TABLE OF CONTENTS

MANAGEMENT REPORT 4
FINANCIAL STATEMENTS 9

STATEMENT OF COMPREHENSIVE INCOME 9
STATEMENT OF FINANCIAL POSITION 10
STATEMENT OF CHANGES IN EQUITY 11
STATEMENT OF CASH FLOWS 12
NOTES TO THE FINANCIAL STATEMENTS 13
Note 1. Accounting principles and basis of estimations used in the preparation of the financial statements 13
Note 2. Risks and risk management 25
Note 3. Premiums earned, net of reinsurance 45
Note 4. Return on investments 45
Note 5. Claims incurred, net of reinsurance 46
Note 6. Operating expenses 47
Note 7. Cash and cash equivalents 47
Note 8. Receivables related to insurance activities and specification of bad debts 48
Note 9. Accrued income and prepaid expenses 49
Note 10. Financial investments 50
Note 11. Intangible assets 53
Note 12. Property, plant and equipment 54
Note 13. Liabilities related to insurance activities 55
Note 14. Accrued expenses and deferred income 55
Note 15. Liabilities related to insurance contracts and reinsurance assets 56
Note 16. Corporate income tax 59
Note 17. Investment into subsidiary 61
Note 18. Owner's equity 62
Note 19. Operating lease 63
Note 20. Related parties transactions 63
Note 21. Events after the balance sheet date 67

INDEPENDENT AUDITOR'S REPORT 68
PROPOSAL FOR THE DISTRIBUTION OF THE PROFIT 69
SIGNATURES TO THE ANNUAL REPORT 2014 70

MANAGEMENT REPORT

Organization

If P&C Insurance AS (the Company, If) is wholly owned by the leading Nordic P&C insurance group If P&C Insurance Holding Ltd, which is itself owned by Sampo Plc., a Finnish company listed on the Helsinki Stock Exchange. In addition to the property and casualty insurance operations within If, Sampo Group provides life insurance via Mandatum Life, Sampo Group is also the major shareholder in Nordea banking group.

The Baltic business area covers both private individuals and corporate customers. If has offered property and casualty insurance in the Baltic countries since 1992. If has approximately 350,000 customers in the Baltic countries and is the market leader in Estonia.

The company is registered in Estonia and operates via branches in Latvia and Lithuania. The current corporate structure improves the efficiency of operations and claims handling in the Baltic region. Some of the business functions are common for all three Baltic countries, however each country has its own sales and customer service functions.

Legal structure of the company

If P&C Insurance AS (Estonia)
Reg. no. 10100168

Branch in Latvia
If P&C Insurance AS Latvijas filiāle
Reg. no. 40103201449

Branch in Lithuania
"If P&C Insurance AS" filialas
Reg. no. 302279548

Results from operations

RESULTS

Despite uncertainties in the global economy, the Baltic's have experienced economic growth. The good result development continued in If.

In 2014, the technical result increased in comparison with the year before to €15.5 million (2013: €12.5 million). Increase in technical result was supported by premium growth and favourable claims outcome, large claims outcome was low and mild weather in the beginning of the year resulted in positive claims development in Motor lines.

PREMIUM WRITTEN

The Company's gross written premiums increased by €5.7 million to €122.6 million (2013: €116.9 million). Premium volumes increased in all countries, fastest in Latvia and Estonia. Growth derives from first-rate customer and claims service and improved efficiency.

CLAIMS AND OPERATING EXPENSES

Claims cost, including claims handling costs, decreased €1.3 million to €66.9 million (2013: € 68.2 million).

The loss ratio, including claims handling costs, improved during 2014 and amounted to 56.4% (2013: 60.5%). Loss ratios improved in all major products due to lower outcome of large claims and decrease in average claim. Results of motor products were supported by mild winter weather in the beginning of the year.

Operating expenses, excluding claims handling costs, increased by €4.0 million to €36.2 million (2013: €32.2 million). The company's expense ratio increased to 30.5% (2013: 28.5%).
The combined ratio decreased to 87.0% (2013: 89.0%).

NET PROFIT AND TAX

Net profit ended at €17.0 million in 2014 (2013: €13.2 million). Current tax cost accounted for €0.93 million (2013: €0.54 million).

INVESTMENT RESULT

The total assets increased from €225.4 million at the beginning of the year to €245.2 million as of 31 December 2014. Financial assets (€223.4 million as at 31 December 2014) are €104.8 million higher than the obligations under insurance contracts net of reinsurance, resulting in a strong solvency position.
Earnings from asset management, measured at mark-to-market, amounted to €4.88 million (2013: €0.96 million, and the return on investment was 2.3% (2013: 0.5%). Net investment return amounted to €2.46 million (2013: €1.32 million) in the income statement, and €2.42 million (2013: € -0.36 million) in the other comprehensive income. The average weighted credit rating for the holdings in the investment portfolio as of 31 December 2014 was A using Standard & Poor's scale (2013: A+). Portfolio running yield was 1.0% (31.12.2013: 1.0%) and duration was 1.7 years (31.12.2013: 1.9 years).

Three-year summary

Currency: €000	2014	2013	2012
Premiums written, gross	122,574	116,906	115,166
Premiums written, net	119,596	113,472	111,998
Premiums earned, net of reinsurance	118,647	112,877	110,954
Claims incurred, net of reinsurance	66,947	68,248	65,123
Operating expenses[1]	36,218	32,165	31,509
Technical result[2]	15,482	12,464	14,323
Net profit	17,016	13,241	20,675
Combined ratio[3]	87.0%	89.0%	87.2%
Expense ratio[4]	30.5%	28.5%	28.5%
Loss ratio[5]	56.4%	60.5%	58.7%
Solvency ratio[6]	95.0%	81.5%	77.3%
Financial investments	223,279	198,805	184,710
Return on investments[7]	2.3%	0.5%	3.9%
TOTAL ASSETS	245,166	225,376	215,315
OWNER'S EQUITY	113,598	97,163	91,278
Available solvency margin	113,598	92,514	86,519

FORMULAS

[1]Operating expenses	Insurance contract acquisition costs and administrative expenses (+) reinsurance commissions (+) other income
[2]Technical result	Premiums earned, net of reinsurance (-) claims incurred, net of reinsurance (-) operating expenses
[3]Combined ratio	Expense ratio + loss ratio
[4]Expense ratio	$\frac{\text{Operating expenses}}{\text{Premiums earned, net of reinsurance}}$
[5]Loss ratio	$\frac{\text{Claims incurred (incl. Claims handling costs), net of reinsurance}}{\text{Premiums earned, net of reinsurance}}$
[6]Solvency ratio	$\frac{\text{Available solvency margin}}{\text{Premiums written, net}}$
[7]Return on investments	$\frac{\text{Investment income (-) investment expenses (+) changes in fair value recognized in other comprehensive income}}{\text{Weighted average volume of financial investments in the period}}$

Solvency capital

The solvency ratio strenghthened and amounted to 95.0% (2013: 81.5%) at year end. Solvency capital or available solvency margin increased to €113.6 million compared with €92.5 million in 2013. All regulatory solvency requirements have been met by the Company.

Objectives and policies for financial risk management

The core of the Company's insurance operations is the transfer of risk from the insured clients to the insurer. The Company's result depends on both the underwriting result and the return on investment assets. The Company's risk management approach is to ensure that sufficient return is achieved 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 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.

Personnel

Value creation in the finance industry rests on operational excellence and continuous and rapid renewal. This requires competent, creative and engaged staff. Our ability to succeed and stay ahead is thus heavily dependent on the quality, commitment and dedication of the people we employ. To succeed in that If recruits the best and invests in performance management and competence development.

