If P&C Insurance AS

ANNUAL REPORT

2012

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 2012
End of financial report: 31 December 2012
Chairman of the Management Board: Andris Morozovs
Auditor: Ernst & Young Baltic AS

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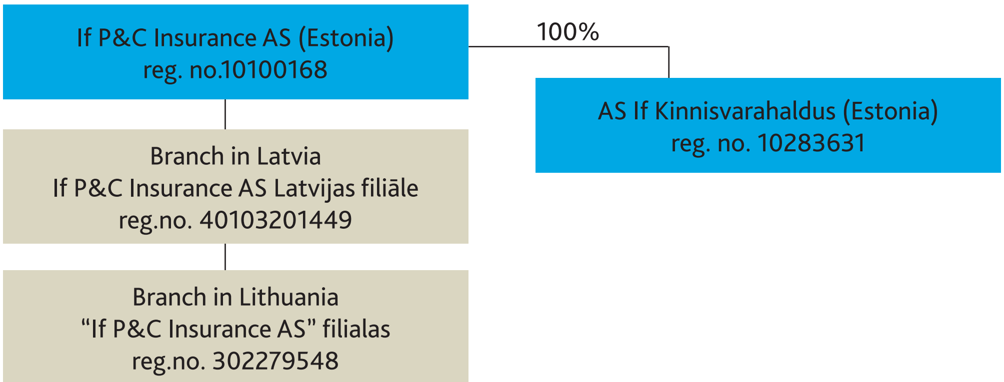
ORGANIZATION

If 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.

LEGAL STRUCTURE OF THE CONSOLIDATED GROUP



ECONOMIC OUTLOOK

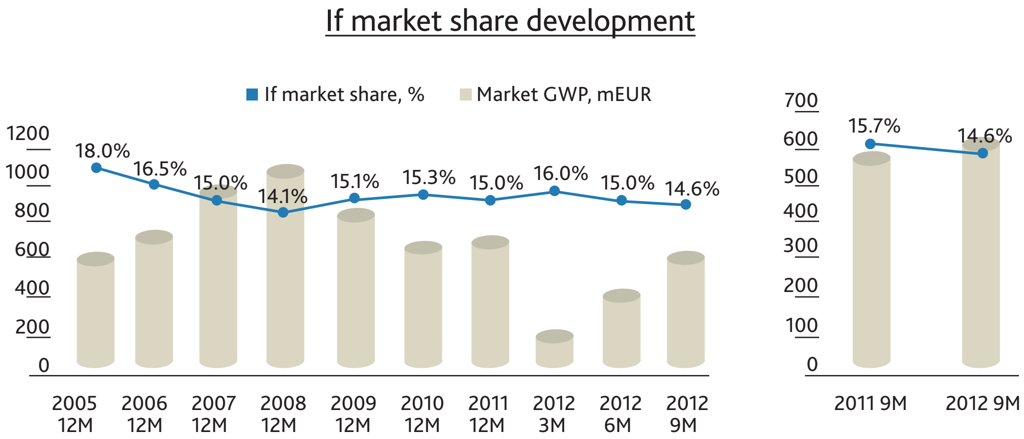
The economy in the Baltic States continued to recover in 2012. Latvia's gross domestic product (GDP) grew by 5.6% in the first nine months of 2012, while in both Lithuania and Estonia GDP growth was slower – 3.5% and 3.1% respectively in the same time period. By the end of 2012, GDP is expected to have grown by roughly 5% in Latvia and by roughly 3% in Lithuania and Estonia. Economic growth has been primarily fuelled by exports and increase in consumer spending, but also by a continued increase in industrial output. On the other hand, the unemployment rate continues to be very high and only minor improvement is expected in the years ahead.

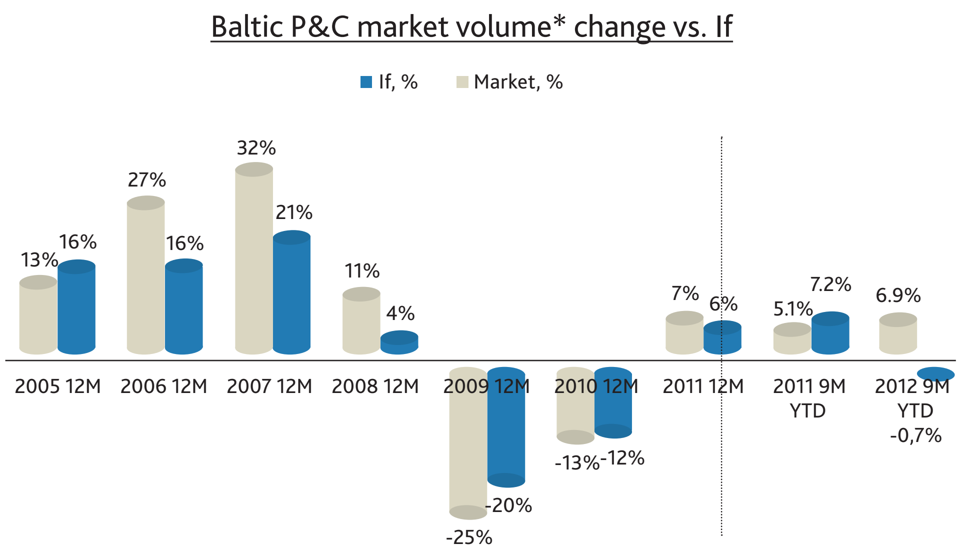
During 2012 inflation picked up faster than expected in all Baltic countries, Estonia especially. Inflation in 2012 was 3.9% in Estonia, 3.1% in Lithuania and 2.3% in Latvia. The increase in the inflation rate was influenced by hikes in electricity, heat energy, fuel and food prices, which affected consumer prices more than anticipated. Inflation for 2013 is expected to remain at the same level as in 2012.

Economic development in the Baltic region in 2013 is estimated to be stable, but is dependent on the economic development of main export partners. Economic growth for 2013 is forecasted to be at the same level as in 2012 in Estonia and Lithuania, but slightly slower in Latvia. The main contributor for growth in the Baltic states is expected to be growth in industrial production and exports, but also growth in domestic demand. Development in the Baltic States is strongly dependant on macro-economic development in Europe.

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 grew by 6.9% in the first nine months of 2012 (the latest available information). The insurance market in Latvia showed the strongest growth amongst the Baltic States, 9.2% in the first 9 months. The Latvian non-life insurance market showed the strongest growth in Personal Accident lines, with especially strong growth in Health products. The growth was mainly supported by macro-economic development, and also government institutions starting to insure their employees to a higher extent. Estonia and Lithuania's non-life insurance market showed a somewhat slower growth, 6.3% and 5.9% respectively. Motor insurance volumes grew due to an increase in car sales and an increased number of leased cars. In Estonia If is market leader with a 27.9% market share. Its market share is 11.6% in Latvia and 7.7% in Lithuania (first 9 months of 2012).





MANAGEMENT REPORT

OPERATIONS

If sells insurance products to corporate and private customers via direct sales, internet, brokers and partners. If has 30 sales and customer service offices all over Estonia, with the largest offices located in Tallinn, Tartu and Pärnu. The company has 3 offices in Latvia and 10 in Lithuania, all located in the main towns. If holds the second largest position by insurance volumes among all non-life insurance providers in the Baltic States. The number of customers in the Baltics is approximately 340,000 and this includes both private individuals as well as companies.

Throughout the year attention has been on improving existing e-solutions. In 2012 the company sold more than 100,000 policies via the Internet and 70% of claim statements also reach us over the Internet. If is confident that the growth trend on the Internet will continue as result of continued investments in product development and user friendliness of the Internet portal.

The year 2012 was also successful in the partner channel, supported by product development and development of systems for cooperation with car importers and car retailers.
At the end of the year strategic partnership with Nordea Banking Group was agreed. In the near future the co-operation will offer tailor made insurance solutions for Nordea customers.

One of the product innovations for customers in 2012 was the pre-paid Insurance Card (Kindlustuskaart) concept in the Estonian market in co-operation with the leading fuel retailer Statoil. The concept is unique in the region and allows customers to buy MTPL (Motor Third Party Liability) insurance in the easiest way and has become very popular.

As the 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 attentive to raising awareness of insurance products in society, especially in areas where insurance coverage is low or, in many cases, nonexistent.

The company continues to focus on high quality in claims handling. Claims handling should take place with the highest speed and convenience for the customer. This is in line with If's slogan 'claims handling the way it should be'.
For property customers in Latvia If provides a 24/7 help service – the so-called Home Assistance service as the first line of help to a customer in case of any problems with property, around the clock, including on weekends. Furthermore, since September 2012 If also ensures Direct Claims handling for both MTPL customers who are involved in the same claim.

The company efforts towards its customers do not go unnoticed. In 2012, the market research company Spect Dive declared that If is the best client service provider among non-life insurance companies in Lithuania, and the company has reached the top 100 most preferred brands in Estonia as shown by a survey.
In the coming years If will maintain focus on improving its back-end and front-end IT systems and pay special attention on improving the efficiency of business processes.

RESULTS FROM OPERATIONS

Consolidation group (€000)	2012	2011	2010
Premiums written, gross	115 166	113 932	108 470
Premiums earned, net of reinsurance	110 955	110 035	109 287
Claims incurred, net of reinsurance	65 135	58 239	64 637
Total operating expenses	31 826	31 933	30 977
Technical result	14 367	20 229	14 078
Net profit	20 719	21 466	16 187
Combined ratio	87.2%	81.7%	87.2%
Expense ratio	28.5%	28.8%	28.1%
Loss ratio	58.7%	52.9%	59.1%
Financial assets	184 710	195 839	180 275
Return on investments per annum	3.8%	1.0%	1.0%
Balance sheet volume	217 153	228 750	224 566
Owner's equity	93 053	111 051	89 524

Formulas

Expense ratio

$$\frac{\text{Total insurance contract acquisition costs and administrative expenses (+) reinsurance commissions}}{\text{Premiums earned, net of reinsurance}}$$

Loss ratio

$$\frac{\text{Claims incurred, net of reinsurance}}{\text{Premiums earned, net of reinsurance}}$$

Combined ratio

Expense ratio + loss ratio

Annual return on investments

$$\frac{\text{Return on investments including investment expenses}}{\text{Weighted average volume of financial investments in the period}}$$

Results

In 2012, the technical result decreased in comparison to the year before, and ended at €14.4 million (2011: €20.2 million). The decrease in the technical result is explained by a higher number of large claims throughout 2012 compared to 2011.

Premium earned

In the year 2012, the overall stable economic development of the Baltic States continued to support the non-life insurance market. The Company's gross written premiums increased by €1.2 million to €115.2 million (2011: €113.9 million). Premium volumes increased in Latvia and Estonia. In Lithuania premium volumes decreased due to enhanced focus on improving the business' profitability.

