) and for Lithuanian branch 15% (2010: 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 asset are recognized for unused tax losses in the Lithuanian branch. 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.

s) Mandatory reserve

The company has set up a mandatory reserve in accordance with the Commercial Code of the Republic of Estonia. The company's reserve capital amounts to EUR 2,362,314. 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.

t) 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 2011) 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: RISKS AND RISK MANAGEMENT

a) **Overview of main risks**

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 fulfilment of liabilities arising out of insurance contracts in the future.

In order to make a profit, the company assumes insurance, market and credit risks. As a result, the company is also exposed to liquidity risk and operational risks.

Risk management approach

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.

The company's risk management approach is to ensure that sufficient return is obtained for the risks taken in all business transactions. All risks are taken into account in risk-return considerations and pricing decisions.

The key objectives for risk management are to ensure that the company has sufficient capital in relation to the risks in the business activities and to limit fluctuations in the financial result. This requires all risks to be properly identified and monitored.

Risk taken by the company is restricted through a system of limits that are set by If Group's Board of Directors and delegated to all companies within If Group.

Risk governance and reporting structure

The Management Board bears overall responsibility for the risk management process and constitutes the ultimate decision-making body. The Management Board ensures that the management and follow-up of risks are satisfactory, monitors risk reports and approves risk management plans.

The risk management organization of the Company is part of the If Group risk management structure. On Company level risks are reported to the Managament Board. In parallel for the If Group purpose risks are also reported to the respective If Group risk committees.

On the If Group level, the If Risk Control Committee (IRCC) assists the CEO and Board of Directors in fulfilling their oversight responsibilities pertaining to the risk management process. IRCC monitors reports from the relevant committees, business areas, experts and specialist functions as well as the exposure in relation to limits given by the Board. The Risk Control unit in If Group is, on behalf of the Chief Risk Officer, responsible for coordinating and analyzing the information reported to IRCC.

b) **Capital management**

Risk management focuses on both capital efficiency and sound risk management while maintaining the capital resources at an appropriate level in relation to the risks taken. At a minimum, this means ensuring that the available capital exceeds the capital requirements according to the internal measure as well as the measures of external stakeholders such as regulators.

Capital management approach

One purpose of capital is to act as a buffer against future losses. It is therefore appropriate to define risk in terms of capital. The starting point for capital management is the risk tolerance implemented through a framework of risk limits, policies and authorizations, approved by the If Group Board of Directors. Risks are continuously monitored and the implications on the available capital are assessed. The risk exposures, required capital and available capital are reported to IRCC and the Management Board on a quarterly basis, or more often if the situation so requires.

Regulatory measures

Insurance is a highly regulated business and there are formal rules for minimum capital and capital structure. The capital base is the amount of capital that is available to cover unexpected losses in the insurance and investments operations. The solvency position is a measure to assess an insurance company's ability to fulfil its liabilities to the policyholders.
Capital adequacy and solvency are reported regularly to the supervisory authorities and company has the principle that capitalization should meet the minimum statutory capital requirements at each moment. Every insurance undertaking must 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 to at least EUR 3.5 million. The required available solvency margin of an insurance undertaking engaged in non-life insurance shall be calculated pursuant to Insurance Activities Act. The Group fulfilled all minimum requirements regarding the amount of assets included in available solvency margin of insurance undertakings during 2011 (it did so during 2010 as well).

Table 1. Solvency position

	31.12.2011	31.12.2010
Owner's equity	111 051 644	89 523 707
Intangible assets	-3 883 850	-2 974 474
Available solvency margin	107 167 794	86 549 233
Required solvency margin	21 008 094	24 017 153
SURPLUS OF SOLVENCY MARGIN	**86 159 700**	**62 532 080**

c) **Insurance risks**

Insurance risk relates to the uncertainty in pricing and reserving, causing unanticipated effects in the underwriting result.

d) **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 (including 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 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 on Baltic level for all the products.

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 the 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.

In order to have a more balanced risk profile, the company in 2009 implemented a customer pricing scheme for private-client-linked products.