During 2014 the focus areas in If People Framework were following:
- Leadership the If Way: Tailor made development activities were done to strengthen leadership quality.
- If Employeeship and Performance Culture: If Employeeship model which emphasizes the employees' own responsibility for their own performance and development was implemented.
- Competence Development and Innovation: Competence development activities were focusing on improving the product and underwriting skills.
- Right Person in the Right Place: The focus in recruitment was both on competence and attitude, on cultural fit and motivation.

The result of bi-annual employee satisfaction survey Temper continues to be very good. 89% of employees have given positive answer for statement "If someone asked me, I would recommend If as employer to him/her".

On 31st December 2014 the number of full time employees in the company was 544 (2013: 530). The company's expenses for personnel totalled €17.7 million in 2014, an decrease of €0.1 million over the year (2013: €17.8 million).

Outlook

The development of the Baltic economy is difficult to predict for 2015. It will be dependent on the economic development in neighboring countries and Europe. Despite increased competition in the market, market profitability is expected to remain on a good level. The overall profitability of the insurance market is mixed, established companies focus on profitability.

If showed good profitability with volume growth in 2014. All major business lines are in focus for If , continued efforts are carried out in order to strengthen the good customer relationships.

In 2015, the Baltic insurance markets are expected to grow at about the same rate as 2014.

Operations

If provides a complete range of P&C insurance products to corporate and private customers in the Baltic. If works directly via salespoints, telephone, and internet, as well as through brokers and partners. If has sales and customer service offices in main towns. If has the second largest insurance portfolio among all P&C insurance providers in the Baltic States. The number of If customers in the Baltic is approximately 350,000 including both private and corporate customers.

One of the fastest growing channels is Internet sales. In 2014, Internet sales were over 180,000 policies, which is 10% growth compared to 2013. During 2014 If continued to invest into the Internet and is committed in bringing additional customer friendly solutions to customers.

If has continued to develop its partner channel by product development and development of systems for cooperation with banks, car importers and car retailers in 2014.

Volumes from the strategic partnership with Nordea Banking Group continued to grow fast in 2014. Partnership is benefitting from both Nordea and If strong customer offers and is appreciated by customers.

A key goal for If is to create the best customer experience in all types of contacts, particularly in cases where customers are affected by an insurance claims. Each claim case is monitored and the person reporting the claim is able to grade how he or she was dealt with and comment on the service received. The surveys show that the customers who have had an insurance claim are even more satisfied with If than those who have never reported a claim. The customers' ratings of our claims handling improved further during this year, from an already high level. 93% of customers valuate If´s claims handling "very good" or "good".

As a leading insurance company in the Baltics, If is aware of its social responsibility. Through sponsorships and funding, the company is making consistent contributions to different projects related to claims prevention. If is also raising awareness of insurance products in society, especially in areas where insurance coverage is low or, in many cases, non-existent.

If has continued in its path to improve efficiency and benefit from common IT systems. In 2014 two old sales systems were put in run-off in order to reduce the cost for operations and maintenance.

After the successful launch of the Euro in Latvia on 1.1.2014, based on experience and knowledge from Estonian and Latvian euro introductions, If managed to combine secure approach and low implementation cost for Euro introduction in Lithuania.

Applied accounting principles

The 2014 Financial Statements 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 Estonian company with its branches.

Heinar Olak,
Member of the Management Board

Artur Praun,
Member of the Management Board

FINANCIAL STATEMENTS

Statement of comprehensive income

€000	Note	2014	2013
REVENUE			
PREMIUMS EARNED, NET OF REINSURANCE			
Premiums earned		121,777	116,389
Premiums ceded		-3,130	-3,513
TOTAL	3	**118,647**	**112,876**
OTHER INCOME			
Reinsurance commissions		203	244
Return on investments	4	2,460	1,320
Other income		132	139
TOTAL		**2,795**	**1,703**
TOTAL REVENUE		**121,442**	**114,579**
TOTAL EXPENSES			
CLAIMS INCURRED, NET OF REINSURANCE			
Claims incurred, gross	5	-67,316	-68,539
Reinsurer's share in claims paid	5	370	291
TOTAL		**-66,946**	**-68,248**
EXPENSES			
Insurance contract acquisition costs	6	-22,065	-20,882
Administrative expenses	6	-14,488	-11,666
TOTAL		**-36,553**	**-32,548**
TOTAL EXPENSES		**-103,499**	**-100,796**
NET RESULT BEFORE TAXES		**17,943**	**13,783**
INCOME TAX	16	-927	-542
NET PROFIT FOR THE FINANCIAL YEAR		**17,016**	**13,241**
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT AND LOSS IN SUBSEQUENT PERIODS:			
Change in the value of available-for-sale assets	4	2,419	-360
Exchange differences on translating foreign operations		-3	5
TOTAL		**2,416**	**-355**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**19,432**	**12,886**

The notes to the financial statements set out on pages 13 to 67 form an integral part to the financial statements.

Statement of financial position

€000	Note	31.12.2014	31.12.2013
ASSETS			
Cash and cash equivalents	7	3,353	2,812
Financial investments	10	223,279	198,805
Receivables related to insurance activities	8	10,762	11,063
Accrued income and prepaid expenses	9	3,682	3,772
Reinsurance assets	15	3,044	3,383
Deferred tax asset	16	170	123
Investment in subsidiary	17	88	88
Intangible assets	11	-	4,649
Property, plant and equipment	12	788	681
TOTAL ASSETS		**245,166**	**225,376**
LIABILITIES AND OWNER'S EQUITY			
Liabilities related to insurance activities	13	5,455	4,830
Accrued expenses and prepaid revenues	14	4,625	3,958
Liabilities arising from insurance contracts	15	121,488	119,425
TOTAL LIABILITIES		**131,568**	**128,213**
Share capital		6,391	6,391
Share premium		3,679	3,679
Mandatory reserve		2,362	2,362
Revaluation reserve		2,387	-29
Retained earnings		81,763	71,519
Net profit for the year		17,016	13,241
TOTAL OWNER'S EQUITY	18	**113,598**	**97,163**
TOTAL LIABILITIES AND OWNER'S EQUITY		**245,166**	**225,376**

The notes to the financial statements set out on pages 13 to 67 form an integral part to the financial statements.

Statement of changes in equity

€000	Share capital	Share premium	Mandatory reserve	Revaluation reserve: Available-for-sale-financial assets	Revaluation reserve: Foreign currency translation reserve	Retained earnings	Net profit for the year	**Total equity**
EQUITY AT BEGINNING OF 2013	**6,391**	**3,679**	**2,362**	**328**	**-2**	**78,519**	**-**	**91,277**
Paid dividends	-	-	-	-	-	-7 000	-	**-7,000**
Other comprehensive income	-	-	-	-360	5	-	-	**-355**
Profit for the year	-	-	-	-	-	-	13,241	**13,241**
EQUITY AT END OF 2013	**6,391**	**3,679**	**2,362**	**-32**	**3**	**71,519**	**13,241**	**97,163**
EQUITY AT BEGINNING OF 2014	**6,391**	**3,679**	**2,362**	**-32**	**3**	**84,760**	**-**	**97,163**
Paid dividends	-	-	-	-	-	-3,000	-	**-3,000**
Other comprehensive income	-	-	-	2,419	-3	3	-	**2,419**
Profit for the year	-	-	-	-	-	-	17,016	**17,016**
EQUITY AT END OF 2014	**6,391**	**3,679**	**2,362**	**2,387**	**-**	**81,763**	**17,016**	**113,598**

The notes to the financial statements set out on pages 13 to 67 form an integral part to the financial statements.