Claims and operating expenses

Claims, including claims adjustment expenses, increased €6.9 million to €65.1 million (2011: € 58.2 million).

Operating expenses, excluding claims adjustment expenses, decreased €0.1 million to €31.8 million (2011: €31.9 million). Continuous efforts to create more cost-efficient processes in distribution, customer service and claims handling had a favourable impact on costs development during the year.

Net profit and tax cost

Net profit ended at €20.7 million (2011: €21.5 million) in 2012. Current tax costs accounted for €0.82 million (2011: €0.73 million)

Financial ratios

The company's expense ratio remained at the same level: 28.5% (2011: 28.8%).

The loss ratio, including claims adjustment expenses, worsened during 2012 and amounted to 58.7% (2011: 52.9%). Results of property products were negatively affected by the increased cost of large claims throughout the year. Results for motor products was supported by low claims frequencies in 2012, especially at the beginning of the year because of the mild winter weather. Results for Lithuania continued to improve as a result of various actions related to profitability.

The combined ratio increased to 87.2% (2011: 81.7 %). The increase is explained by worsened loss ratio outcome for large claims.

INVESTMENT RESULT

The assets of the company have decreased from €228.7 million as of the beginning of the year to €217.0 million as at 31 December 2012. Financial assets (€184.7 million as at 31 December 2012) are €72.4 million higher than the obligations under insurance contracts net of reinsurance assets, resulting in a strong solvency position.

The Company's investment portfolio earned an investment return of 3.8 % in 2012 (2011: 1.0%). YTD performance (without investment expenses) for fixed income portfolio was +4.4% (2011: +1.4%). The average weighted credit rating for the holdings in the investment portfolio as of 31 December 2012 was A+ using Standard & Poor's scale (2011: A+).

SOLVENCY CAPITAL AND CASH FLOW

Solvency capital decreased to €88.3 million compared with €107.2 million in 2011 due to the dividend pay-out in the amount of €39.0 million.

RISK IN OPERATIONS

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

PERSONNEL

As an employer, If P&C Insurance AS strives to create a work environment and an atmosphere where talented people can and want to grow. Consequently, human resource issues such as performance management, competence and leadership development are the focus areas within the company.

On December the 31st 2012, the number of full time employees in the company was 576 (2011: 559). The company's expenses for personnel totalled €16.9 million in 2012 (2011: €15.5 million).

All HR activities support company strategy. During 2012 people strategy had the theme 'Skills and Initiatives'. The aim of this initiative was to strengthen the focus on customers, competence culture and innovation ability.

Performance Management was thoroughly discussed in 2012 to secure that If has all the necessary skills in place to maintain performance leadership. As a result of the discussions, HR launched the If People Framework – a road map to Performance Management.
The If People Framework put emphasis on personnel issues; key areas in 2012 were:

- Developing If's leadership model: Leadership the If Way
- Emphasizing employeeship – If Performance Management
- Ensuring 'right person in the right place'
- Continued investments in competence development and innovation.

The result of the bi-annual employee satisfaction survey Temper continues to be good: 96% of employees responded that they enjoyed working in If and the score of 6.27 (out of 7) for the question 'My leader and I have good co-operation' is encouraging. High employee satisfaction is the basis for high customer satisfaction and good financial results.

APPLIED ACCOUNTING PRINCIPLES

The 2012 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.

Heinar Olak,
Member of the Management Board

Artur Praun,
Member of the Management Board

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (€000)

REVENUE	Note	2012	2011
PREMIUMS EARNED, NET OF REINSURANCE			
Premiums earned		114 254	113 433
Premiums ceded		-3 299	-3 398
TOTAL	**3**	**110 955**	**110 035**
OTHER INCOME			
Reinsurance commissions		222	258
Return on investments	4	7 170	1 962
Other income		151	108
TOTAL		**7 543**	**2 328**
TOTAL REVENUE		**118 498**	**112 363**
EXPENSES			
CLAIMS INCURRED, NET OF REINSURANCE			
Claims incurred, gross	5	-65 223	-51 745
Reinsurer's share in claims paid	5	88	-6 494
TOTAL		**-65 135**	**-58 239**
EXPENSES			
Insurance contract acquisition costs	6	-20 748	-20 520
Administrative expenses	6	-11 078	-11 413
TOTAL		**-31 826**	**-31 933**
TOTAL EXPENSES		**-96 961**	**-90 172**
NET RESULT BEFORE TAXES		**21 537**	**22 191**
INCOME TAX	16	-818	-725
NET PROFIT FOR THE FINANCIAL YEAR		**20 719**	**21 466**
OTHER COMPREHENSIVE INCOME			
Change in the value of available-for-sale assets	4	329	-
Exchange differences on translating foreign operations		-46	62
TOTAL		**283**	**62**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**21 002**	**21 528**

The notes to the financial statements set out on pages 14 to 68 form an integral part to the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (€000)

ASSETS	Note	31.12.2012	31.12.2011
Cash and cash equivalents	7	2 622	2 860
Financial assets	10	184 710	195 839
Receivables related to insurance activities	8	12 416	12 547
Accrued income and prepaid expenses	9	3 858	3 650
Deferred tax asset	9,16	123	483
Reinsurance assets	15	3 408	3 846
Intangible assets	11	4 758	3 884
Property, plant and equipment	12	5 258	5 641
TOTAL ASSETS		**217 153**	**228 750**
LIABILITIES AND OWNER'S EQUITY			
Liabilities related to insurance activities	13	4 714	5 549
Accrued expenses and prepaid revenues	14	3 621	3 713
Liabilities arising from insurance contracts	15	115 765	108 437
Total liabilities		**124 100**	**117 699**
Share capital		6 391	6 391
Share premium		3 679	3 679
Mandatory reserve		2 362	2 362
Revaluation reserve		327	44
Retained earnings		59 575	77 109
Net profit for the year		20 719	21 466
Total owner's equity	**18**	**93 053**	**111 051**
TOTAL LIABILITIES AND OWNER'S EQUITY		**217 153**	**228 750**

The notes to the financial statements set out on pages 14 to 68 form an integral part to the consolidated financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (€000)

	RESTRICTED EQUITY					UNRESTRICTED		
				Revaluation reserv				
	Share capital	Share premium	Manda-tory reserve	Available-for -sale-financial assets	Foreign currency transla-tion reserve	Retained earnings	Net profit for the year	Total equity
Equity at beginning of 2011	**6 391**	**3 679**	**2 362**	**-**	**-18**	**77 109**	**-**	**89 523**
Other comprehensive income	-	-	-	-	62	-	-	62
Profit for the year	-	-	-	-	-	-	21 466	21 466
Equity at end of 2011	**6 391**	**3 679**	**2 362**	**-**	**44**	**77 109**	**21 466**	**111 051**
Equity at beginning of 2012	**6 391**	**3 679**	**2 362**	**-**	**44**	**98 575**	**-**	**111 051**
Paid dividends	-	-	-	-		-39 000	-	-39 000
Other comprehensive income	-	-	-	329	-46	-	-	283
Profit for the year	-	-	-	-	-	-	20 719	20 719
Equity at end of 2012	**6 391**	**3 679**	**2 362**	**329**	**-2**	**59 575**	**20 719**	**93 053**

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

The notes to the financial statements set out on pages 14 to 68 form an integral part to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (€000)

CASH FLOW FROM OPERATING ACTIVITIES	Note	2012	2011
Premiums received	3, 8, 13	114 786	115 823
Premiums ceded	3, 13	-3 612	-3 542
Claims paid, incl. Claims handling expenses	5, 6, 8	-58 486	-69 116
Cash flow from reinsurance		624	1 216
Employee-related and service-related expenses		-31 450	-30 379
Income tax paid	16	-460	-1 130
Investments in fixed income securities		-79 978	-240 578
Proceeds from disposals of fixed income securities		73 893	162 689
Investments in term deposits		-87 870	-340 419
Proceeds from term deposits		110 400	402 231
Interest received		2 621	3 247
CASH FLOW OPERATING ACTIVITIES, NET		**40 468**	**42**
TOTAL CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment, and intangible assets	11, 12	-1 790	-2 110
Proceeds from disposal of property, plant and equipment, and intangible assets		82	15
CASH FLOW FROM INVESTING ACTIVITIES, NET		**-1 708**	**-2 095**
CASH FROM FROM FINANCING ACTIVITIES			
Paid dividends		-39 000	-
CASH FLOW FROM FINANCING ACTIVITIES, NET		**-39 000**	**-**
CHANGE IN CASH FLOW, NET		**-240**	**-2 053**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	7	**2 860**	**4 906**
Effects of exchange rate changes on cash and cash equivalents		2	7
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	7	**2 622**	**2 860**

The notes to the financial statements set out on pages 14 to 68 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 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 (hereinafter the Group).

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 Group for the year ended 31 December 2012 were authorized for issue in accordance with a resolution of the Management Board on 25 February 2013.

2. Basis of preparation

The consolidated financial statements 2012 of the Group 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 have been measured at fair value.

The consolidated 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.

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 Group as a whole. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group 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 2012, because the Group did not have items or transactions addressed by these changes:
a) Amendment to IFRS 7 Financial Instruments - Enhanced Derecognition Disclosure Requirements
b) Amendment to IAS 12 Deferred tax - Recovery of Underlying Assets

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 (IFRIC) issued as of the date of authorization of these consolidated financial statements for issue, but which are not yet effective, 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 2012.
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 has not yet evaluated the impact of the implementation of those amendments:

a) Amendment to IAS 1 *Financial Statement Presentation* (Amended) – Presentation of Items of Other Comprehensive Income (OCI). The amendment is effective for financial years beginning on or after 1 July 2012.
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified.
b) Amendment to IAS 32 *Financial Instruments*: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities. The amendment is effective for financial years beginning on or after 1 January 2014.
This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous
c) Amendment to IFRS 7 *Financial Instruments*: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities. The amendment is effective for financial years beginning on or after 1 January 2013.
The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied.
d) IFRS 9 *Financial Instruments - Classification and Measurement*. The new standard is effective for financial years beginning on or after 1 January 2015, once endorsed by the EU)
IFRS 9 will eventually replace IAS 39. The IASB has issued the first two parts of the standard, establishing a new classification and measurement framework for financial assets and requirements on the accounting for financial liabilities

e) IFRS 10 *Consolidated Financial Statements.* The new standard is effective for financial years beginning on or after 1 January 2014.
IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. Examples of areas of significant judgment include evaluating de facto control, potential voting rights or whether a decision maker is acting as a principal or agent. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation — Special Purpose Entities.

f) IFRS 12 *Disclosures of Interests in Other Entities*. The new standard is effective for financial years beginning on or after 1 January 2014.
IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures also will be required such as disclosing the judgments made to determine control over another entity.

g) IFRS 13 *Fair Value Measurement* (effective for financial years beginning on or after 1 January 2013).
The main reason of issuance of IFRS 13 is to reduce complexity and improve consistency in application when measuring fair value. It does not change when an entity is required to use fair value but, rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS.