Depending on the characteristics of the insurance risks covered, the company has established the Methodology of Calculating Technical Provisions, which considers the scale of the insurance events and the specific features of their occurrence and notification. For instance, the Methodology was 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. motor own damage 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 on 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 insurance contracts: compulsory motor third party liability, motor own damage, household and corporate property, personal insurance (including personal accident and travel insurance), liability insurance, health insurance, cargo, carrier's liability, agriculture and other.

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

Table 2. Insurance contract liabilities by line of business in EUR

	31.12.2011		
Type of insurance	**Gross liabilities related to insurance contracts**	**Reinsurers' share of liabilities**	**Net liabilities**
Compulsory Motor TPL	41 778 336	641 218	41 137 118
Motor Own Damage	18 159 565	-	18 159 565
Private Property	8 431 846	475 121	7 956 725
Corporate Property	10 010 177	607 630	9 402 547
Liability	20 784 393	1 344 139	19 440 254
Personal Accident	1 776 981	2 479	1 774 502
Health	2 616 174	-	2 616 174
Other	4 879 097	774 991	4 104 106
TOTAL	**108 436 570**	**3 845 577**	**104 590 993**

	31.12.2010		
Type of insurance	**Gross liabilities related to insurance contracts**	**Reinsurers' share of liabilities**	**Net liabilities**
Compulsory Motor TPL	44 853 520	715 625	44 137 895
Motor Own Damage	21 006 853	3 393	21 003 460
Private Property	9 795 030	858 595	8 936 435
Corporate Property	14 542 534	4 115 591	10 426 943
Liability	21 955 899	1 390 382	20 565 517
Personal Accident	1 685 372	2 479	1 682 893
Health	2 282 262	-	2 282 262
Other	9 007 625	3 904 210	5 103 415
TOTAL	**125 129 096**	**10 990 275**	**114 138 821**

As reasonable harmonization of reserving methodology is ongoing across the Baltic countries, there have been significant reserving assumptions overviews, disclosure of made changes is in note 15.

Overview of the 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 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. It is impractical to quantify any of those assumptions.

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 3 below demonstrates the effect of change in key assumptions while 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 changes in assumptions had to be made 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.

Table 3. Sensitivity test

2011

Key-assumptions	Change in assumptions	Result in 2011 12m, EUR	Change on gross general insurance contracts liabilities, EUR	Change on net general insurance contracts liabilities, EUR	Impact on 2011 net profit and reduction of shareholders' equity, EUR
Claim costs (gross)	increase 5%	48 372 052	2 418 603	2 418 603	-2 418 603
One big claim	1 additional claim		4 500 000	1 000 000	-1 000 000
Increase of claims handling expenses	increase 5%	3 373 291	168 665	168 665	-168 665

2010

Key-assumptions	Change in assumptions	Result in 2010 12m, EUR	Change on gross general insurance contracts liabilities, EUR	Change on net general insurance contracts liabilities, EUR	Impact on 2010 net profit and reduction of shareholders' equity, EUR
Claim costs (gross)	increase 5%	61 203 406	3 060 170	3 060 170	-3 060 170
One big claim	1 additional claim		3 834 699	639 116	-639 116
Increase of claims handling expenses	increase 5%	3 663 809	183 190	183 190	-183 190

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 had a material effect on financial statements.

e) **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 counterparties' investment in the portfolio.

Table 4: Concentration of market and credit risks in the 5 biggest individual counterparties and asset classes, December 31, 2011.

	Deposits	IR instruments: Certificates of Deposit (CD)	IR instruments: FRN and bonds	Total
SEB AB Group	21 341 369	-	16 186 050	37 527 419
Danske Bank A/S branches	24 312 915	4 490 375	-	28 803 290
Nordea Finland Plc and branches	-	12 242 540	-	12 242 540
Svenska Handelsbanken AB	-	11 553 974	-	11 553 974
Finland Government	-		10 316 044	10 316 044
TOTAL	**45 654 284**	**28 286 889**	**26 502 094**	**100 443 267**