Statement of cash flows

€000	Note	2014	2013
CASH FLOW FROM OPERATING ACTIVITIES			
Premiums received	3, 8, 13	123,164	116,771
Premiums ceded	3, 13	-2,995	-3,410
Claims paid, incl. claims handling expenses	5, 6, 8	-65,969	-64,939
Cash flow from reinsurance		963	1,721
Employee-related and service-related expenses		-30,554	-26,515
Investments in bonds and other interest-bearing securities		-110,422	-144,156
Proceeds from disposals of bonds and other interest-bearing securities		85,255	132,406
Investments in term deposits		-46,400	-52,750
Proceeds from term deposits		50,100	48,920
Interest received		2,282	1,829
Income tax paid	16	-576	-407
CASH FLOW FROM OPERATING ACTIVITIES, NET		**4,848**	**9,470**
TOTAL CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment, intangible assets	11, 12	-1,492	-1,813
Proceeds from disposal of property, plant and equipment, and intangible assets		185	41
CASH FLOW FROM INVESTING ACTIVITIES, NET		**-1,307**	**-1,772**
CASH FROM FROM FINANCING ACTIVITIES			
Paid dividends		-3,000	-7,000
CASH FLOW FROM FINANCING ACTIVITIES, NET		**-3,000**	**-7,000**
CHANGE IN CASH FLOW, NET		**541**	**698**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	7	**2,812**	**2,114**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	**3,353**	**2,812**

The notes to the financial statements set out on pages 13 to 67 form an integral part to the 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 COMPANY AND ITS ACTIVITIES

If P&C Insurance AS is an insurance company which has registered address at Lõõtsa 8a, Tallinn (Republic of Estonia) and includes the Estonian company and its branches in Latvia and Lithuania (hereinafter the Company).
The main activity of If P&C Insurance AS is the provision of non-life insurance services. The Company's primary operations are described in the Management report.
The financial statements of the Company for the year ended 31 December 2014 were authorized for issue in accordance with a resolution of the Management Board on 23 February 2015.

2. BASIS OF PREPARATION

The 2014 financial statements 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 endorsed by the European Union. The financial statements have been prepared on a historical cost basis, except for certain financial investments which have been measured at fair value.

The financial statements values are presented in Euros and all values are rounded to the nearest thousand (€000), except when 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.

Though the company forms an intermediate group together with its subsidiary Support Services AS, the Company has elected in accordance with IFRS 10 paragraph 4 not to present consolidated financial statements and presented only separate financial statements. The Company is a wholly –owned subsidiary of If P&C Holding Ltd (Sweden) and the parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards (IFRS) as adopted by the EU. Consolidated financial statements of the parent are available at websites www.if.se and www.sampo.com under section Figures-Annual report.

The financial statements include the accounts of the insurance company in Estonia and the accounts of its 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 in-house balances and transactions, unrealised gains and losses resulting from those transactions between the Estonian unit, the branch in Latvia and the branch in Lithuania are eliminated in full.

Derecognition of financial assets

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired

Or

- The Company retains the right to receive cash flows from the asset and has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;

  and either:

  - The Company has transferred substantially all the risks and rewards of the asset

  Or

  - The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from an asset or has entered into a passthrough arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.
In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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 statement of comprehensive income (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 statement of comprehensive income.
If, in a subsequent period, the amount of the impairment loss decreases, and the decrease 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.

Financial assets carried at amortised cost
For financial assets carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

Available-for-sale financial investments
For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.
In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income.
Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the statement of comprehensive income.

G) 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 assets 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 Company assesses whether there is any indication that the previous impairment is no longer justified. If there is any such indication, the Company 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.

H) 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 include capitalized costs for the development of various insurance systems. 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 Company 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.

I) 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.

J) 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 Company are classified as insurance contracts in the scope of IFRS 4.

K) 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 only direct insurance contract acquisition costs, such as commission fees to mediators.

L) 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.

M) 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 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 discount rate which is in Estonia and Latvia 2.50% and in Lithuania 1.53%.

N) 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.

O) 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 Company 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 Company as the lessor

The Company 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 Company for assets of similar type. Operating lease payments are recorded during the rental period as income based on the straight-line method.

P) CORPORATE INCOME TAX

Pursuant to the Estonian 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 of the net dividend paid in 2014. Starting from 2015 the established tax rate is 20/80 of the net dividend paid.
Corporate income tax on the payment of dividends is recorded under income tax expense in the statement of comprehensive income 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 Company 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% (2013: 15%) and for Lithuanian branch 15% (2013: 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 they pertain to different countries tax authorities. Current and deferred tax disclosure is made in Note 16.

Q) 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 2014) and the date of approving 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 COMPANY'S RISK MANAGEMENT

The fundamental principle of insurance is the transfer of risk from insured clients to the insurer. If P&C Insurance AS (hereinafter the Company) collects insurance premiums from a large group of policyholders and thereby commits to compensate them if insured events occur. Premiums are collected in advance and invested in financial instruments. The operating result depends on both the underwriting result and the return on investment assets.

Risk Strategy
The sole shareholder of the Company is If P&C Insurance Holding Ltd. The overall risk management strategy and internal control principles as well as division of responsibilities of the insurance subsidiaries are defined on the If Group level. The insurance subsidiaries organise their operations according to these principles while taking into account the specific characteristics of the respective business area. The Company's risk strategy is part of the overall risk strategy and form part of the governing principles for the operations of the Company.
The risk management strategies are to:

- Ensure that risks affecting the profit and loss account and the balance sheet are identified, assessed, managed and monitored;
- Ensure that the riskiness of the insurance business is reflected in the pricing;
- Ensure adequate long term investment returns within set risk levels;
- Ensure that risk buffers – in the form of capital and foreseeable profitability – are adequate in relation to the current risks inherent in business activities and existing market environment;
- Limit fluctuations in the economic values of the company; and
- Ensure the overall efficiency, security and continuity of operations.

Risk taking is restricted through a system of limits decided by If Group's Board of Directors and implemented to all companies within If Group. Risk management activities are performed in the Company as part of the normal course of day-to-day business. The process for risk management within the Company is set in the Baltic Risk Management Guideline.

Risk Management System
The Risk Management System is part of the larger Internal Control System.
The objectives of the Risk Management System is to create value for Company's stakeholders by securing its long-term solvency, minimising the risk of unexpected financial loss and giving input to business decisions by taking into account the effect on risk and capital.

Key to fulfilling these objectives is to:

- Identify and, in accordance with internal and external requirements, aggregate the quantifiable risks and have effective processes for management of risks affecting the Company and;

Formalise and set up reporting routines to meet regulatory requirements as well as Company's and If Group's internal risk reporting requirements.

Risk governance and reporting structure

The Management Board of the Company 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.

Although insurance operations in Latvia and Lithuania are conducted via branch offices, the operational structure is established throughout the legal structure - there are no independent branch organisations. It is important that internal control and risk management are kept together both in the legal and operational structure. Defining and documenting who is responsible for various risks is an important element to achieve this.

Risk management system (hereinafter System) is established to secure the following activities:

- Securing that all defined risk types are thoroughly assessed and followed-up;
- Risk reporting to the Management Board and to the respective risk committees in If Group if required.