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

a) Amendment to IAS 19 *Employee Benefits* (Amended). The amendment is effective for financial years beginning on or after 1 January 2013.
b) Amendment to IAS 27 *Separate Financial Statements* (effective for financial years beginning on or after 1 January 2014).
c) Amendment to IAS 28 *Investments in Associates and Joint Ventures* (Revised). The Standard is effective for financial years beginning on or after 1 January 2014.
d) IFRS 11 *Joint Arrangements*. The new standard is effective for financial years beginning on or after 1 January 2014.
e) Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities (effective for financial years beginning on or after 1 January 2014, once endorsed by the EU)
f) IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*. The interpretation is effective for financial years beginning on or after 1 January 2013.

Improvements to IFRSs (effective for financial years beginning on or after 1 January 2013, once endorsed by the EU)

In May 2012, the IASB issued omnibus of necessary, but non-urgent amendments to its five standards:

- IFRS 1 *First-time adoption of IFRS;*
- IAS 1 *Presentation of Financial Statements;*
- IAS 16 *Property, Plant and Equipment;*
- IAS 32 *Financial instruments: Presentation;*
- IAS 34 *Interim Financial Reporting.*

The adoption of these amendments may result in changes to accounting policies but will not have any impact on the financial position or performance of the Group.

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 2012, gross insurance technical provisions amounted to €115,765 thousand (2011: €108,437 thousand), of which the reinsurer's share amounted to EUR 3,408 thousand (2011: € 3,846 thousand). Insurance technical provisions have been described in section 5 of Note 1.

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 2012, the total balance of recourses amounted to €13,539 thousand of which €1,016 thousand was deemed to be with significant recoverability by the management (in 2011, €12,343 thousand and €1,509 thousand respectively). Salvages are evaluated on the basis of the sales price of similar assets on the market. As of the end of 2012, the management assessed the salvage value to amount to €302 thousand (2011: €191 thousand).

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 amounted to €161,600 as at the end of 2012 (€150,185 thousand in 2011). 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 0.998-0.999 (2011: 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 policies of the subsidiary, or if the parent company has the right to appoint or remove a majority of the members of the Supervisory Board of the subsidiary.

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 Group 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 Group. Items included in the financial statements of each of the Group'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:

	31.12.2012	31.12.2011
	EUR	EUR
Latvian lat (LVL)	1.4333	1.4296
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 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 administrative expenses indirectly related to claims handling. Claims handling expenses include the respective expenses incurred by the insurer, incl. wages and salaries, social tax and administrative expenses related to claims 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

Initial recognition and measurement

The Group determines the classification of its financial assets at initial recognition.
Financial assets are classified in the following categories upon the initial recognition:

- financial assets measured at fair value through profit or loss (financial assets held for traiding or designated upon initial recognition at fair value through profit or loss);
- 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);

Financial assets are recognized initially at fair value plus, in case of investments not at fair value through profit or loss, directly attributable transaction costs.
In previous period the Group recorded investments at fair value through profit or loss category. Financial assets at fair value through profit or loss were assets held for trading except of certificates of deposits which were designated upon initial recognition at fair value through profit or loss.
Starting from September 2012 the Group elected to classify newly purchased financial assets in available for sale category because investments held for trading recorded at fair value through profit and loss were not traded actively. The Group has classified deposits as loans and receivables.
The Group has not classified any financial assets as "investments held to maturity" in the reporting or comparative period. The Group had no derivative instruments.
Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset. Loans and receivables are recognized when cash is advanced.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

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

These investments are initially recorded at fair value. Subsequent to initial recognition, they are remeasured 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, are recognized under "Return on investments" in the consolidated statement of comprehensive income.

The Group evaluates its financial assets at fair value through profit and loss (held for trading) whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect not to classify newly purchased financial assets in fair value through profit or loss category. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

The fair value of listed securities is based on the bid price of the security 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.

Available-for-sale financial assets

Available-for-sale financial investments include debt securities and certificates of deposit which are purchased starting from September 2012. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses recognised inother comprehensive income in the available-for-sale reserve (equity). Where the insurer holds more than one investment in the same security that they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale investments is reported as interest income using the effective interest rate (EIR).When the asset is derecognised the cumulative gain or loss is recognised in other operating income, or determined to be impaired, or the cumulative loss is recognised in the income statement in finance costs and removed from the available-for-sale reserve.

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 Group 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.

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 Group retains the right to receive cash flows from the asset or 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 Group has transferred substantially all the risks and rewards of the asset
    Or
  - The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group 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 Group'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 Group could be required to repay.
In that case, the Group 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 Group has retained.

Impairment of financial assets

The Group 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 Group.
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 consolidated 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 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.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group 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 Group 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 Group 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.

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 include capitalized costs for the development of various insurance systems. During 2012, €1,851 thousand was capitalized (2011: €1,613 thousand).
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 2012 (21/79 until 31 December 2011) 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% (2011: 15%) and for Lithuanian branch 15% (2011: 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 €2,362 thousand. 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 2012) 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 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. The operating result depends on both the underwriting result and the return on investment assets.

Risk management approach

The sole shareholder of the Company is If P&C Insurance Holding Ltd. The overall risk management 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. Within entire If Group sound risk management is seen as a decisive competitive advantage.

Main objectives with the Company's risk management are to ensure that sufficient return is obtained for the risks taken and that all risks are taken into account in pricing decisions and other business decisions. This requires all risks to be properly identified and monitored. Therefore core competences in the business operations are pricing of risks and proper management of the arising risk exposures.

Other objectives are to secure that the Company has sufficient capital in relation to the risk profile and to limit fluctuations in the financial result.

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. Framework for risk management within the Company is set in the Risk management Guideline.

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

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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 framework (hereinafter Framework) is established to secure the following activities:

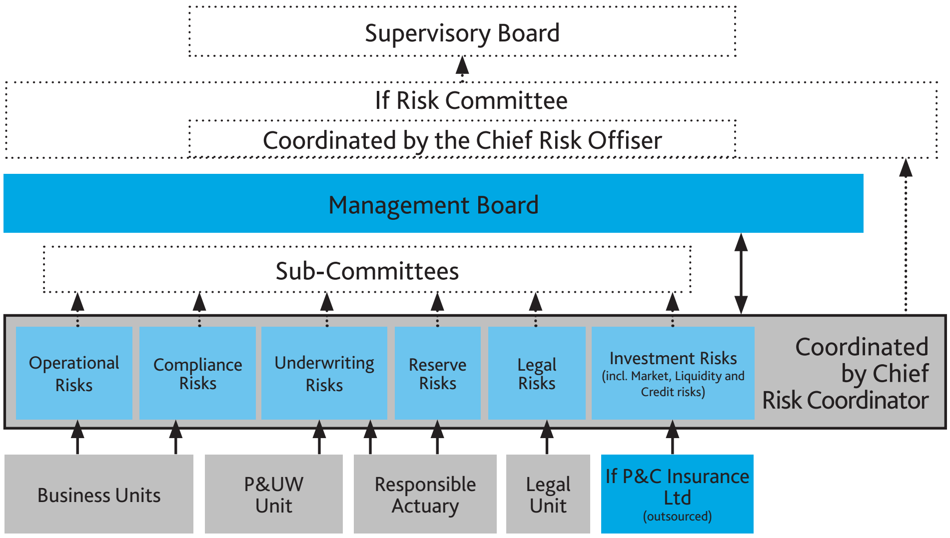
- Securing that all defined risk types are thoroughly assessed and followed-up;
- Implementation of risk limits and restrictions aligned with strategy and Risk Appetite;
- Risk reporting to the Management Board and to the respective risk committees in If Group if required.

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;
- 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 Framework.The Framework includes processes and activities performed by persons or groups ranging from the units of the Company (marked with colour in the table), If P&C Insurance Ltd, Sweden (investment management is outsourced from If Group) and coordinator's functions reporting to the Management Board and to the If Risk Committee (IRC), which in turn reports to the Supervisory Board. All If Group's reporting structure is not filled in with the colour in the table.

Table 1. Risk management reporting process



Business units in the Company ensure that they have the resources and tools in place to control and follow-up on the risks as well as to re¬port, as required, to the respective Risk Committee and to the Chief Risk Coordinator for forwarding quarterly to the Management Board and to the IRC.

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.

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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. This means ensuring that available capital exceeds the internal and regulatory capital requirements.

Capital management approach

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. Required capital and available capital are measured, analysed and reported according to the risk management reporting process 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 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. Solvency is 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 € 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 Company fulfilled all minimum requirements regarding the amount of assets included in available solvency margin of insurance undertakings during 2012 (it did so during 2011 as well).

Table 2. Capital position, €000

	31.12.2012	31.12.2011
Owner's equity	93 053	111 051
Intangible assets	4 758	3 884
Available solvency margin	88 295	107 167
Required solvency margin	21 008	21 008
SURPLUS OF SOLVENCY MARGIN	67 287	86 159

c) Underwriting risks

Underwriting risk is the risk of loss or of adverse changes in the value of insurance liabilities, due to uncertainty of 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.

Premium risk and catastrophe 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. Purpose of this guideline is to elaborate on principles for underwriting activities established by 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 large number of customers and the fact that business is underwritten in different geographical areas and across several insurance classes.

Despite the diversified portfolio, risk concentrations and thereby 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. 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 since 2003. In 2012, retention levels for the Company were €3.5million per risk and €3.5 million per event.

Quantification of premium risk

There is a risk, given the inherent uncertainty of P&C 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 3.

Table 3. Sensitivity analysis of premium risk, €000, December 31, 2012

Parameter	Current level, 2012	Change	Effect on pretax profit	
			2012	2011
Combined ratio	87.2%	+/-2% points	+/-2 219	+/-2 201
Premium level	110 954	+/-2%	+/-2 219	+/-2 201
Claims level	65 136	+/-2%	+/-1 303	+/-1 165

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.

The provision for unearned premiums is intended to cover anticipated claims costs and operating expenses during the remaining term of insurance contracts in force. Since claims are paid after they have occurred, it is also necessary to set provisions for claims outstanding. The technical provisions are the sum of provisions for unearned premiums and provisions for claims outstanding.

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 with long settlement timing. Motor Third Part Liability (MTPL), Liability and CMR insurance are products with the latter characteristics in the company.