f) Management of financial risk

Components of financial risk include market risk credit risk and liquidity 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 fulfil the possible obligations arising from insurance contracts. The policy include general principles, specific risk restrictions and a decision making structure. The said policy establishes assets allocation, market and credit risk limits for the investments and the regional distribution thereof. Assets allocation is defined by a reference portfolio and deviations from reference weights. Interest risk is limited by duration restrictions; equity risk is managed by limiting the total level of equity exposure and the exposure to each individual entity; and operational currency risk is managed by limiting the exposure in a single currency. Under aforementioned policy the credit risk is limited by allowing a maximum exposure per rating class and per issuer/counterparty. To measure and limit the credit risk, credit ratings from Standard Poor's and Moody's are used. The requirements deriving from the Insurance Activities Act are taken into account.

g) Market risks

Market risk is the risk of loss, or of an adverse change in financial position, resulting directly or indirectly from fluctuations in market prices of assets and liabilities. Losses in the investment portfolio might occur due to adverse changes in the level or volatility of interest rates, equity prices, currencies, commodities and real estate.

Market risk management and control

The investment operations of the Company aim at achieving the highest possible returns at acceptable level of risk, and to ensure that the Company, under all circumstances, will exceed the required solvency ratio. The structure of the investment assets should comply with the supervisory authorities' regulations and they should cover the Company's technical provisions.

Investment Policy defines the asset allocation with reference weights and threshold values, limits per insurer, as well as mandates and authorities. When making asset allocation decisions and setting return and liquidity targets, the structure of the company's technical provisions. Risk-bearing capacities, regulatory requirements, rating targets and risk tolerance are taken into account.

Market risk management is based on matching the investment assets with the insurance liabilities, as well as on maintaining a good diversification among asset classes and within each asset class.

Quantification of market risk
The investment assets amounted as at the end of the reporting period to EUR 195,839,078 (2010: EUR 180,275,067)

Table 5 . Allocation of investment assets

Allocation of investment assets	31.12.2011	31.12.2010
Shares	64	64
Bonds and other fixed income securities	150 184 730	72 419 944
Loans and receivables (term deposits)	45 654 284	107 855 059
TOTAL	195 839 078	180 275 067

The major market risk for the Company is interest risk. There is no exposure to equity price risk because there are no equity instruments in the portfolio and, according to the Investment Policy, it is not allowed to invest in equity instruments.
The Company is exposed to operational currency risk. Currency risk means a potential loss arising from changes in the exchange rates. The majority of the insurance liabilities of the Company are in the euro, Latvian lats and Lithuanian litas.
The company has hedged this risk by keeping financial investments only in euros, which is approved by investment policy of the Company. At the end of 2011, 100% of investments are in euros (the same as at the end of 2010). As the rate of euro is fixed in relation to the Latvian and Lithuanian currencies, the currency risk is estimated to be very low.

h) Interest rate risk

Interest rate risk refers to the uncertainty in the values of assets and liabilities as well as interest income and expenses resulting from changes in market interest rates. When market interest rates rise, the value of fixed income securities falls and this has a direct impact on the company's equity and earnings. On the other hand, higher interest rates mean increased interest income, which improves profitability in the long run.
The interest rate risk is limited by duration restrictions for instruments sensitive to interest rate changes. According to the Investment Policy, technical provisions are matched with fixed income investments of corresponding duration, and the duration gap between assets and liabilities is monitored continuously.

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.

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 31.12.2011 with comparative as of 31.12.2010 and shows the potential effect of the key assumptions on the return on investment.

Table 6.Sensitivity analysis of the fair value of financial assets

Baltic Investment portfolio as of 31.12.2011

In millions of EUR	Parallel shift in the interest curve		Change in share prices	
Market risk sensitivty analysis	Up by 100 bp	Down by 100 bp	10%	-10%
Effect on financial results	-1.2	1.2	0,0	0,0

Baltic Investment portfolio as of 31.12.2010

In millions of EUR	Parallel shift in the interest curve		Change in share prices	
Market risk sensitivty analysis	Up by 100 bp	Down by 100 bp	10%	-10%
Effect on financial results	-1.3	1.3	0,0	0,0

i) **Credit risks**

Credit risk is the risk of loss or of adverse change in financial position resulting from fluctuations in the credit standing of issuers of securities, counterparties and other debtors. Credit risks arise both from investment, insurance and reinsurance operations. The realization of credit risk may result in a situation where the contractual partner is unable to fulfil its contractual obligations due to insolvency.