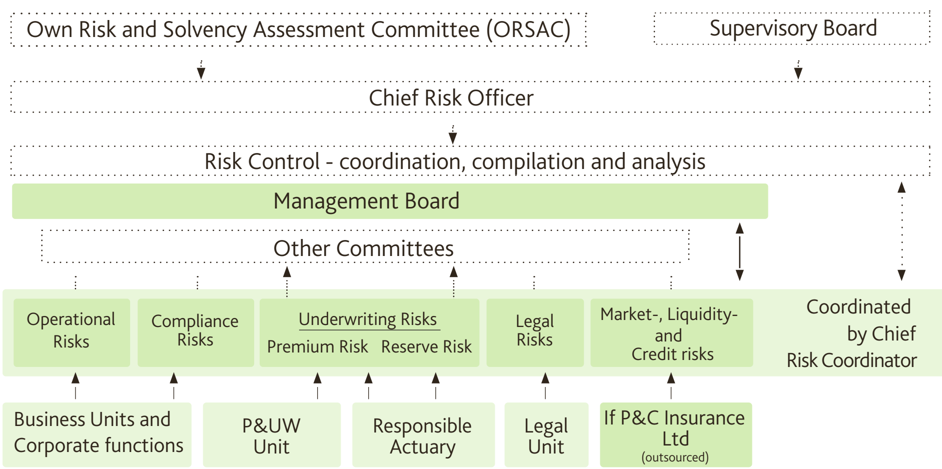
Key to fulfilling these objectives and securing the activities is to:

- Identify, and in accordance with internal and external requirements, quantify and aggregate all risks in company;
- Reporting all incidents and near misses via the Intranet incident reporting tool and formalise and set-up reporting routines to meet regulatory requirements as well as If Group internal risk reporting requirements.

The Table 1 below illustrates the various information and reporting lines in the System. The System includes processes and activities performed by persons or groups ranging from the Business Units and corporate functions, coordinators or the Chief Risk Coordinator reporting to the Management Board and to the If Risk Control unit or the If Compliance unit, which in turn report directly or indirectly to the Supervisory Board of If P&C Insurance AS.

In the Table 1 highlighted structure of risk management reporting belongs to the Company and the structure marked with dotted lines belongs to the If Group.

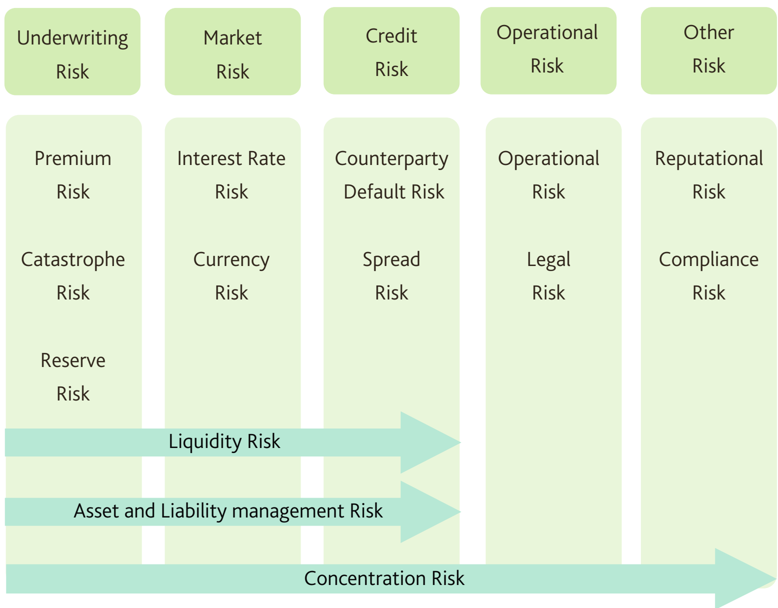
Table 1. Risk management reporting system



The Business Units and corporate functions are the risk owners and have the day-to-day responsibility to manage risks within limits and restrictions set by respective policies and guidelines. They shall ensure that they have the resources and tools in place to control and follow-up on the risks as well as to report, as required, to the Chief Risk Coordinator for forwarding to the Management Board and to committees, the If Risk Control unit and the If Compliance unit.
The Chief Risk Coordinator works across all business units within the Company evaluating and supporting the units in their work to identify, assess, mitigate and monitor all risks.

Table 2 shows the Company's risk categorization and each risk is described below:

Table 2. Categorization of risks



B) CAPITAL MANAGEMENT

Risk management focuses on both capital efficiency and sound risk management by keeping its capital resources at an appropriate level in relation to the risks taken over the business planning horizon. This means ensuring that available capital exceeds the internal and regulatory capital requirements.

Capital management is based on the Company's risk appetite statement, which is further detailed by risk preferences and the risk tolerance. These are implemented through policies approved by the Supervisory Board of the Company and Board of Directors of If Group. The company's risk profile , required capital and available capital are measured, analysed and reported according to the risk management reporting structure in the Company on a quarterly basis, or more often when deemed necessary.

Capital position
The capital position is the relationship between available capital and required capital. To fulfill requirements from supervisory authorities regulatory measures are used to describe the capital position.

Regulatory measures
Insurance is a regulated business and there are formal national 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.
Solvency is reported regularly to the supervisory authorities and the 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 the Insurance Activities Act. The minimum solvency margin of an insurance undertaking shall be equal to at least € 3.7 million. The required and available solvency margin of an insurance undertaking engaged in non-life insurance shall be calculated pursuant to the Insurance Activities Act. The Company fulfilled all minimum requirements regarding the amount of assets included in available solvency margin of insurance undertakings during 2014 (it did so during 2013 as well).

Table 3. Capital position

€000	31.12.2014	31.12.2013
Owner's equity	113,598	97,163
Intangible assets	-	4,649
Available solvency margin	113,598	92,514
Required solvency margin	21,008	21,008
SURPLUS OF SOLVENCY MARGIN	**92,590**	**71,506**

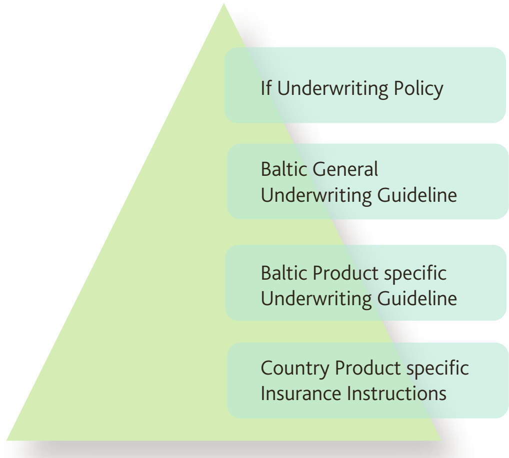
C) UNDERWRITING RISKS

Underwriting risk is the risk of loss or of adverse changes in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.

Premium risk and catastrophe risk
Premium risk is the risk of loss or of adverse changes in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events which have not occurred at the balance date.

Catastrophe risk is the risk of loss or of adverse changes in the value of insurance liabilities, resulting from significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events.

Risk management and Control
The Underwriting Policy (UW Policy) of If Group is the principal document for underwriting and sets general principles, restrictions and directions for the organization of underwriting activities.



The UW Policy is supplemented with guidelines outlining in greater detail how to conduct underwriting within each business area. These guidelines cover such areas as tariff and rating models for pricing, guidelines in respect of standard conditions and manuscript wordings, as well as authorities and limits, such as sums insured and risks that are not acceptable to undertake.
The Baltic General Underwriting Guideline (BUWGL) is established in the Company. The purpose of this guideline is to elaborate on principles for underwriting activities established by the UW Policy and to set standards that will ensure achievement of long-term target profitability and set goals. The BUWGL is followed in conjunction with any applicable laws and regulations in each country. Next level guidelines or insurance instructions - Baltic product specific Underwriting Guideline (based on BUWGL Baltic common underwriting principles for certain product line) followed by Country product specific Insurance Instructions (principles governing product in each country) - are continuation of previous level rules, specifying and detailing all related matters.
The Company manages the underwriting risk on a day-to-day basis. A crucial factor affecting the profitability and risk of P&C insurance operations is the ability to accurately estimate future claims and administrative costs and thereby correctly price insurance contracts. The pricing of private segment risks and smaller corporate segment risks are set through tariffs and detailed risk selection rules. The underwriting of bigger and more complex corporate segment risks is based to a greater extent on general principles and individual underwriting than strict tariffs. In general, pricing is based on statistical analyses of historical claims data and assessments of the future development of claims frequency and claims inflation.

The insurance portfolio is well diversified, given the fact that the Company has a large customer base and its business is underwritten in different geographical areas and across several lines of business.