Reserve risk management and control

Management Board of the Company decides on the guidelines governing the calculation of technical provisions (Baltic Reserving Guidelines). 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, which is maintained by Responsible Actuary and updates presented to the Management Board as well as to Estonian FSA. In order to ensure transparent sharing of information from reserving area within the company Reserve Steering Committee has been established. Responsible Actuary is responsible to provide relevant details on planned reserve methods' or assumptions' changes to the members of Reserves Steering Committee as well as be able to explain 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 framework. Reserve Steering Committee has regular meetings throughout the year.

Company's reserving actuaries analyze the uncertainty of technical provisions. The actuaries continuously monitor the level of provisions to ensure that they comply with established guidelines. 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 investment strategy.

Quantification of reserve risk

Table 4. Technical provisions per product, December 31, 2012

	31.12.2012		
Type of insurance	**Gross liabilities related to insurance contracts**	**Reinsurers' share of liabilities**	**Net liabilities**
Compulsory Motor TPL	44 592	528	44 064
Motor Own Damage	18 417	-	18 417
Private Property	9 719	419	9 300
Corporate Property	12 239	531	11 708
Liability	20 970	1 452	19 518
Personal Accident	1 805	2	1 803
Health	2 339	-	2 339
Other	5 684	476	5 207
TOTAL	**115 765**	**3 408**	**112 357**

Type of insurance	31.12.2011 Gross liabilities related to insurance contracts	Reinsurers' share of liabilities	Net liabilities
Compulsory Motor TPL	41 778	641	41 137
Motor Own Damage	18 160	-	18 160
Private Property	8 432	475	7 957
Corporate Property	10 010	608	9 402
Liability	20 784	1 344	19 440
Personal Accident	1 777	2	1 775
Health	2 616	-	2 616
Other	4 880	776	4 104
TOTAL	108 437	3 846	104 591

The durations of technical provisions for various products are shown in Table 5.

Table 5. Duration of technical provisions, December 31 2012

	31.12.2012	31.12.2011
up to 1 year	51 500	57 154
1-2 years	19 525	13 166
2-5 years	26 692	20 094
5-10 years	13 839	12 034
Over 10 years	4 209	5 989
TOTAL	115 765	108 437

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 December 31 is presented in Table 6.

Table 6 - Sensitivity test, reserve risk, December 31, 2012

Portfolio	Risk	Change in risk parameter	Country	Effect on liabilities/ pretax profit 2012	2011
Nominal reserves	Inflation increase	Increase by 1%-point	Estonia	1 841	1 873
			Latvia	162	130
			Lithuania	499	460
			TOTAL	2 502	2 463
Discounted reserves (annuities)	Decrease in discount rate	Decrease by 1%-point	Estonia	203	191
			Latvia	-	-
			Lithuania	2	2
			TOTAL	205	193
Annuities	Decrease in mortality	Mortality rates decrease by 20%	Estonia	21	27
			Latvia	-	-
			Lithuania	-	-
			TOTAL	21	27

e) **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.

f) **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 €184,710 thousand (2011: €195,839 thousand).

Table 7 . Allocation of investment assets

	31.12.2012	31.12.2011
Bonds and other fixed income securities	161 600	150 185
Loans and receivables (term deposits)	23 110	45 654
Total	**184 710**	**195 839**

The major market risk for the Company is interest risk.

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 31.12.2012 with comparative as of 31.12.2011 and is calculated before taxes. The below presentation of the sensitivity analysis is in line how the If Group presented it.

Table 8.Sensitivity analysis of the fair value of financial assets (€000)

Company's investment portfolio as of 31.12.2012				
Market risk sensitivty analysis	Parallel shift in the interest curve		Change in share prices	
	Up by 100 bp	Down by 100 bp	10%	-10%
Effect on financial results	-2 835	2 967	-	-

Company's investment portfolio as of 31.12.2011				
Market risk sensitivty analysis	Parallel shift in the interest curve		Change in share prices	
	Up by 100 bp	Down by 100 bp	10%	-10%
Effect on financial results	-1 180	1 220	-	-

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 managed this risk by keeping financial investments only in euros, which is approved by investment policy of the Company. At the end of 2012, 100% of investments are in euros (the same as at the end of 2011). As the rate of euro is fixed in relation to the Latvian and Lithuanian currencies, the currency risk is estimated to be very low.

g) 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.

Interest rate risk management and control

According to the Company's Investment Policy, the composition of investment assets must take into account the nature of the insurance commitments with respect to interest rate risk and inflation risk. The interest rate is managed by sensitivity limits for instruments sensitive to interest rate changes.

Since the technical provisions are predominantly stated in nominal terms in the balance sheet, the Company is mainly exposed to changes in future inflation. The economic value of these provisions, that is the present value of future claims payments, is however exposed to changes in interest rates. Furthermore, the provisions for annuities in Estonia and

Lithuania are discounted and potential changes in the discount rates will affect the level of technical provisions in the company's balance sheet.
The discount rates vary between countries mainly due to legislative differences, but are at least indirectly impacted by the prevailing interest rate environment. The duration of provisions and thus sensitivity to changes in interest rates are analyzed in greater detail in Table 5 and Table 6 in the section concerning underwriting risk.

Quantification of interest rate risk
The duration of fixed income investments was 1.5 years at year end 2012 (0.6 years in 2011).

h) Credit risks (including credit spread risk)

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 to which insurance undertakings are exposed in the form of counterparty default risk, issuer risk or market risk concentrations. Credit risks arise both from investment, insurance and reinsurance operations.
Credit spread risk is defined as the risk of loss due to changes in the credit spreads of fixed income instruments issued by banks or corporate and fixed income instruments issued by governments.

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.

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.
Credit risks are monitored at the Company's level and in reported to the IRCC regularly according to the set risk reporting process in the Company. Credit exposures are reported by ratings, instruments and the industry sectors of issuers and counterparties. Since credit risk is taken mainly as a part of investment operations where most of the investments are in tradable instruments, credit risk is by nature primarily spread risk and it is managed and monitored as part of market risk.
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 intermediaries, 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 intermediaries specify payment terms and compliance with these is systematically checked.

Quantification of credit risk

The table 9 below shows the maximum exposure to credit risk for the components of the balance sheet.

Table 9. Assets exposure to credit risk

	31.12.2012	31.12.2011
Cash and cash equivalents	2 622	2 860
Financial assets	184 710	195 839
Receivables related to insurance activities	12 416	12 547
Reinsurance assets	3 408	3 846
Total credit risk exposure	**203 156**	**215 092**

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(S&P)

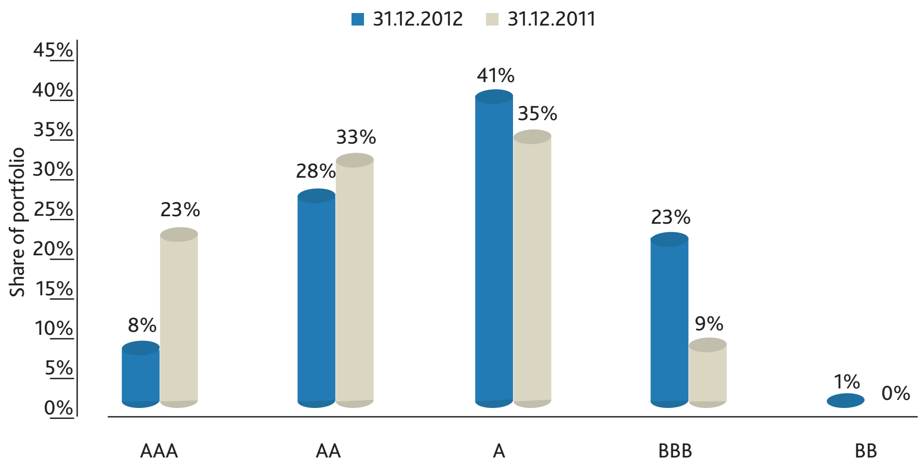
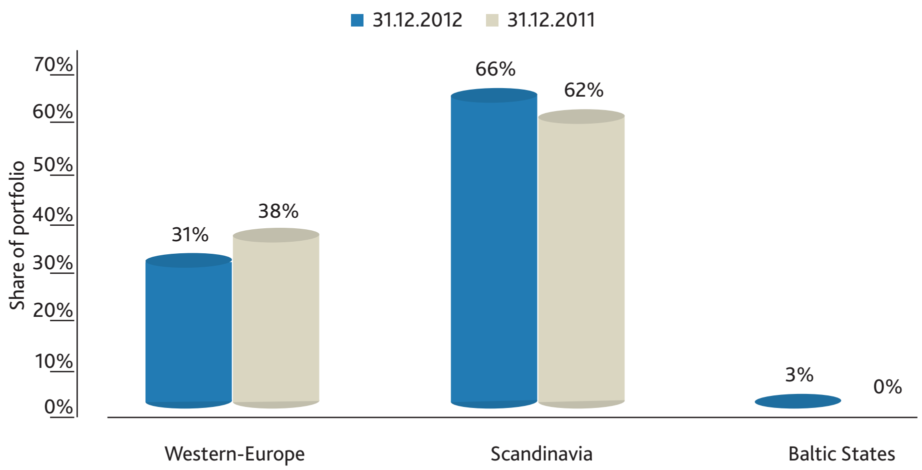


Figure 2. Division of fixed income securities by geographical areas.



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.

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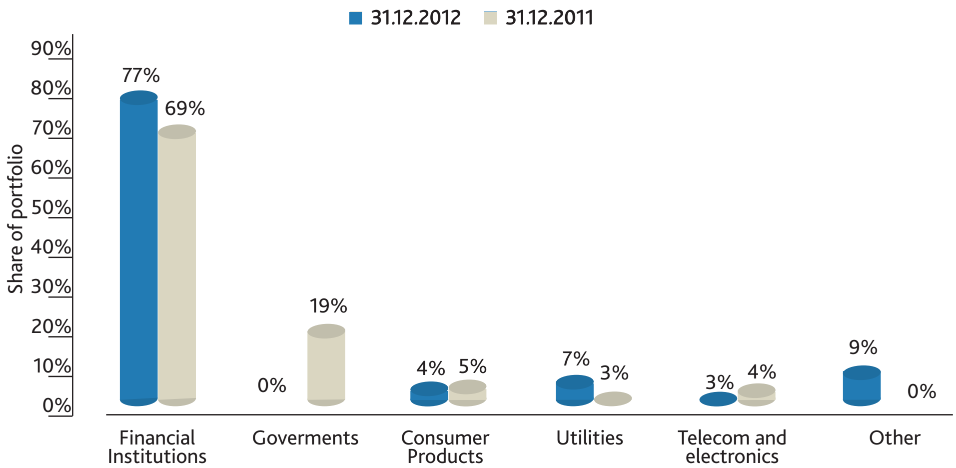
Figure 3. Sector allocation of fixed income investments



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.