Credit risk in an investment operation includes the risk that a government or corporate issuer will not fulfil its obligations or otherwise obstruct the remittance if funds by debtors, particularly in the context of fixed income securities.
In addition to the credit risk associated with investment assets, credit risk arises from insurance operations through ceded reinsurance. Credit risk related to reinsurers arises through reinsurance receivables and through the reinsurers' portion of outstanding claims.
Reinsurance contracts of the Company are concluded mainly with If P&C Insurance Ltd. (Sweden), which is rated by Standard & Poor's as A. Every individual reinsurance contract is concluded on the basis of an analysis of the reinsurer's solvency and credibility and according to the list of allowed counterparties approved by If Group.

The company's credit risk is related to the solvency of the insured persons and payers of recourses, insurance brokers , but exposure towards policyholders is very limited, because non-payment of premiums generally results in the cancellation of insurance policies.

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.

Credit risk management and control
Credit risks in the investment operation are controlled by specific limits given in the Company's Investment Policy. In this document, limits are given for maximum exposures towards single issuer and per rating class. Before investing in a new instrument, the credit standing of the issuer is assessed thoroughly as is the valuation and liquidity of the instrument. Credit ratings, mainly from Standard &Poor's, Moody's and Fitch, are used to judge the creditworthiness of issuers and counterparties. In addition, the

portfolio development and the counterparties credit standing are followed up continuously.
Since credit risk is taken actively in the investment allocation, as a part of the investment operations in order to enhance investment returns, it should be viewed in connection with the risk reporting the market risks.
In order to limit and control credit risk associated with ceded reinsurance, the Company has a Reinsurance Security Policy, which sets requirements for the reinsurer's minimum credit ratings and the maximum exposure to the individual reinsurers.

Quantification of credit risk
The table 7 below shows the maximum exposure to credit risk for the components of the balance sheet.

Table 7. Assets exposure to credit risk

	31.12.2011	31.12.2010
Cash and cash equivalents	2 859 841	4 905 644
Financial assets	195 839 078	180 275 067
Receivables related to insurance activities	12 547 064	15 205 428
Reinsurance assets	3 845 577	10 990 275
TOTAL CREDIT RISK EXPOSURE	**215 091 560**	**211 376 414**

The most significant credit risk exposures in the Company arise from investments in fixed income investments. The distribution of fixed income related to credit risks both by the issuer's rating and according to geographic region is presented in detail in the Figure 1 and 2 below.