Despite this diversified portfolio, risk concentrations and consequently severe claims may arise through, for example, exposures to natural catastrophes such as storms and floods. Also single large claims can potentially have a significant impact on the result. The economic impact of natural disasters and single large claims is mitigated using reinsurance.

If Group's Reinsurance Policy stipulates guidelines for the purchase of reinsurance and applicable for the Company. The need and optimal choice of reinsurance is analyzed based on statistical models for single large claims, whereas If Group cooperates with external advisors for the evaluation of the exposure to natural catastrophes and the probability of occurrence of catastrophe losses. The analysis relies on catastrophe models in which catastrophes are simulated based on historical meteorological data, supplemented by statistical models. Different reinsurance structures are evaluated by looking at the expected cost versus the benefit of the reinsurance, the impact on volatility in result and lowered capital requirement (economic, regulatory and rating capital requirement).

A Nordic-wide reinsurance program has been in place in If Group and applicable for the Company since 2003. In 2014, retention levels for the Company were €3.5 million per risk and €3.5 million per event.

Risk profile

There is a risk, given the inherent uncertainty of property and casualty insurance, that losses due to claims may be unexpectedly high. Examples include large fires, natural catastrophes such as severe storms, or unforeseen increases in the frequency or the average size of small and medium-sized claims.

A sensitivity analysis of the aggregated underwriting risk is presented in Table 4.

Table 4. Sensitivity analysis of premium risk, December 31, 2014

€000 Parameter	Current level, 2014	Change	Effect on pretax profit 2014	2013
Combined ratio	87.0%	+/-2% points	+/-2,373	+/-2,258
Premium volume	118,647	+/-2%	+/-307	+/-246
Claims level	66,947	+/-2%	+/-1,339	+/-1,365

D) RESERVE RISK

Reserve risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing and amount of claim settlements for events which have occurred at or prior to the balance date.
Reserve risk includes revision risk, which is defined as the risk of loss, or of adverse change in the value of insurance and reinsurance liabilities, resulting from fluctuations in the level, trend, or volatility of revision rates applied to annuities, due to changes in the legal environment or in the state of health of the person insured. Technical provisions always include a certain degree of uncertainty since the provisions are based on estimates of the size and the frequency of future claim payments.
The uncertainty of technical provisions is normally greater for new portfolios for which complete run-off statistics are not yet available, and for portfolios including claims that take a long time to settle. Motor Third Party Liability (MTPL) and Liability insurance are products of the Company with the latter characteristics.

Risk management and Control

The Management Board of the Company decides on the guidelines governing the calculation of technical provisions (Baltic Reserving Guidelines). The Company's Responsible Actuary is responsible for developing and presenting guidelines on how the technical provisions are to be calculated and for assessing whether the level of the total provisions is sufficient. The more detailed document describing methodologies of calculation of technical provisions is Technical reserves methodology, which is maintained by Responsible Actuary and updates presented to the Management Board as well as to the Estonian FSA. In order to ensure transparent sharing of information from reserving area within the company the Reserve Steering Committee has been established. The Responsible Actuary is responsible to provide relevant details on planned reserve methods' or assumptions' changes to the members of the Reserves Steering Committee as well as be able to explain the basis of existing methods or assumptions. This is done on purpose to secure a comprehensive view and additional control over reserve risk, as part of the risk management system. The Reserve Steering Committee has regular meetings throughout the year.

The Company's reserving actuaries analyze the uncertainty of technical provisions. The actuaries continuously monitor the level of provisions to ensure that they are adequate or find out the segments where reserves' deficit or surplus is present. The actuaries also develop methods and systems to support these processes.

The actuarial estimates are based on historical claims data and exposures that are available at the closing date. Factors that are monitored include claims development trends, the level of unpaid claims, legislative amendments, case law, economic conditions and product cover specific changes. When setting provisions, the Chain Ladder and Bornhuetter-Fergusson methods are generally used, combined with projections of risk ratio in areas where claims development data is not sufficient.

The anticipated inflation trend is implicitly taken into account when calculating all provisions and is of the utmost importance for claims settled over a long period of time, such as MTPL and Liability.

Inflation risk in the technical provisions is an important consideration taken into account in the investment strategy.

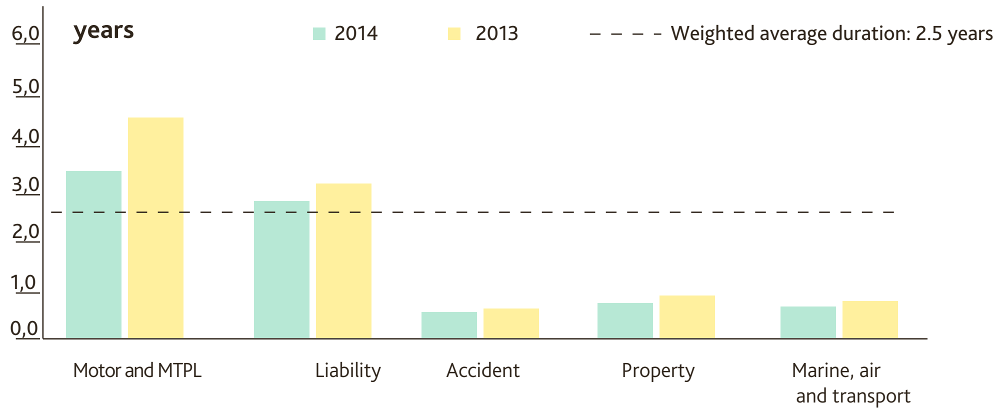
Risk profile

Table 5. Technical provisions per product, 31 December

€000 Type of insurance	Gross liabilities related to insurance contracts		Reinsurers' share of liabilities		Net liabilities	
	2014	2013	2014	2013	2014	2013
Compulsory Motor TPL	45,376	44,863	928	588	44,448	44,275
Motor Own Damage	19,460	18,298	-	-	19,460	18,298
Private Property	8,476	8,960	-	69	8,476	8,891
Corporate Property	15,253	15,156	411	561	14,842	14,595
Liability	21,538	20,904	1,520	1,673	20,018	19,231
Personal Accident	1,991	1,879	-	-	1,991	1,879
Health	3,193	3,011	-	-	3,193	3,011
Other	6,201	6,354	185	492	6,016	5,862
TOTAL	**121,488**	**119,425**	**3,044**	**3,383**	**118,444**	**116,042**

The durations of technical provisions for various products are shown in Figure 1.

Figure 1. Duration of technical provisions per product, 31 December



FINANCIAL STATEMENTS

For several lines of business, technical provisions are sensitive to changes in inflation. The sensitivity of the inflation assumptions differs between countries due to different national rules. A sensitivity analysis of the reserve risk on 31 December is presented in Table 6.

Table 6. Sensitivity analysis, reserve risk, 31 December 2014

€000

Portfolio	**Risk**	**Change in risk parameter**	**Country**	**Effect on liabilities/pretax profit 2014**	**Effect on liabilities/pretax profit 2013**
Nominal reserves	Inflation increase	Increase by 1%-point	Estonia	1,044	1,094
			Latvia	178	179
			Lithuania	407	465
			TOTAL	**1,629**	**1,738**
Discounted reserves (annuities)	Decrease in discount rate	Decrease by 1%-point	Estonia	930	751
			Latvia	39	-
			Lithuania	58	1
			TOTAL	**1,027**	**752**
Annuities	Decrease in mortality	Mortality rates decrease by 20%	Estonia	87	73
			Latvia	4	-
			Lithuania	2	-
			TOTAL	**93**	**73**

E) MANAGEMENT OF FINANCIAL RISK

Components of financial risk include market risk, interest rate 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.