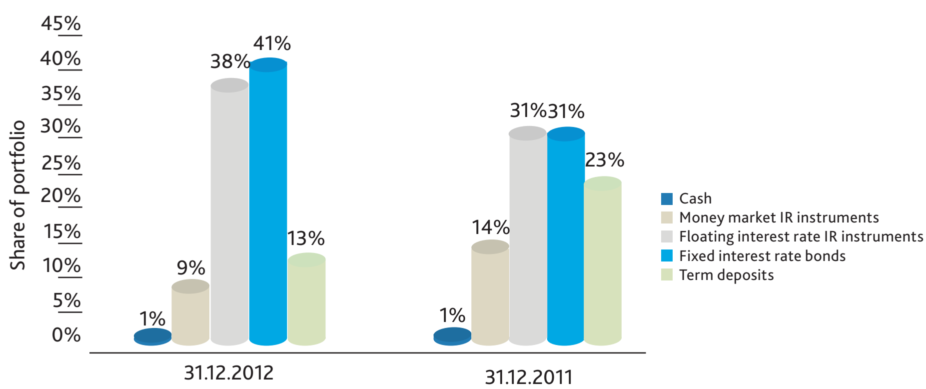
Liquidity risk management and control

In P&C insurance, the premiums are collected in advance.

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. The Company's excess–of–loss reinsurance contracts contain clauses permitting the immediate draw down of funds to meet claim payments. 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. Liquidity risk is reduced by having investments that are readily marketable in liquid markets. The available liquidity of financial assets is analyzed and reported in risk report on quarterly basis.

A more detailed classification of financial assets is presented in Figure 4 below.

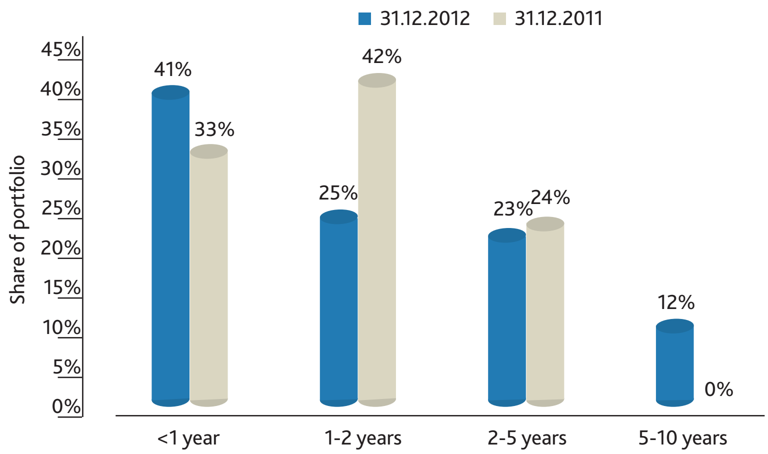
Figure 4. Cash and financial assets



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. The maturities of technical provisions are presented in Table 5 under reserve risk section.

Figure 5. Division of fixed income securities by maturity terms



l) **Risk concentrations**

Concentration risk is the risk arising from concentrations in the investment and insurance portfolios as well as in reinsurance contracts, to a single client, industry sector or geographic region.

Concentration risk management and control

In the Company's Investment Policy limits are set for maximum exposures towards single issuers and per rating class.

Concentration risks for the Company are mainly market and credit risks related to the individual counterparties' investment in the portfolio.

Quantification of Concentration Risk

Concentrations are illustrated in table Credit exposures by sectors, asset classes and rating, December 31, 2012 which are shown in Credit Risk section.

Table 10. Concentration of market and credit risks in the 5 biggest individual counterparties and asset classes, December 31, 2012 and December 31, 2011.

31.12.2012	IR instruments			
	Deposits	Certificates of Deposit (CD)	FRN and bonds	Total
Danske Bank A/S and branches	23 110	4 897	4 746	32 753
SEB AB Group	-	-	16 188	16 188
Nordea Finland Plc and branches	-	7 359	3 036	10 395
Raiffeisen-Boerenleenbank BA/ Netherlands	-	-	10 043	10 043
Svenska Handelsbanken AB	-	6 597	3 344	9 941
TOTAL	**23 110**	**18 853**	**37 357**	**79 320**

31.12.2011	IR instruments			
	Deposits	Certificates of Deposit (CD)	FRN and bonds	Total
SEB AB Group	21 341	-	16 186	37 527
Danske Bank A/S branches	24 313	4 490	-	28 803
Nordea Finland Plc and branches	-	12 243	-	12 243
Svenska Handelsbanken AB	-	11 554	-	11 554
Finland Government	-	-	10 316	10 316
TOTAL	**45 654**	**28 287**	**26 502**	**100 443**

m) Other risks

Operational risk

Operational risk is the risk of loss arising from inadequate or failed processes or systems, from personnel, or from external events.

Operational risk management and control

The responsibility to identify, evaluate, control and mitigate operational risks lies within the line organization. The Company identifies operational risks through different processes:

- Self-assessments identifying operational risks 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 most severe risks with control status yellow or red are reported also to the Operational Risk Committee.
- Incidents are reported via a web-based system. The reported incidents are received by the line organization in order to perform analyses.

The continuity of operational risk management is secured through the Operational Risk coordinators activities on Business Units level and the Chief Risk Coordinator activities on Company level. The Business Units ensure that they have the resources and tools in place to re-port, as required, to the Company's Chief Risk Coordinator. The Chief Risk Coordinator works across all business units, evaluating and supporting the units in their work to identify, assess, mitigate and monitor all risks. The Company's Chief Risk Coordinator quarterly provides the Management Board and If Group Operational Risk Committee (ORC) with a risk report.

In order to manage operational risks the Company has approved a number of different steering documents; Operational Risk Policy, Contingency Plans, Security Policy, Outsourcing Policy, Complaints Handling Policy, Claims Handling Policy, and other steering documents related to different parts of the organization. These documents are being reviewed and up dated at least yearly. In addition to this The Company has detailed processes and guidelines in order to manage possible external and internal frauds. Internal training on ethical rules and guidelines is a focus area.

<u>Compliance risk</u>
Compliance risk is the risk of legal or regulatory sanctions, material financial loss or loss to reputation an undertaking may suffer as a result of not complying with laws, regulations and administrative provisions as applicable to its activities. A compliance risk could be a consequence of a legal or operational risk.

<u>Compliance risk management and control</u>
The line organization owns and manages their compliance risks in the daily activities and reports to the Chief Risk Coordinator. A compliance risk is often the consequence of a legal or operational risk. A compliance risk could therefore be the risk of not abiding by new or amended external rules, so called practical risk. It could also be the risk of not organizing the Company's business in accordance with good practice in the insurance industry, structural risk.
Practical compliance risks in the business are identified within the ORA process, which is a self-assessment process, the same process as used for operational risks. 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 Company's Chief Risk Coordinator quarterly provides the Management Board and the Chief Compliance Officer of If Group with a risk report.

The most severe compliance risks with control status yellow or red are reported quarterly by the Chief Risk Coordinator to the IRCC.
A number of internal governing documents form the basis for the steering of the compliance activities, including compliance risk. Sampo Group Compliance Principles, Compliance Policy, Policy on Conflicts of Interest, Internal Control Policy, Risk Management Policy, Compliance Plan, Working Routines for the Compliance function and the Instruction for compliance coordinators. The documents are reviewed and updated yearly or when necessary.

<u>Reputational Risk</u>
A reputational risk is often a consequence of a materialized operational or compliance risk and is defined as potential damage to the company through deterioration of its reputation amongst customer and other stakeholders.

A good reputation is vital for success, especially in an insurance company where trust is an important factor in relation to customers, investors, employees and other stakeholders. Company's reputation is determined by how stakeholders perceive our performance in each and every aspect.
As operational and other risks may evolve into reputational risks if not handled correctly, the Communication department continuously work with making all employees aware of the importance of maintaining a good reputation and how potential reputational risks should be dealt with. One important aspect is to ensure a free flow of information to the Communication department when mistakes have occurred in the operation that might lead to reputational problems – a so called early warning system.

Legal Risk
A legal risk is the legal consequence of a materialized operational or compliance risk. In the Company, legal risk, which is included in the definition of operational risk, is defined as changes in law or regulation, a truly unpredictable legal development, and defective documentation/transactions.
Legal Unit is responsible for identifying legal risks within Company. In addition, Legal Unit is responsible for being updated on legislation, case law and products in relation to the insurance business. The Company's Chief Risk Coordinator quarterly provides the Management Board and the IRCC with a risk report.

n) Preparation for Solvency II

The Solvency II Framework Directive, which introduces a new risk-based solvency regime, was adopted in 2009. The Solvency II regulation which was postponed to 2014 may be further delayed.. There are uncertainties regarding the timeline for the implementation.

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.
A separate program was introduced within If Group in 2007 to have If well prepared when the Solvency II regulations enter into force.

The program has encompassed involvement in the Solvency II debate and a thorough review of If's corporate governance and internal control structure, the risk management framework, data capturing as well as development of the internal capital model. The development of a tool for external Solvency II reporting is ongoing. The program was finalized in 2012 and responsibilities transferred to the line organization.

NOTE 3. PREMIUMS EARNED, NET OF REINSURANCE

	2012	2011
Premiums written, gross	115 166	113 932
Incl. 100% of the reinsured portion	1 549	1 912
Change in the provision for unearned premiums	-912	-499
Premiums earned, gross of reinsurance	**114 254**	**113 433**
Reinsurance premiums	-3 167	-3 480
Change in the provision for unearned premiums	-132	82
Premiums earned, ceded	**-3 299**	**-3 398**
TOTAL	110 955	110 035

NOTE 4. RETURN ON INVESTMENTS

Interest income/expense	2012	2011
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other fixed income securities	2 749	1 485
Designated at fair value through profit and loss at inceptions:		
From certificates of deposit	265	464
Available-for-sale financial assets		
From bonds and other fixed income securities	70	-
Loans and receivables		
From deposits	265	992
From cash and cash equivalents	4	25
TOTAL	3 353	2 966

Profit from disposals		
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other fixed income securities	335	58
Designated at fair value through profit and loss at inceptions:		
From certificates of deposit	14	4
TOTAL	349	62

Loss from disposals		
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other fixed income securities	-	-155
Designated at fair value through profit and loss at inceptions:		
From certificates of deposit	-	-32
TOTAL	-	-187

Profit/loss from change in fair value	2012	2011
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other fixed income securities	3 930	-153
Designated at fair value through profit and loss at inceptions:		
From certificates of deposit	-24	46
TOTAL	**3 906**	**-107**
Investment expenses	**-438**	**-772**
TOTAL RETURN ON INVESTMENTS	**7 170**	**1 962**