Figure 1. Fixed income investments per rating category

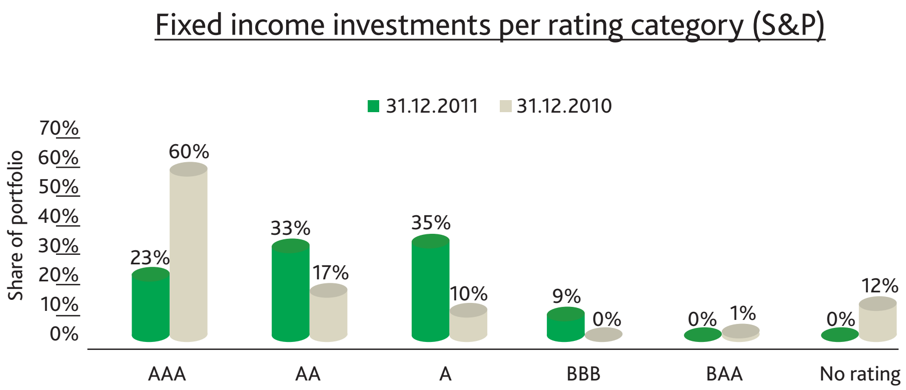


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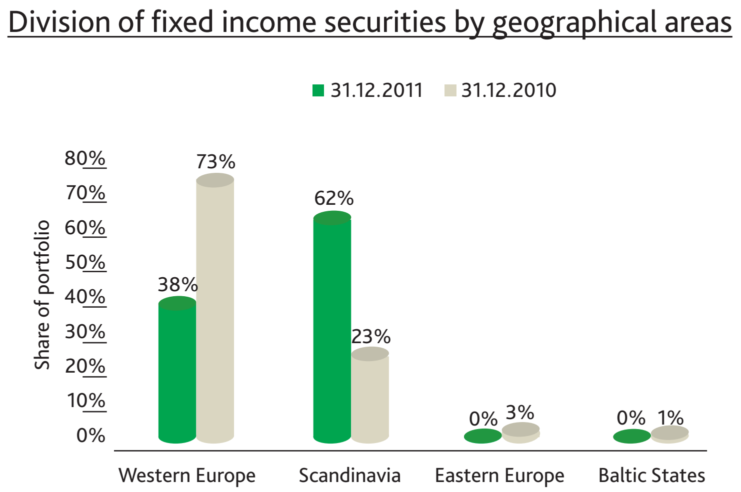
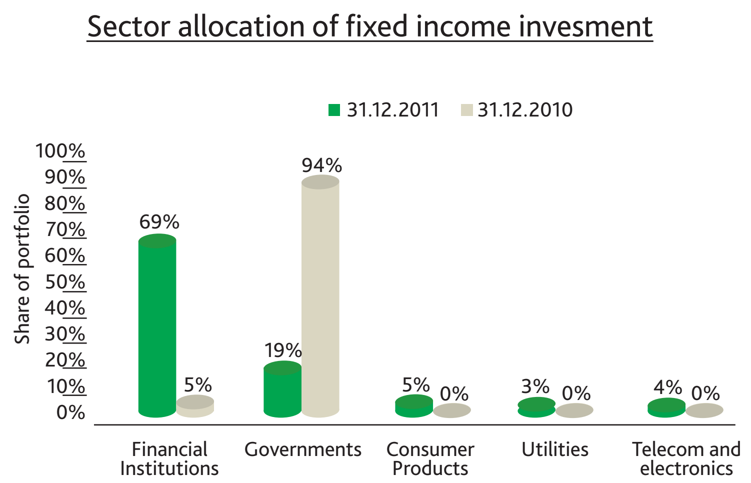
Figure 2. Division of fixed income securities by geographical areas.



The credit risk in the Company´s investment portfolio is mainly associated with banks in Nordic region. Figure 3 shows the sector allocation of fixed income investments.

Figure 3. Sector allocation of fixed income investments



k) Liquidity risk

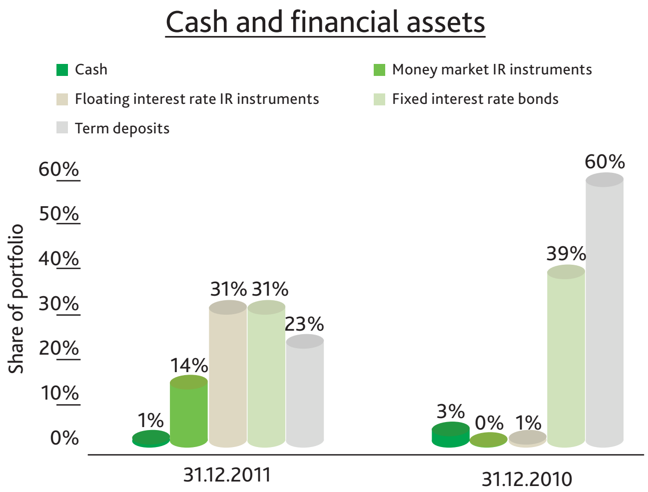
Liquidity risk is the risk that an insurance undertaking will be unable to realize investments and other assets in order to settle its financial obligations when they fall due. The realization of this risk may result in a situation where financial assets may have to be realized at a price considerably below the market price.

Liquidity risk management and control

In P&C insurance, the premiums are collected in advance and it is usually a long time before large claims payments fall due. The liquidity risk is therefore limited.