F) FINANCIAL ASSETS AND LIABILITIES

The recognition of financial assets and liabilities depends on their classification. The classification of assets and liabilities categorized in accordance with IAS 39 is shown in Table 7.

Note 6. Operating expenses

€000	2014	2013
Personnel expenses	-17,662	-17,838
Commissions to intermediaries	-9,764	-9,030
Data processing	-7,148	-2,757
incl. impairment charge of intangible assets (Note 11)	-4,537	-518
Expenses on premises	-2,257	-2,414
Office expenses (incl. communication expenses)	-1,046	-1,032
Other operating expenses	-2,741	-3,195
TOTAL	**-40,618**	**-36,266**

Division of costs on the basis of functions		
Insurance contract acquisition costs	-22,065	-20,882
Administrative expenses	-14,488	-11,666
Claims handling expenses	-4,065	-3,718
TOTAL	**-40,618**	**-36,266**

Note 7. Cash and cash equivalents

€000	31.12.2014	31.12.2013
Cash total by currencies		
EUR	2,171	2,043
LVL	-	284
LTL	1,060	443
SEK	114	-
USD	8	38
GBP	-	4
TOTAL	**3,353**	**2,812**

FINANCIAL STATEMENTS

Note 8. Receivables related to insurance activities and specification of bad debts

€000	31.12.2014	31.12.2013
Receivables related to direct insurance activities, incl.	10,453	10,529
- policyholders	6,906	7,009
- intermediaries	2,453	2,426
- recourses with significant recoverability	714	743
- salvages	247	299
- other	133	52
Receivables from reinsurance	162	376
- incl. from related parties (Note 20)	11	204
Other receivables	147	158
- incl. from related parties (Note 20)	135	134
TOTAL	**10,762**	**11,063**
Term of the receivables		
Neither past-due nor impaired:		
- not due yet *	9,590	9,807
Past-due but not impaired:		
- due for 0-3 months	977	931
- due for 3-6 months	43	45
- due for 6-12 months	39	125
- due for over 1 year	113	155
TOTAL	**10,762**	**11,063**

*Receivables are due within 1 year

SPECIFICATION OF CHANGE IN BAD DEBT PROVISION

€000	Individualy impaired	Collectively impaired	Total
At 1 January 2013	**-473**	**-392**	**-865**
Realized losses during the year	393	-	393
Unused amounts reversed during the year	499	-	499
Additions	-703	-	-703
Change in general provisions	-	209	209
At 31 December 2013	**-284**	**-183**	**-476**
Realized losses during the year	15	-	15
Unused amounts reversed during the year	532	-	532
Additions	-520	-	-520
Change in general provisions	-	28	28
At 31 December 2014	**-257**	**-155**	**-412**

Note 9. Accrued income and prepaid expenses

€000	31.12.2014	31.12.2013
Net deferred acquisition costs	3,049	2,906
Prepaid expenses	633	866
TOTAL	**3,682**	**3,772**

DEFERRED ACQUISITION COSTS	2014		
€000	Share of acquisition costs (gross)	Reinsurer's share of acquisition costs	Share of acquisition costs (net)
Balance as of January 1	**2,967**	**-61**	**2,906**
Acquisition costs deferred during the year	9,503	-198	9,305
Reversal of previously deferred acquisition costs	-9,378	216	-9,162
Balance as of December 31	**3,092**	**-43**	**3,049**

DEFERRED ACQUISITION COSTS	2013		
€000	Share of acquisition costs (gross)	Reinsurer's share of acquisition costs	Share of acquisition costs (net)
Balance as of January 1	**3,158**	**-59**	**3,099**
Acquisition costs deferred during the year	8,788	-238	8,550
Reversal of previously deferred acquisition costs	-8,973	236	-8,737
Exchange-rate difference	-7	-	-7
Balance as of December 31	**2,967**	**-61**	**2,906**

Note 10. Financial investments

€000	31.12.2014	31.12.2013
Financial assets measured at fair value through profit and loss		
Classified as held for trading		
Bonds and other interest-bearing securities		
- listed	42,631	82,440
incl. with a floating interest rate	-	33,054
incl. with a fixed interest rate (2.375-5.5%, 31.12.2013 2.25-6.0%)	42,631	49,386
TOTAL	**42,631**	**82,440**
Available-for-sale financial assets		
From bonds and other interest-bearing securities		
- listed	98,219	76,713
- unlisted	59,222	12,735
incl. with a floating interest rate	21,077	9,999
incl. with a fixed interest rate (0.0-3.75%)	136,364	79,449
TOTAL	**157,441**	**89,448**
Loans and receivables		
Term deposits	23,207	26,917
TOTAL	**23,207**	**26,917**
FINANCIAL INVESTMENTS TOTAL	**223,279**	**198,805**

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS €000	2014	2013
Balance at Jan.1	**82,440**	**146,270**
Classified as held for trading		
Bonds and other interest-bearing securities		
Sale	-40,391	-46,794
Change in fair value through profit and loss	642	-1,015
Change in accrued interest	-60	-187
Designated at fair value through profit and loss		
Certificates of deposit		
Sale	-	-15,743
Change in fair value through profit and loss	-	-91
Balance at Dec. 31	**42,631**	**82,440**

AVAILABLE-FOR-SALE FINANCIAL ASSETS €000	2014	2013
Balance at Jan.1	**89,448**	**15,330**
Bonds and other interest-bearing securities		
Purchase	110,422	144,156
Sale	-45,280	-69,874
Change in fair value recorded in other comprehensive income	2,419	-360
Change in accrued interest	432	196
Balance at Dec. 31	**157,441**	**89,448**

LOANS AND RECEIVABLES €000	2014	2013
Balance at Jan.1	**26,917**	**23,110**
Term deposits		
Purchase	46,400	52,750
Maturity	-50,100	-48,920
Change in accrued interest	-10	-23
Balance at Dec. 31	**23,207**	**26,917**

Term deposits earn an annual interest 0.11-0.14% (as of 31.12.2013: 0.29-0.32%)

DIVISION OF BONDS AND OTHER INTEREST-BEARING SECURITIES BY MATURITY TERMS

€000	31.12.2014	31.12.2013
up to 1 year	72,256	52,801
1-2 years	34,470	14,999
2-5 years	81,175	75,271
5-10 years	12,171	28,817
TOTAL	**200,072**	**171,888**

DEPOSITS BY MATURITY TERMS	31.12.2014	31.12.2013
Up to 6 months	23,207	26,917
TOTAL	**23,207**	**26,917**

	31.12.2014		31.12.2013	
€000	Fair value	Acquisition cost	Fair value	Acquisition cost
Financial assets measured at fair value through profit or loss				
<u>Classified as held for trading</u>				
Bonds and other interest-bearing securities	42,630	38,895	82,440	79,286
Available-for-sale financial assets				
Bonds and other interest-bearing securities	157,442	154,355	89,448	89,213
TOTAL	**200,072**	**193,250**	**171,888**	**168,499**
Loans and receivables				
Term deposits	23,207	23,200	26,917	26,900
FINANCIAL ASSETS TOTAL	**223,279**	**216,450**	**198,805**	**195,399**

BONDS WITH A FIXED INTEREST RATE, BY INTEREST RATES

Interest rate €000	31.12.2014	31.12.2013
Interest rate: 0.0-1.9%	98,313	60,462
Interest rate: 2.0-2.9%	54,102	39,033
Interest rate: 3.0-3.9%	20,951	15,654
Interest rate: 4.0-4.9%	4,455	10,121
Interest rate: 5.0-6.0%	1,173	3,565
TOTAL	**178,994**	**128,835**

Note 11. Intangible assets

€000	Computer software
Net book value 31.12.2012	**4,758**
Acquisition (incl. prepayment)	1,423
Impairment	-814
Acquisition cost 31.12.2013	10,298
-incl. fully depreciated	4,152
Depreciation charge for the year	-1,001
Depreciation of impaired assets	296
Accumulated depreciation 31.12.2013	-5,655
Translation differences	6
Net book value 31.12.2013	**4,649**
Acquisition (incl. prepayment)	949
Impairment	-11,272
Depreciation charge for the year	-1,061
Depreciation of impaired assets	6,735
Accumulated depreciation 31.12.2014	-
Translation differences	-
Net book value 31.12.2014	**-**

In 2014 the Company made a thorough evaluation of previously capitalized IT software development costs. There has been an indication of a possible impairment of the core sales system due to the conclusions made in the system architecture audit and business strategy changes . Impairment losses have been recognized under operating expenses when future economic benefits from use of IT software development related intangible assets have not been clearly demonstrated or when the recoverable amount has dropped below the carrying amount.