Reconciliation of fair value reserve of available-for-sale financial assets	2012	2011
Opening balance, available-for-sale financial assets	-	-
Changes in fair value during the year, recognized in comprehensive income	329	-
CLOSING BALANCE, AVAILABLE-FOR-SALE FINANCIAL ASSETS	**329**	**-**

NOTE 5. CLAIMS INCURRED, NET OF REINSURANCE

Gross	2012	2011
Claims paid during the year related to that year	-46 735	-50 380
Claims paid related to previous years	-15 441	-20 630
Amounts recovered from salvage and recourses	6 828	5 147
Change in the provision for claims outstanding	-6 354	17 491
Claims handling costs	-3 521	-3 373
TOTAL	**-65 223**	**-51 745**
Reinsurer's share		
Claims paid during the year related to that year	159	12
Claims paid related to previous years	259	745
Change in the provision for claims outstanding	-330	-7 251
TOTAL	**88**	**-6 494**
Net		
Claims paid during the year related to that year	-39 748	-45 221
Claims paid related to previous years	-15 182	-19 885
Claims handling costs	-3 521	-3 373
Change in the provision for claims outstanding	-6 684	10 240
TOTAL	**-65 135**	**-58 239**

NOTE 6. OPERATING EXPENSES

	2012	2011
Personnel expenses	-16 859	-15 456
Commissions to intermediaries	-8 965	-8 644
Data processing	-2 545	-3 801
Expenses on premises	-2 562	-2 620
Office expenses (incl. communication expenses)	-1 244	-1 463
Other operating expenses	-3 172	-3 322
TOTAL	**-35 347**	**-35 306**

Division of costs on the basis of functions		
Insurance contract acquisition costs	-20 748	-20 520
Administrative expenses	-11 078	-11 413
Claims handling expenses	-3 521	-3 373
TOTAL	**-35 347**	**-35 306**

NOTE 7. CASH AND CASH EQUIVALENTS

Cash total by currencies	31.12.2012	31.12.2011
EUR	1 577	1 030
LVL	666	832
LTL	379	994
USD	-	4
TOTAL	**2 622**	**2 860**

NOTE 8. RECEIVABLES RELATED TO INSURANCE ACTIVITIES AND SPECIFICATION OF BAD DEBTS

	31.12.2012	31.12.2011
Receivables related to direct insurance activities, incl.	10 600	10 810
- policyholders	7 256	7 303
- intermediaries	1 976	1 752
- recourses with significant recoverability	1 016	1 509
- salvages	302	191
- other	50	55
Receivables from reinsurance	1 633	1 617
- incl. from related parties (Note 20)	1 510	1 475
Other receivables	183	120
- incl. from related parties (Note 20)	85	62
TOTAL	**12 416**	**12 547**

Term of the receivables	31.12.2012	31.12.2011
Neither past-due nor impaired:		
- not due yet *	9 758	10 095
Past-due but not impaired:		
- due for 0-3 months	1 050	824
- due for 3-6 months	153	75
- due for 6-12 months	76	1 456
- due for over 1 year	1 379	97
TOTAL	12 416	12 547

*Receivables are due within 1 year

Specification of change in bad-debt provision

	Individualy impaired	Collectively impaired	Total
At 1 January 2011	-1 253	-631	-1 884
Realized losses during the period	41	-	41
Unused amounts reversed during the period	405	-	405
Additions	-152	-	-152
Change in general provisions	-	202	202
At 31 December 2011	-959	-429	-1 388
Realized losses during the period	371	-	371
Unused amounts reversed during the period	245	-	245
Additions	-130	-	-130
Change in general provisions	-	37	37
At 31 December 2012	-473	-392	-865

NOTE 9. ACCRUED INCOME AND PREPAID EXPENSES

	31.12.2012	31.12.2011
Deferred tax asset	123	483
Net deferred acquisition costs	3 099	2 948
Prepaid expenses	648	580
Corporate income tax	111	122
TOTAL	3 981	4 133

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

Term of the accrued income and prepaid expenses:	31.12.2012	31.12.2011
Neither past-due nor impaired:		
- not due yet	3 981	4 133

Deferred acquisition costs 2012

	Share of acquisition costs (gross)	Reinsurer's share of acquisition costs (gross)	Share of acquisition costs (net)
Balance as of January 1	3 022	-74	2 948
Acquisition costs deferred during the year	9 327	-215	9 112
Reversal of previously deferred acquisition costs	-9 194	230	-8 964
Exchange-rate difference	3	-	3
Balance as of December 31	3 158	-59	3 099

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	3 029	-68	2 961
Acquisition costs deferred during the year	8 933	-248	8 685
Reversal of previously deferred acquisition costs	-8 951	242	-8 709
Exchange-rate difference	11	-	11
Balance as of December 31	3 022	-74	2 948

NOTE 10. FINANCIAL ASSETS

	31.12.2012	31.12.2011
Financial assets measured at fair value through profit and loss		
Classified as held for trading		
Bonds and other fixed income securities	130 414	121 898
- listed	130 371	121 855
- unlisted	42	42
incl. with a floating interest rate	69 759	61 617
incl. with a fixed interest rate (2.0%-6.0%)	60 654	60 281
Designated at fair value through profit and loss at inception		
Certificates of deposit	15 856	28 287
- unlisted with fixed interest rate (0.13%-0.18%)	15 856	28 287
TOTAL	**146 270**	**150 185**
Available-for-sale financial assets		
From bonds and other fixed income securities		
- listed	12 334	-
- unlisted	2 996	-
incl. with a fixed interest rate (0.28%-2.75%)	15 330	-
TOTAL	**15 330**	**-**
Loans and receivables		
Term deposits	23 110	45 654
TOTAL	**23 110**	**45 654**
FINANCIAL ASSETS TOTAL	**184 710**	**195 839**

Financial assets measured at fair value through profit and loss

	2012	2011
Balance at Jan.1	**150 185**	**72 420**
Classified as held for trading		
Bonds and other fixed income securities		
Purchase	41 914	104 454
Sale	-45 017	-54 621
Change in fair value through profit and loss	3 839	-153
Change in accrued interest	987	-202
Designated at fair value through profit and loss at inception		
Certificates of deposit		
Purchase	23 132	136 123
Sale	-28 527	-108 193
Change in fair value through profit and loss	67	46
Change in accrued interest	-310	310
Balance at Dec. 31	**146 270**	**150 184**

Available-for-sale financial assets	2012	2011
Balance at Jan.1	-	-
Bonds and other fixed income securities		
Purchase	14 931	-
Change in fair value recorded in other comprehensive income	329	-
Change in accrued interest	70	-
Balance at Dec. 31	15 330	-

Loans and receivables	2012	2011
Balance at Jan.1	45 654	107 855
Term deposits		
Purchase	87 870	340 419
Maturity	-110 400	-402 231
Change in accrued interest	-14	-389
Balance at Dec. 31	23 110	45 654

Term deposits earn an annual interest 0.43%-0.85% (as of 31.12.2011: 1.23%-1.52%)

Division of bonds and other fixed income securities by issuers

	31.12.2012	31.12.2011
Issued by Estonian companies	4 428	42
Issued by foreign governments	-	29 127
Issued by foreign financial institutions	123 803	102 526
Issued by foreign companies	33 369	18 490
TOTAL	161 600	150 185

Ratings of bond issuers (S&P)	Percentage of fair value	
	31.12.2012	31.12.2011
AAA	8.0%	22.7%
AA	27.9%	32.7%
A	40.6%	35.4%
BBB	22.8%	9.2%
BB	0.7%	0.0%
TOTAL	100%	100%

Division of bonds and other fixed income securities by maturity terms

	31.12.2012	31.12.2011
up to 1 year	66 029	50 173
1-2 years	40 310	63 349
2-5 years	36 669	36 663
2-10 years	18 592	-
TOTAL	161 600	150 185

Deposits by maturity terms	31.12.2012	31.12.2011
Up to 6 months	23 110	45 654
TOTAL	23 110	45 654

	31.12.2012		31.12.2011	
	Fair value	Acquisition cost	Fair value	Acquisition cost
Financial assets measured at fair value through profit or loss				
Classified as held for trading				
Bonds and other fixed income securities	130 414	126 080	121 898	122 390
Designated at fair value through profit or loss at inceptions:				
Certificates of deposit	15 856	15 743	28 287	27 931
Available-for-sale financial assets				
Bonds and other fixed income securities	15 330	14 931	-	-
TOTAL AT FAIR VALUE	161 600	156 754	150 185	150 321
Loans and receivables				
Term deposits	23 110	23 070	45 654	45 600
FINANCIAL ASSETS TOTAL	184 710	179 824	195 839	195 921

Bonds with a fixed interest rate, by interest rates

Interest rate	31.12.2012	31.12.2011
Interest rate: 0-1.9 %	23 941	31 955
Interest rate: 2.0-2.9%	37 690	26 867
Interest rate: 3.0-3.9%	16 314	12 031
Interest rate: 4.0-4.9%	10 260	10 316
Interest rate: 5.0-5.9%	1 086	4 826
Interest rate: 6.0-11.0%	2 549	2 573
TOTAL	91 840	88 568

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. In accordance with If Group's policy and guidlines, 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. Based on If Group's policy and guidlines, 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.