Liquidity management includes inter-coordinated decisions in regards to the structure of the term of assets and obligations. The main objective in liquidity management is to ensure the company's ability to fulfil all its obligations arising from insurance contracts and insurance activities in a timely manner. It is also aimed at ensuring the fulfilment of the requirements established under the Insurance Activities Act of Estonia 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 such as demand deposits, short-term term deposits, certificates of deposit and fixed income instruments. The available liquidity of financial assets, i.e. the part of the assets that can be converted into cash at a specific point in time, is analyzed on regular basis. At year's end, the liquidity position was good. A more detailed classification of financial assets is presented in Figure 5 below.

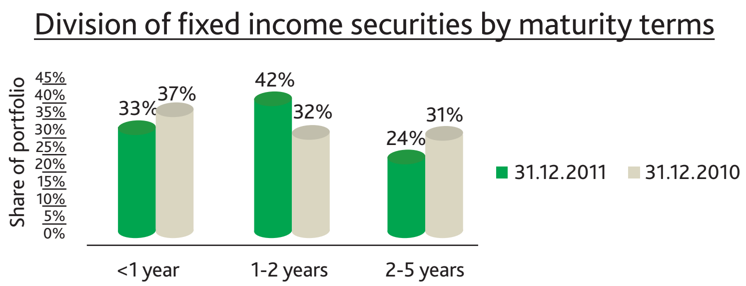
Figure 5. Cash and financial assets



Quantification of liquidity risk

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.

Figure 6. Division of fixed income securities by maturity terms



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l) **Operational risks**

Operational risk is the risk of loss arising from inadequate or failed internal processes, from people or systems or from external events (expected or unexpected). The definition includes legal risk.

Operational risk management and control

The Company identifies operational risks through different processes.

The line organization and corporate functions have the responsibility to identify, assess, monitor and manage their operational risks. Risk identification assessments are performed quarterly. Identified risks are assessed from a severity perspective, encompassing probability and impact. The control status for each risk is assessed where a traffic light system is used: Green – good control of risk, Yellow – attention required, Red – attention required immediately.

The continuity of operational risk management is secured through the Operational Risk coordinators activities on Business Units level. The Business Units ensure that they have the resources and tools in place to re¬port, as required, to the Company's Operational Risk Management Coordinator.
The Company's Operational Risk Management Coordinator quarterly provides the Management Board and If Group Operational Risk Committee (ORC) with a risk report that is to be presented during Management Board meeting.

The Operational Risk Management Coordinator works across all business units, eva¬luating and supporting the units in their work to identify, assess, mitigate and monitor all risks.
The main processes used for identifying operational risks in the Company include the operational risk assessment process and incident reporting.

Operational risk assessment (ORA) is a quarterly process and reported to the Management Board and ORC. Operational risks are identified and assessed in the different business units through interviews and workshops. In the ORA process, some business risks are also identified.

Incident reporting and analysis are arranged in different ways depending on the type of incident. Some incidents are reported through a separate incident database and some are collected through controls and investigations. Incidents are to be reported by the line organization and corporate functions continuously.

In order to manage operational risks, the Company has approved a number of policies including Operational Risk Policy, Business continuity plans, Security Policy, Outsourcing Policy, Claims Handling Policy and other policies and guidelines related to different parts of the organization. These documents are being reviewed and updated at least yearly.

k) **Preparation for Solvency II**

In 2009 the Solvency II Framework Directive, which introduces a new risk-based solvency regime, was adopted by the European Parliament.

The economic risk-based solvency regime aims to deepen the integration of the insurance and reinsurance market, enhance the protection of policyholders and beneficiaries, improve international competitiveness of EU insurers and reinsurers and promote better regulation. Compared with 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 lead to companies focusing on sound risk management and internal control procedures and thus increase risk awareness throughout the organization.

The new regulation is expected to be implemented by 2014.

A separate program was introduced in 2007 to prepare If for the anticipated changes.

The program has included involvement in the Solvency II debate and a thorough review of If's corporate governance and internal control structure, the risk management framework as well as the internal capital model. Development of separate risk data storage has been ongoing since 2009. The work was completed during 2011. A tool for external Solvency II reporting is currently being developed.