Note 12. Property, plant and equipment

€000	Land	Buildings	Other PPE	TOTAL
Net book value 31.12.2012	**2**	**80**	**489**	**571**
Acquisition	-	-	468	**468**
Write-off	-	-	-308	**-308**
Disposal	-	-	-159	**-159**
Acquisition cost 31.12.2013	2	142	3,236	**3,380**
-incl. fully depreciated	-	-	2,294	**2,294**
Depreciation charge for the year	-	-3	-339	**-342**
Depreciation charge of sales and disposals	-	-	452	**452**
Accumulated depreciation 31.12.2013	-	-65	-2,638	**-2,703**
Translation differences	-	-	4	**4**
Net book value 31.12.2013	**2**	**77**	**602**	**681**
Acquisition	-	-	541	**541**
Write-off	-	-	-415	**-415**
Disposal	-2	-142	-331	**-475**
Acquisition cost 31.12.2014	-	-	3,045	**3,045**
-incl. fully depreciated	-	-	1,783	**1,783**
Depreciation charge for the year	-	-2	-330	**-332**
Depreciation charge of sales and disposals	-	67	722	**789**
Accumulated depreciation 31.12.2014	-	-	-2,257	**-2,257**
Net book value 31.12.2014	**-**	**-**	**788**	**788**

Note 13. Liabilities related to insurance activities

€000	31.12.2014	31.12.2013
Liabilities related to direct insurance activities, incl.	**4,174**	**3,579**
-policyholders	2,976	2,313
-intermediaries	1,062	1,128
-others	136	138
Liabilities related to reinsurance	1,023	1,041
- incl. from related parties (Note 20)	549	1,023
Other liabilities	258	210
- incl. from related parties (Note 20)	132	124
TOTAL	**5,455**	**4,830**

All above mentioned liabilities are current liabilities.

Note 14. Accrued expenses and deferred income

€000	31.12.2014	31.12.2013
Taxes payable	760	357
Employee-related liabilities	517	464
Vacation and social tax reserve	837	803
Performance pay reserve (incl. wage-based taxes)	1,955	1,780
Other accrued expenses	556	554
TOTAL	**4,625**	**3,958**
Terms of liabilities		
Up to 12 months	4,625	3,958
Taxes payable are divided into the following categories		
Value added tax	40	28
Personal income tax	244	254
Social tax	22	19
Unemployment insurance	14	15
Funded pension	18	17
Corporate income tax	421	24
Other taxes	1	-
TOTAL	**760**	**357**

Note 15. Liabilities related to insurance contracts and reinsurance assets

€000	31.12.2014	31.12.2013
Gross		
Provision for incurred and reported claims and claims handling expenses	56,320	50,449
Provision for incurred but not reported claims	25,096	29,701
Provision for unearned premiums	40,072	39,275
TOTAL	**121,488**	**119,425**
Reinsurer's share		
Provision for incurred and reported claims and claims handling expenses	2,252	2,432
Provision for incurred but not reported claims	260	264
Provision for unearned premiums	532	687
TOTAL	**3,044**	**3,383**
Net		
Provision for incurred and reported claims and claims handling expenses	54,068	48,017
Provision for incurred but not reported claims	24,836	29,437
Provision for unearned premiums	39,540	38,588
TOTAL	**118,444**	**116,042**

€000		2014	
Provision for incurred and reported claims,claims incurred but not yet reported (IBNR)and provision for claims handling expenses	**Liabilities arising from insurance contracts**	**Reinsurer's share of liabilities**	**Net**
Balance as of January 1	**80,150**	**-2,696**	**77,454**
Change in the provision for claims incurred but not yet settled, related to current year	15,118	-364	14,754
Change in the provision for claims incurred but not yet settled, related to previous years	-8,857	538	-8,319
Change in the provision for claims incurred but not reported, related to current year	8,103	-31	8,072
Change in the provision for claims incurred but not reported, related to previous years	-12,708	34	-12,674
Change in the provision for claims handling expenses	-390	-	-390
Translation difference	-	7	7
Balance as of December 31	**81,416**	**-2,512**	**78,904**

€000	2013		
Provision for incurred and reported claims,claims incurred but not yet reported (IBNR)and provision for claims handling expenses	**Liabilities arising from insurance contracts**	**Reinsurer's share of liabilities**	**Net**
Balance as of January 1	**76,921**	**-2,637**	**74,284**
Change in the provision for claims incurred but not yet settled, related to current year	16,984	-516	16,468
Change in the provision for claims incurred but not yet settled, related to previous years	-11,933	266	-11,667
Change in the provision for claims incurred but not reported, related to current year	7,261	-38	7,223
Change in the provision for claims incurred but not reported, related to previous years	-8,869	216	-8,653
Change in the provision for claims handling expenses	-120	-	-120
Translation difference	-94	13	-81
Balance as of December 31	**80,150**	**-2,696**	**77,454**

€000	2014		
Provision for unearned premiums	**Liabilities arising from insurance contracts**	**Reinsurer's share of liabilities**	**Net**
Balance as of January 1	**39,275**	**-687**	**38,588**
Premiums written in the year	122,574	-2,978	119,596
Premiums earned during the year	-121,777	3,130	-118,647
Translation difference	-	3	3
Balance as of December 31	**40,072**	**-532**	**39,540**

€000	2013		
Provision for unearned premiums	**Liabilities arising from insurance contracts**	**Reinsurer's share of liabilities**	**Net**
Balance as of January 1	**38,844**	**-771**	**38,073**
Premiums written in the year	116,906	-3,434	113,472
Premiums earned during the year	-116,389	3,513	-112,876
Translation difference	-86	5	-81
Balance as of December 31	**39,275**	**-687**	**38,588**

The development of claims: 2006- 2014

The overview of claims 2006-2014 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. The tables provides an overview of the accumulated estimates of claims development (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 claims paid is presented in the last 2 tables of claims development disclosure. The tables do not include information on actual claims handling expenses and the provision for claims handling expenses.

Various factors affect claims estimates changing over time, and it more often happens for lines with longer tail. While the information in the table discloses historical perspective of the adequacy of claims outstanding estimates, it alone would not be sufficient basis to conclude on the adequacy of estimates of claims outstanding as at the end of 2014. The company believes that the estimate of provision for outstanding claims as at the end of 2014 is adequate to cover claims incurred till the 31.12.2014 (irrespective of whether these claims have been reported or not). It is clear, however, that final amounts paid by the company will differ from the estimates due to inherent uncertainty, though company targets having those differences as little as possible.