31.12.2012	Level 1	Level 2	Level 3	Total fair value
Financial assets at fair value through profit or loss				
Debt securities	-	130 371	43	130 414
Certificates of deposit	-	15 856	-	15 856
TOTAL	**-**	**146 227**	**43**	**146 270**
Available-for-sale financial assets				
Debt securities		15 330	-	15 330
TOTAL	**-**	**15 330**	**-**	**15 330**
GRAND TOTAL	**-**	**161 557**	**43**	**161 600**

31.12.2011	Level 1	Level 2	Level 3	Total fair value
Financial assets at fair value through profit or loss				
Debt securities	29 126	92 729	43	121 898
Certificates of deposit	-	28 287	-	28 287
TOTAL	**29 126**	**121 016**	**43**	**150 185**

Reconciliation of movements in Level 3 financial instruments measured at fair value

Financial assets at fair value through profit or loss	At 1 January 2012	Total gains/ losses in income statement	Sales	Transfers from level 1 and level 2	At 31 December 2012	Total gains or losses for the period included in profit or loss for assets held at 31 December 2012
Debt securities	43	-	-	-	43	-
TOTAL	**43**	**-**	**-**	**-**	**43**	**-**

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
Debt securities	69	-	-26	-	43	-
TOTAL	**69**	**-**	**-26**	**-**	**43**	**-**

NOTE 11. INTANGIBLE ASSETS

	Computer software
Net book value 31.12.2010	**2 974**
Acquisition (incl. prepayment)	1 851
Acquisition cost 31.12.2011	8 209
-incl. fully depreciated	3 604
Depreciation charge for the year	-516
Accumulated depreciation 31.12.2011	-4 340
Translation differences	15
Net book value 31.12.2011	**3 884**
Acquisition (incl. prepayment)	1 613
Disposals	-133
Acquisition cost 31.12.2012	9 689
-incl. fully depreciated	3 747
Depreciation charge for the year	-635
Depreciation of disposals	26
Accumulated depreciation 31.12.2012	-4 950
Translation differences	19
Net book value 31.12.2012	**4 758**

NOTE 12. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Other PPE	TOTAL
Net book value 31.12.2010	**384**	**4 783**	**1 005**	**6 172**
Acquisition	-	-	397	397
Reclassification	-	-10	10	-
Write-off	-	-	-716	-716
Disposal	-	-	-63	-63
Acquisition cost 31.12.2011	384	6 853	4 143	11 380
-incl. fully depreciated	-	-	2 143	2 143
Depreciation charge for the year	-	-139	-579	-718
Depreciation charge of sales and disposals	-	-	778	778
Depreciation of reclassified assets	-	1	-1	-
Accumulated depreciation 31.12.2011	-	-2 378	-3 365	-5 743
Translation differences	-	-	4	4
Net book value 31.12.2011	**384**	**4 475**	**782**	**5 641**
Acquisition	-	-	239	239
Write-off	-	-	-460	-460
Disposal	-	-	-436	-436
Acquisition cost 31.12.2012	384	6 853	3 487	10 724
-incl. fully depreciated	-	-	2 078	2 078
Depreciation charge for the year	-	-138	-450	-588
Depreciation charge of sales and disposals	-	-	859	859
Accumulated depreciation 31.12.2012	-	-2 515	-2 956	-5 471
Translation differences	-	-	5	5
Net book value 31.12.2012	**384**	**4 338**	**536**	**5 258**

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NOTE 13. LIABILITIES RELATED TO INSURANCE ACTIVITIES

	31.12.2012	31.12.2011
Liabilities related to direct insurance activities, incl.	3 509	3 716
-policyholders	2 033	2 182
-intermediaries	1 300	1 358
-others	176	176
Liabilities related to reinsurance	1 018	1 462
Other liabilities	187	371
TOTAL	4 714	5 549

All above mentioned liabilities are current liabilities.

NOTE 14. ACCRUED EXPENSES AND DEFERRED INCOME

	31.12.2012	31.12.2011
Taxes payable	326	322
Employee-related liabilities	482	428
Vacation and social tax reserve	865	921
Performance pay reserve (incl. wage-based taxes)	1 362	1 404
Deferred income tax	-	14
Other accrued expenses	586	624
TOTAL	3 621	3 713
Terms of liabilities		
Up to 12 months	3 621	3 713
Taxes payable are divided into the following categories:		
Value added tax	17	55
Personal income tax	247	210
Social tax	23	19
Unemployment insurance	20	22
Funded pension	16	13
Corporate income tax	-	-
Other taxes	3	3
TOTAL	326	322

NOTE 15. LIABILITIES RELATED TO INSURANCE CONTRACTS AND REINSURANCE ASSETS

Gross	31.12.2012	31.12.2011
Provision for incurred and reported claims and claims handling expenses	45 574	38 271
Provision for incurred but not reported claims	31 347	32 266
Provision for unearned premiums	38 844	37 900
TOTAL	**115 765**	**108 437**

Reinsurer's share		
Provision for incurred and reported claims and claims handling expenses	2 195	2 560
Provision for incurred but not reported claims	442	389
Provision for unearned premiums	771	897
TOTAL	**3 408**	**3 846**

Net		
Provision for incurred and reported claims and claims handling expenses	43 379	35 711
Provision for incurred but not reported claims	30 905	31 877
Provision for unearned premiums	38 073	37 003
TOTAL	**112 357**	**104 591**

		2012	
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	**70 537**	**-2 949**	**67 588**
Change in the provision for claims incurred but not yet settled, related to current year	17 653	-107	17 546
Change in the provision for claims incurred but not yet settled, related to previous years	-11 810	491	-11 319
Change in the provision for claims incurred but not reported, related to current year	7 271	-59	7 212
Change in the provision for claims incurred but not reported, related to previous years	-8 207	5	-8 202
Change in the provision for claims handling expenses	1 448	-	1 448
Translation difference	29	-18	11
Balance as of December 31	**76 921**	**-2 637**	**74 284**

The provision for claims reported by policy holders and claims incurred but not yet reported (IBNR)	2011 Liabilities arising from insurance contracts	Reinsurer's share of liabilities	Net
Balance as of January 1	**87 858**	**-10 178**	**77 680**
Change in the provision for claims incurred but not yet settled, related to current year	13 620	-360	13 260
Change in the provision for claims incurred but not yet settled, related to previous years	-28 897	7 641	-21 256
Change in the provision for claims incurred but not reported, related to current year	6 030	-46	5 984
Change in the provision for claims incurred but not reported, related to previous years	-7 615	17	-7 598
Change in the provision for claims handling expenses	-627	0	-627
Translation difference	168	-23	145
Balance as of December 31	**70 537**	**-2 949**	**67 588**

Provision for unearned premiums	2012 Liabilities arising from insurance contracts	Reinsurer's share of liabilities	Net
Balance as of January 1	**37 900**	**-897**	**37 003**
Premiums written in the year	115 166	-3 167	111 999
Premiums earned during the year	-114 253	3 299	-110 954
Translation difference	31	-5	26
Balance as of December 31	**38 844**	**-770**	**38 074**

Provision for unearned premiums	2011 Liabilities arising from insurance contracts	Reinsurer's share of liabilities	Net
Balance as of January 1	**37 271**	**-813**	**36 458**
Premiums written in the year	113 932	-3 480	110 452
Premiums earned during the year	-113 433	3 398	-110 035
Translation difference	130	-2	128
Balance as of December 31	**37 900**	**-897**	**37 003**

The development of claims: 2006- 2012

The overview of claims 2006-2012 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 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 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 2012 to be adequate. Due to the imprecision of the reservation process, the possibility of changes cannot, however, be ruled out.

Development of claims gross, €000

	...-2006	2007	2008	2009	2010	2011	2012
At 31 December							
Accident year*	80 389	85 252	94 668	78 364	71 683	66 946	68 357
1 year later	74 421	79 899	87 122	77 913	71 690	69 644	-
2 years later	73 485	78 154	86 555	72 158	70 102	-	-
3 years later	76 426	77 191	82 891	69 665	-	-	-
4 years later	70 827	75 720	80 397	-	-	-	-
5 years later	60 765	73 433	-	-	-	-	-
6 years later	58 825	-	-	-	-	-	-
Provision for outstanding claims (incl. IBNR) as of 31.12.2012	11 702	3 737	5 463	6 026	9 189	11 771	24 923

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Development of claims net, €000

	...-2006	2007	2008	2009	2010	2011	2012
At 31 December							
Accident year*	62 111	82 518	89 978	77 294	71 365	66 527	68 032
1 year later	56 090	76 774	83 860	74 021	71 390	69 179	-
2 years later	55 837	75 010	83 139	71 252	69 847	-	-
3 years later	55 341	74 646	79 915	69 118	-	-	-
4 years later	49 208	73 284	77 313	-	-	-	-
5 years later	45 505	70 867	-	-	-	-	-
6 years later	43 684	-	-	-	-	-	-
Provision for outstanding claims (incl. IBNR) as of 31.12.2012	10 773	3 362	4 697	5 937	9 112	11 536	24 756

Claims paid, recourses and salvages (accumulated) gross, €000

	...-2006	2007	2008	2009	2010	2011	2012
At 31 December							
Accident year*	59 588	52 815	57 927	48 947	46 732	47 296	43 432
1 year later	78 373	67 627	72 218	60 598	60 916	57 908	-
2 years later	81 454	68 750	73 306	62 964	60 951	-	-
3 years later	86 592	69 272	74 722	63 806	-	-	-
4 years later	88 035	69 541	74 944	-	-	-	-
5 years later	88 366	69 666	-	-	-	-	-
6 years later	88 446	-	-	-	-	-	-

Claims paid, recourses and salvages (accumulated) net, €000

	...-2006	2007	2008	2009	2010	2011	2012
At 31 December							
Accident year*	52 095	52 455	57 528	48 744	46 548	47 285	43 273
1 year later	66 050	65 358	69 974	59 992	60 727	57 657	-
2 years later	67 242	66 332	70 985	62 359	60 773	-	-
3 years later	67 700	66 651	72 399	63 190	-	-	-
4 years later	67 930	66 878	72 616	-	-	-	-
5 years later	67 564	67 002	-	-	-	-	-
6 years later	67 631	-	-	-	-	-	-

NOTE 16. CORPORATE INCOME TAX

(a) Income tax expense

	2012	2011
Current tax	472	532
Deferred tax	346	193
Total income tax expense	818	725

Specification of current taxes		
Latvia	448	494
Lithuania	370	231
Total	818	725

b) Reconciliation of tax charge

	2012	2011
Profit subject to taxation	**7 960**	**3 274**
Tax at 15%	**554**	**491**
Permanent differences	-66	22
Temporary differences	16	64
Donation	-15	-22
Differences arising from unrealized gains and losses	329	170
Total tax charge for the year	818	725

c) Deferred tax liability

	31.12.2012	31.12.2011
Deferred tax liability		
Accelerated capital allowances	96	130
Provision for amounts recoverable by subrogation	25	71
Total deferred tax liability	121	201
Deferred tax asset		
Vacation reserve and other accruals	-127	-137
Doubtful debts	-129	-207
Asset valuation allowance for doubtful receivables	23	39
Loss carried forward	-11	-366
Total deferred tax asset	-244	-671
Net deferred tax asset	-123	-470

Specification of deferred taxes	2012	2011
Deferred tax liability		
Latvia	96	130
Lithuania	25	71
Total deferred tax liability	**121**	**201**
Deferred tax asset		
Latvia	-106	-117
Lithuania	-138	-554
Total deferred tax asset	**-244**	**-671**
Net deferred tax liability/(asset)		
Latvia	-10	13
Lithuania	-113	-483
Net deferred tax liability/(asset)	**-123**	**-470**

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

	31.12.2012	31.12.2011
At 1 January	**-122**	**474**
Calculated	472	532
Paid	-460	-1 130
Translation difference	-1	2
At 31 December	**-111**	**-122**

NOTE 17. INVESTMENT INTO SUBSIDIARY

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

	31.12.2012	31.12.2011
Acquisition cost of shares	**88**	**88**
Number of shares	25 000	25 000
Participation	**100%**	**100%**
Total owner's equity	1 864	1 820
Share capital	25	25
Share premium	63	63
Mandatory reserve	401	401
Retained earnings	1 311	1 316
Profit for the period	44	15
Investment in the parent company's statement of financial position	**88**	**88**

As of December 31, 2012 the number of issued shares was 25,000 shares with nominal value 1 EUR.