NOTE 3: PREMIUMS EARNED, NET OF REINSURANCE

	2011	2010
Premiums written, gross	113 931 859	108 469 894
Incl. 100% of the reinsured portion	1 911 785	1 293 669
Change in the provision for unearned premiums	-499 123	4 534 934
Premiums earned, gross of reinsurance	**113 432 736**	**113 004 828**
Reinsurance premiums	-3 479 751	-2 995 271
Change in the provision for unearned premiums	81 653	-722 900
Premiums earned, ceded	**-3 398 098**	**-3 718 171**
TOTAL	**110 034 638**	**109 286 657**

NOTE 4: RETURN ON INVESTMENTS

Interest income/expense	**2011**	**2010**
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other fixed income securities	1 484 810	1 214 414
Designated at fair value through profit and loss at inceptions:		
From deposits	-	164 670
From certificates of deposit	463 830	
Loans and receivables		
From deposits	991 919	1 028 563
From cash and cash equivalents	24 760	22 454
TOTAL	**2 965 319**	**2 430 101**

Profit from disposals		
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other fixed income securities	57 896	415 684
Designated at fair value through profit and loss at inceptions:		
From certificates of deposit	3 985	-
TOTAL	**61 881**	**415 684**

Loss from disposals	2011	2010
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other fixed income securities	-154 814	-
From shares	-	-316 322
Designated at fair value through profit and loss at inceptions:		
From certificates of deposit	-31 510	-
TOTAL	**-186 324**	**-316 322**

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	-153 044	-374 531
From shares	-	322 405
From currency exchange	-	17 506
Designated at fair value through profit and loss at inceptions:		
From certificates of deposit	46 014	-
TOTAL	**-107 030**	**-34 620**

Investment expenses		
Investment expenses	-771 630	-369 627
TOTAL RETURN ON INVESTMENTS	**1 962 216**	**2 125 216**

NOTE 5: CLAIMS INCURRED, NET OF REINSURANCE

Gross	2011	2010
Claims paid during the year related to that year	-50 379 515	-49 670 242
Claims paid related to previous years	-20 630 139	-16 433 309
Amounts recovered from salvage and recourses	5 147 037	4 667 231
Change in the provision for claims outstanding	17 490 565	232 914
Claims handling costs	-3 373 291	-3 663 809
TOTAL	**-51 745 343**	**-64 867 215**

Reinsurer's share		
Claims paid during the year related to that year	11 556	183 948
Claims paid related to previous years	745 495	1 897 203
Change in the provision for claims outstanding	-7 250 665	-1 850 882
TOTAL	**-6 493 614**	**230 269**

Net		
Claims paid during the year related to that year	-45 220 922	-44 819 063
Claims paid related to previous years	-19 884 644	-14 536 106
Claims handling costs	-3 373 291	-3 663 809
Change in the provision for claims outstanding	10 239 900	-1 617 968
TOTAL	**-58 238 957**	**-64 636 946**

THE DEVELOPMENT OF CLAIMS: 2006- 2011

The overview of claims 2006-2011 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. recourses 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 2011 to be adequate. Due to the imprecision of the reservation process, the possibility of changes cannot, however, be ruled out.

Development of claims in EUR, gross*

	...-2006	2007	2008	2009	2010	2011
At 31 December						
Accident year*	80 388 824	85 252 259	94 668 079	78 363 991	71 682 660	66 945 523
1 year later	74 421 060	79 898 854	87 122 363	74 913 474	71 690 345	
2 years later	73 485 365	78 153 687	86 555 465	72 157 665		
3 years later	76 425 600	77 190 509	82 890 635			
4 years later	70 827 238	75 719 614				
5 years later	60 765 026					
Provision for outstanding claims (incl. IBNR) as of 31.12.2011 (EUR)	13 719 000	6 145 487	8 173 300	9 357 046	10 808 095	19 674 002