Development of claims gross

€000	...-2006	2007	2008	2009	2010	2011	2012	2013	2014
At 31 December									
Accident year	80,389	85,252	94,668	78,364	71,683	66,946	68,357	72,737	69,821
1 year later	74,421	79,899	87,122	74,913	71,690	69,644	67,616	75,086	
2 years later	73,485	78,154	86,555	72,158	70,102	69,248	67,390		
3 years later	76,426	77,191	82,891	69,665	69,012	66,545			
4 years later	70,827	75,720	80,397	68,301	69,259				
5 years later	60,765	73,433	78,852	67,096					
6 years later	58,825	72,848	78,018						
7 years later	56,750	72,515							
8 years later	53,276								
Provision for outstanding claims (incl. IBNR) as of 31.12.2014	6,060	2,888	3,235	3,317	6,765	6,257	12,330	13,753	23,221

Development of claims net

€000	...-2006	2007	2008	2009	2010	2011	2012	2013	2014
At 31 December									
Accident year	62,111	82,518	89,978	77,294	71,365	66,527	68,032	72,110	69,381
1 year later	56,090	76,774	83,860	74,021	71,390	69,179	67,323	74,374	
2 years later	55,837	75,010	83,139	71,252	69,847	68,781	67,098		
3 years later	55,341	74,646	79,915	69,118	68,764	66,112			
4 years later	49,208	73,284	77,313	67,793	69,026				
5 years later	45,505	70,867	76,134	66,588					
6 years later	43,684	70,300	75,413						
7 years later	41,484	69,570							
8 years later	38,401								
Provision for outstanding claims (incl. IBNR) as of 31.12.2014	5,511	2,140	2,959	3,267	6,712	6,231	12,234	13,431	22,826

Claims paid, recourses and salvages (accumulated) gross

€000	...-2006	2007	2008	2009	2010	2011	2012	2013	2014
At 31 December									
Accident year	59,588	52,815	57,927	48,947	46,732	47,296	43,432	46,648	46,600
1 year later	78,373	67,627	72,218	60,598	60,916	57,908	54,967	59,474	
2 years later	81,454	68,750	73,306	62,964	60,951	59,997	56,077		
3 years later	86,592	69,272	74,722	63,806	61,871	60,355			
4 years later	88,035	69,541	74,944	63,872	62,660				
5 years later	88,366	69,666	74,973	64,006					
6 years later	88,446	69,675	75,121						
7 years later	88,648	69,636							
8 years later	88,706								

Claims paid, recourses and salvages (accumulated) net

€000	...-2006	2007	2008	2009	2010	2011	2012	2013	2014
At 31 December									
Accident year	52,095	52,455	57,528	48,744	46,548	47,285	43,273	46,574	46,555
1 year later	66,050	65,358	69,974	59,992	60,727	57,657	54,771	59,083	
2 years later	67,242	66,332	70,985	62,359	60,773	59,743	55,880		
3 years later	67,700	66,651	72,399	63,190	61,692	59,940			
4 years later	67,930	66,878	72,616	63,255	62,479				
5 years later	67,564	67,002	72,636	63,390					
6 years later	67,631	67,005	72,785						
7 years later	67,742	66,966							
8 years later	67,779								

Note 16. Corporate income tax

(A) INCOME TAX EXPENSE

€000	2014	2013
Current tax	975	542
Deferred tax	-48	-
TOTAL INCOME TAX EXPENSE	**927**	**542**
Specification of income tax expense		
Latvia	321	141
Lithuania	606	401
TOTAL	**927**	**542**

(B) RECONCILIATION OF TAX CHARGE

€000	2014	2013
Profit of Branches	**6,556**	**3,402**
Tax at 15%	**983**	**510**
Permanent differences	-21	36
Temporary differences	-1	-8
Recognition of previously unrecognized tax asset	-	3
Prior year tax adjustment	-8	19
Donation	-6	-3
Differences arising from unrealized gains and losses	-20	-17
Translation difference	-	1
TOTAL TAX CHARGE FOR THE YEAR	**927**	**542**

(C) DEFERRED TAX

€000	31.12.2014	31.12.2013
Deferred tax liability		
Accelerated capital allowances	24	70
Provision for amounts recoverable by subrogation	24	24
TOTAL DEFERRED TAX LIABILITY	**48**	**94**
Deferred tax asset		
Vacation reserve and other accruals	-167	-160
Doubtful debts	-61	-69
Asset valuation allowance for doubtful receivables	10	12
TOTAL DEFERRED TAX ASSET	**-218**	**-217**
NET DEFERRED TAX ASSET	**-170**	**-123**

SPECIFICATION OF DEFERRED TAXES

€000	2014	2013
Deferred tax liability		
Latvia	24	70
Lithuania	24	24
TOTAL	**48**	**94**
Deferred tax asset		
Latvia	-148	-143
Lithuania	-70	-74
TOTAL	**-218**	**-217**
Net deferred tax asset		
Latvia	-124	-73
Lithuania	-46	-50
TOTAL	**-170**	**-123**

(D) CURRENT CORPORATE INCOME TAX LIABILITY/RECEIVABLE (-) €000	31.12.2014	31.12.2013
At 1 January	**24**	**-111**
Calculated	973	542
Paid	-576	-407
At 31 December	**421**	**24**

Note 17. Investment into subsidiary

Support Services AS
Field of activity: sales and claims handling back-office services to If Finland and If Norway
Legal address: Lõõtsa 8a, Tallinn 11415

€000	31.12.2014	31.12.2013
Acquisition cost of shares	**88**	**88**
Number of shares	25,000	25,000
Participation	**100%**	**100%**
Total owner's equity	**2,656**	**2,634**
Share capital	25	25
Share premium	63	63
Mandatory reserve	401	401
Retained earnings	2,144	1 375
Profit for the period	22	770
Investment in the company's statement of financial position	**88**	**88**

As of 31 December 2014 the number of issued shares was 25,000 shares with nominal value 1 EUR.

Note 18. Owner's equity

Share capital
As of 31.12.2014 the number of issued shares was of 6,391,165 with nominal value 1 EUR.

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 31.12.2014, share premium amounted to €3,679 thousand (31.12.2013: €3,679 thousand).

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 31.12.2014, mandatory reserve amounted to €2,362 thousand (31.12.2013: €2,362 thousand).

Retained earnings
On 25 March 2014, the sole shareholder resolved the dividend to be paid out in amount of €3,000 thousand and earnings after dividend's payment in amount of €81,760 thousand to be carried forward.

Dividends paid and proposed

€000	2014	2013
Declared and paid during the year	3,000	7,000
Final equity dividend per ordinary share	€0.4694	€1.095

FINANCIAL STATEMENTS

The company's potential income tax liability
As of 31.12.2014 the company's retained earnings amounted to €98,779 thousand (2013: €84,760 thousand). Undistributed profit from Estonian activities amounts to €91,673 thousand (2013: €81,144 thousand).

The maximum possible income tax liability in Estonia related to the payment of the company's retained earnings, excluding retained earnings of Latvian and Lithuanian branches, as dividends is €18,335 thousand (2013: €16,229 thousand). The company could thus pay total €78,967 thousand (2013: €67,775 thousand) in net dividends including profits of branches in amount of €5,629 thousand (2013: €2,860 thousand) taxed already in Latvia and Lithuania, respectively.

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 statement of comprehensive income in 2015, would not exceed the retained earnings as of 31.12.2014.

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 Company's income statement amount to €808 thousand (2013: €1,956 thousand).

As of 31.12.2014, the company had the following deferred liabilities arising from operating lease contracts:

- up to 1 years €585 thousand (as of 31.12.2013 €1,589 thousand)
- 1 to 5 years €1,248 thousand (as of 31.12.2013 €3,433 thousand)

Note 20. Related party transactions

1. Information about related companies

Subsidiary
The subsidiary Support Services AS is located in Tallinn, Estonia has been providing sales and claims handling back-office services to the group companies If Finland and If Norway.

Note 21. Events after the balance sheet date

Starting from the 1 January 2015 joined Lithuania euro zone and Lithuanian litas (LTL) has been replaced by euro (EUR). From this date the Lithuanian branch accounting has been converted into euro by the official exchange rate 3.4528 LTL/EUR.