NOTE 18. OWNER'S EQUITY

Share capital
As of 1 January 2012 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 31.12.2012, share premium amounted to €3,679 thousand (31.12.2011: €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 31.12.2012, mandatory reserve amounted to €2,362 thousand (31.12.2011: €2,362 thousand).

Retained earnings
On 22 March 2012, the sole shareholder resolved the dividend to be paid out in amount of €39,000 thousand and earnings after dividend's payment in amount of €59,619 thousand to be carried forward.

Dividends paid and proposed	2012	2011
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2011: €6,10 (2010: €0)	39 000	-
Total dividends paid in the year	**39 000**	**-**

The company's potential income tax liability
As of 31.12.2012 the company's retained earnings amounted to €80,292 thousand (31.12.2011 €98,619 thousand) and the net book value of intangible assets to €4,758 thousand (31.12.2011: €3,884 thousand)
The maximum possible income tax liability related to the payment of the company's retained earnings as dividends is €15,862 thousand (2011: €19,894 thousand). The company could thus pay €64,430 thousand (2011: €78,725 thousand) 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 2012 would not exceed the distributable profit as of 31.12.2012.

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 €2,198 thousand (2011: €2,323 thousand).

As of 31.12.2012, the company had the following deferred liabilities arising from operating lease contracts:

- up to 1 years	€1,202 thousand	(as of 31.12.2011 € 1,111 thousand)
- 1 to 5 years	€2,284 thousend	(as of 31.12.2011 € 687 thousand)

NOTE 20. RELATED PARTIES 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 €9 thousand were concluded with the Management Board members in the financial period (2011: €7 thousand). The Management Board members received a total of €959 thousand in remuneration in 2012, including social tax (2011: €751 thousand). No termination benefits were paid to members of the Management Board during 2012 (2011: €184 thousand) 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 2012 and 2011.
   Remuneration of the Chairman and other members of the Management Board consists of a fixed remuneration, a variable compensation, participations in long-term incentive programs. Proportion of the variable compensation is not exceeding 30% of the fixed remuneration. Variable compensation is based on the performance of the Company and If Group (measured by combined ratio , volume of gross written premiums, net profit targets) and achieving of personal work goals. For the reporting year the majority of set financial targets has been achieved.

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

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

	Calculated reinsurance premiums		Indemnifications and commissions received	
	2012	2011	2012	2011
If P&C Insurance Ltd (Sweden)	1 992	2 068	87	236
If P&C Insurance Company Ltd (Finland)	123	103	9	3

Receivables and payables related to the above transactions as of 31.12.2012 and 31.12.2011:

	31.12.2012	31.12.2011
Receivables		
If P&C Insurance Ltd (Sweden)	1 505	1 470
If P&C Insurance Company Ltd (Finland)	5	5
Payables		
If P&C Insurance Ltd (Sweden)	653	375
If P&C Insurance Company Ltd (Finland)	5	5

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

	Services purchased		Services rendered	
	2012	2011	2012	2011
Mandatum Life Insurance Baltic SE	-	-	25	25
Nordea Group companies	157	224	656	669
Sampo plc.	355	313	-	-
If P&C Insurance Company Ltd (Finland)	-	-	79	-
If IT Services	-	-	-	48
IPSC Region	-	-	13	-

Receivables and payables related to the above transactions as of 31.12.2012 and 31.12.2011:

	31.12.2012	31.12.2011
Receivables		
Mandatum Life Insurance Baltic SE	3	3
Nordea Group companies	31	34
If P&C Insurance Ltd (Sweden)	35	-
If P&C Insurance Company Ltd (Finland)	-	-
If IT Services AS	16	24
IPSC Region	8	-
Payables		
Mandatum Life Insurance Baltic SE	-	-
Nordea Group companies	16	15
Sampo Plc.	93	97

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

Financial assets	31.12.2012	31.12.2011
Nordea Group companies	10 395	12 243

Investment income/expense	2012	2011
Nordea Group companies	207	352

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 (€000)	2012	2011
PREMIUMS EARNED, NET OF REINSURANCE		
Premiums earned	114 253	113 433
Premiums ceded	-3 299	-3 398
TOTAL	**110 954**	**110 035**
OTHER INCOME		
Reinsurance commissions	222	258
Return on investments	7 171	2 917
Other income	131	110
TOTAL	**7 524**	**3 285**
TOTAL REVENUE	**118 478**	**113 320**
EXPENSES		
CLAIMS INCURRED, NET OF REINSURANCE		
Claims incurred, gross	-61 702	-48 372
Claims handling expenses	-3 509	-3 359
Reinsurer's share in claims paid	88	-6 494
TOTAL	**-65 123**	**-58 225**
EXPENSES		
Insurance contract acquisition costs	-20 704	-20 472
Administrative expenses	-11 158	-11 477
TOTAL	**-31 862**	**-31 949**
TOTAL EXPENSES	**-96 985**	**-90 175**
INCOME TAX	**-818**	**-725**
NET PROFIT FOR THE FINANCIAL YEAR	**20 675**	**22 420**
OTHER COMPREHENSIVE INCOME		
Change in the value of available-for-sale assets	329	-
Exchange differences on translating foreign operations	-46	62
TOTAL	**283**	**62**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**20 958**	**22 482**

PARENT COMPANY'S UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS (€000)	31.12.2012	31.12.2011
Cash and cash equivalents	2 114	2 557
Financial assets	184 798	195 927
Receivables related to insurance activities	15 686	15 836
Accrued income and prepaid expenses	3 857	3 650
Deferred tax asset	123	483
Reinsurance assets	3 408	3 845
Intangible assets	4 758	3 884
Property, plant and equipment	571	800
TOTAL ASSETS	**215 315**	**226 982**

LIABILITIES AND OWNER'S EQUITY		
Liabilities related to insurance activities	4 703	5 554
Accrued expenses and prepaid revenues	3 570	3 672
Liabilities arising from insurance contracts	115 765	108 437
Total liabilities	**124 038**	**117 663**
Share capital	6 391	6 391
Share premium	3 679	3 679
Mandatory reserve	2 362	2 362
Fair value reserve	329	-
Profit carried forward	57 841	74 467
Net profit for the year	20 675	22 420
Total owner's equity	**91 277**	**109 319**
TOTAL LIABILITIES AND OWNER'S EQUITY	**215 315**	**226 982**

PARENT COMPANY'S UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY (€000)

	RESTRICTED EQUITY					UNRESTRICTED		
				Revaluation reserv				
	Share capital	Share premium	Mandatory reserve	Available-for sale financial assets	Foreign currency trans-lation reserve	Retained earnings	Net profit for the year	Total equity
Equity at beginning of 2011	**6 391**	**3 679**	**2 362**	**-**	**-18**	**74 423**	**-**	**86 837**
Other comprehensive income	-	-	-	-	62	-	-	62
Profit for the year	-	-	-	-	-		22 420	22 420
Equity at end of 2011	**6 391**	**3 679**	**2 362**	**-**	**44**	**74 423**	**22 420**	**109 319**
Equity at beginning of 2012	**6 391**	**3 679**	**2 362**	**-**	**44**	**96 843**	**-**	**109 319**
Paid dividends	-	-	-	-		-39 000	-	-39 000
Other comprehensive income	-	-	-	329	-46	-	-	283
Profit for the year	-	-	-	-	-	-	20 675	20 675
Equity at end of 2012	**6 391**	**3 679**	**2 362**	**329**	**-2**	**57 843**	**20 675**	**91 277**

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

	31.12.2012	31.12.2011
Parent company's unconsolidated equity	91 277	109 319
Investment in the parent company's statement of financial position (-)	-88	-88
Subsidiary's value under the equity method (+)	1 864	1 820
Total	**93 053**	**111 051**

PARENT COMPANY'S UNCONSOLIDATED STATEMENT OF CASH FLOWS (€000)

CASH FLOW FROM OPERATING ACTIVITIES	2012	2011
Premiums received	114 786	115 783
Premiums ceded	-3 612	-3 542
Claims paid, incl. claims handling expenses	-58 473	-69 101
Proceeds from reinsurance	624	1 216
Employee-related and service-related expenses	-31 668	-30 563
Income tax paid	-460	-1 130
Investments in fixed income securities	-79 978	-240 578
Proceeds from disposals of fixed income securities	73 893	162 689
Investments in term deposits	-87 870	-340 419
Return on term deposits	110 400	402 231
Interest received	2 621	3 314
CASH FLOW FROM OPERATING ACTIVITIES, NET	40 263	-100
TOTAL CASH FLOW FROM INVESTING ACTIVITIES		
Decrease of subsidiary's share capital	-	2 300
Acquisition of non-current assets and intangible assets	-1 790	-2 110
Disposals of non-current assets and intangible assets	82	16
CASH FLOW FROM INVESTING ACTIVITIES, NET	-1 708	206
CASH FROM FROM FINANCING ACTIVITIES		
Paid dividends	-39 000	-
CASH FLOW FROM FINANCING ACTIVITIES, NET	-39 000	-
CHANGE IN CASH FLOW, NET	-445	106
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	2 557	2 444
Effects of exchange rate changes on cash and cash equivalents	2	7
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2 114	2 557

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Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of If P&C Insurance AS

We have audited the accompanying consolidated financial statements of If P&C Insurance AS, which comprise the balance sheet as at 31 December 2012, 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 If P&C Insurance AS as at 31 December 2012, 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 If P&C Insurance AS 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, 25 February 2013

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

PROPOSAL FOR THE DISTRIBUTION OF THE PROFIT

Profit available for distribution in accordance with the statement of financial position amount to:

Profit carried forward	€59,575 thousand
Net profit for the financial year 2012	€20,719 thousand

Total profit available for distribution as of 31.12.2012: €80,294 thousand

The Management Board proposes:

to distribute as dividends to the sole shareholder	€7,000 thousand
to carry forward	€73,294 thousand

Andris Morozovs,
Chairman of the Management Board

Dace Ivaska,
Member of the Management Board

Sanita Livdane,
Member of the Management Board

Žaneta Stankeviciene,
Member of the Management Board

Heinar Olak,
Member of the Management Board

Artur Praun,
Member of the Management Board

Jukka Tapani Laitinen,
Member of the Management Board

Ville Valtteri Haapalinna,
Member of the Management Board

Tiit Kolde,
Member of the Management Board

SIGNATURES TO THE ANNUAL REPORT 2012

The Management Board of If P&C Insurance AS has prepared the management report and financial statements for 2012.

Signatures:

Heinar Olak Member of the Management Board	25.04.	2013
Artur Praun Member of the Management Board	25.04.	2013