Claims paid, recourses and salvages (accumulated) in EUR, gross*

	...-2006	2007	2008	2009	2010	2011
At 31 December						
Accident year*	59 588 016	52 814 659	57 926 905	48 946 723	46 731 649	47 296 291
1 year later	78 373 127	67 627 422	72 217 547	60 597 871	60 916 250	
2 years later	81 453 912	68 750 167	73 306 244	62 963 722		
3 years later	86 592 348	69 272 469	74 722 421			
4 years later	88 034 873	69 541 241				
5 years later	88 365 799					

Development of claims in EUR, net*

	...-2006	2007	2008	2009	2010	2011
At 31 December						
Accident year*	62 110 924	82 517 512	89 977 679	77 294 309	71 365 295	66 527 180
1 year later	56 089 712	76 773 502	83 859 915	74 020 607	71 390 336	
2 years later	55 837 093	75 010 408	83 139 499	71 251 814		
3 years later	55 341 445	74 646 250	79 914 753			
4 years later	49 207 864	73 283 529				
5 years later	45 504 979					
Provision for outstanding claims (incl. IBNR) as of 31.12.2011 (EUR)	12 657 879	5 900 851	7 511 027	8 898 074	10 696 975	19 263 231

Claims paid, recourses and salvages (accumulated) in EUR, net*

	...-2006	2007	2008	2009	2010	2011
At 31 December						
Accident year*	52 095 281	52 455 464	57 527 933	48 743 971	46 547 700	47 284 735
1 year later	66 050 112	65 358 286	69 974 183	59 991 793	60 726 616	
2 years later	67 241 911	66 332 192	70 985 477	62 358 694		
3 years later	67 700 078	66 650 509	72 399 297			
4 years later	67 930 111	66 877 580				
5 years later	67 564 235					

NOTE 6: OPERATING EXPENSES

	2011	2010
Personnel expenses	-15 456 470	-14 885 761
Commissions to intermediaries	-8 644 499	-7 989 278
Data processing	-3 800 585	-3 807 046
Expenses on premises	-2 619 532	-2 372 353
Office expenses (incl. communication expenses)	-1 463 216	-1 370 866
Other operating expenses	-3 322 222	-4 215 850
TOTAL	**-35 306 524**	**-34 641 154**

Division of costs on the basis of functions		
Insurance contract acquisition costs	-20 520 305	-22 445 937
Administrative expenses	-11 412 928	-8 531 408
Claims handling expenses	-3 373 291	-3 663 809
TOTAL	**-35 306 524**	**-34 641 154**

NOTE 7: CASH AND CASH EQUIVALENTS

	31.12.2011	31.12.2010
Cash total by currencies		
EEK	-	3 267 610
EUR	1 030 563	108 849
GBP	-	1 309
LTL	993 673	989 577
LVL	831 578	464 129
NOK	-	1 896
PLN	-	3
RUB	-	15 574
USD	4 027	56 697
TOTAL	**2 859 841**	**4 905 644**

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**

*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
Equitiy 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
Equitiy 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**

	2011			2010		
	Realised gains	Fair value gains and losses	TOTAL	Realised gains	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

	Computer software
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
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**

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The provision for claims reported by policy holders and claims incurred but not yet reported (IBNR)	2010 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 remuniration, a variable compensation, participations in long-term incentive programs. Proportion of the variable compensation is not exceeding 30% of the fixed remuniration. 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

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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**

FINANCIAL STATEMENTS

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**

FINANCIAL STATEMENTS

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**

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Code of legal entity: 10877299
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.

Ernst & Young

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

Ivar Kiigemägi
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

Dace Ivaska,
Member of the Management Board

Sanita Livdane,
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

Jukka Laitinen,
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 — 15.02.2012

Sanita Livdane
Member of the Management Board — 15.02 2012

Heinar Olak
Member of the Management Board — 15.02. 2012

Artur Praun
Member of the Management Board — 15.02.2012

Dace Ivaska
Member of the Management Board — 15.02. 2012

Zaneta Stankeviciene
Member of the Management Board — 15.02 2012

Jukka Laitinen
Member of the Management Board — 15.02. 2012

Ville Haapalinna
Member of the Management Board — 15.02. 2012