Annual report 2010

IF P&C INSURANCE AS

Business name:	If P&C Insurance AS
Registry code:	10100168
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Main field of activity:	non-life insurance services (EMTAK 65121)
Beginning of financial year:	1 January 2010
End of financial report:	31 December 2010
CEO:	Andris Morozovs
Auditor:	Ernst & Young Baltic AS

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Management report

ORGANIZATION

P&C Insurance AS (Company, hereinafter „If") is fully-owned by the leading Nordic P&C insurance group If P&C Insurance Holding Ltd, which in turn is owned by Sampo Plc, a Finnish company listed 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 it also operates in Latvia and Lithuania through its branch offices. The current structure further helps to increase operational efficiency and to improve the customer service and claims handling processes in the Baltic area. The company's business functions are pan-Baltic; however, the Sales and Customer Service functions remain country-based in order to adjust to the local clientele needs and practices.

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

ECONOMIC OUTLOOK

The Baltic region's economy started to improve during the second half of 2010. Estonian gross domestic product (GDP) increased by 5% in the third quarter of 2010; forecast for the year 2010 is 2%. In the third quarter, Latvian GDP increased by 3%, while the Lithuanian economy showed the slowest stabilization with a GDP increase of just 1.1%. Both Latvian and Lithuanian GDP is still expected to fall by 0.5% in annual terms in the year 2010. Recovery has been mostly driven by exports, reviving private consumption as well as continuing increase in industrial output. On the other hand unemployment rate continues to be at very high level and only slow improvement is expected in upcoming years.

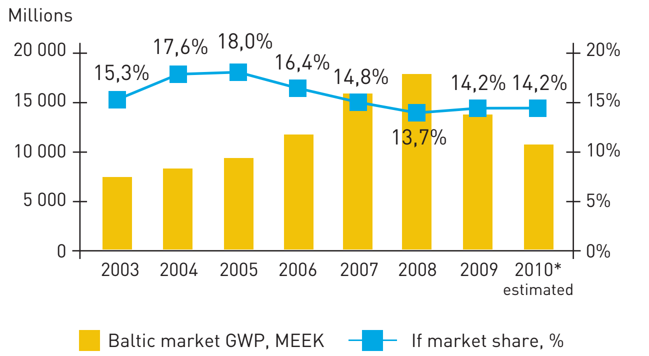
During 2010 inflation in Estonia picked up faster than was expected, at a rate of 3%. This was caused by a global increase in the price of raw materials for food, which in turn affected consumer prices more than anticipated. Increases in inflation figures were also noticed in Lithuania, 1.3%, due mainly to increased prices for housing, water, electricity, gas as well as food products and transport goods and services. In Estonia and Lithuania in 2011 the consumer price index is expected to follow the trends of year 2010. In Latvia furthermore, a deflation rate of -1% was observed in 2010, primarily caused by low private demand – especially for services. Inflation is expected to return early in 2011.

The economic development of the Baltic region's economy in 2011 is likely to be fragile and relatively slow. In Estonia, the economic outlook is expected to become more optimistic as Estonia has introduced Euro as the national currency at the beginning of 2011. Stabilization and a small rate of growth is also expected in Latvia and Lithuania in 2011; however economic development in 2011 and beyond depends on the economic recovery of the major export partners, namely the EU and Russia.

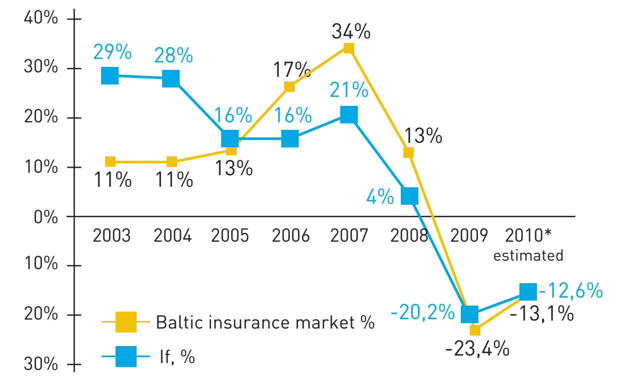
NON-LIFE INSURANCE MARKET

The economic environment has also influenced the development of the insurance market . The Baltic non-life insurance market fell by -13% 2010 (insurance market information for December is based on the forecast), but some positive signs were noticed during the fourth quarter. The main reason for this negative growth is the decrease in private and corporate income, a contraction in the loan and leasing market, an increase in unemployment and a fall in overall consumption. Strongly affected by this contraction were motor product lines (motor own damage and motor third part liability insurance) as new cars sales in the Baltics were at a very low level during 2010. However it has already reached its lowest point and a small but positive development has been recognized in the markets. Motor fleet in all three countries is getting older and due to tough competition and the very good profitability results for the previous year, a big pressure is put on rates reduction. If market share is stable in the Baltic non-life insurance market (in 2010 14.2%) the non-life insurance market is expected to follow the overall economic development.

If Baltic market share development



Growth in Baltic market vs. If (YTD)



OPERATIONS

Despite the unstable economic situation in the Baltic States over recent years, If managed to retain a secure and acknowledged position in 2010. As an indicator of this If P&C Insurance AS received the title of the "Most Competitive Financial Brokerage Enterprise", awarded by the Republic of Estonia. For the purposes of the award success, performance and competitiveness in the future were assessed. In addition to this financial success, If was also recognised as a responsible enterprise by being placed at a noteworthy 9th place in the rankings of responsible enterprises chosen by the Estonian Ministry of Economic Affairs and Communications.

The company's business activities involve both direct sales of insurance products to corporate and private clients, and sales through brokers and partners. The company has 36 sales and customer service offices all over Estonia, with the largest centres located in Tallinn, Tartu and Pärnu. There are four offices in Latvia and 10 in Lithuania, located in the major towns. The number of customers in the Baltics is approximately 310 000 and this includes both private individuals as well as companies.

Looking to the future, whilst hoping to maintain the reputation of an innovative participant that directs the market, the company will increasingly contribute to the development of e-channels. In Estonia, the company has brought a fully functional e-self service channel for business customers on to the market. As with the Latvia and Lithuania branches, the company expanded the selection of e-channels in 2010 and opened a new Internet-based self-service channel Poliis.ee in Estonia as well. In Latvia and Lithuania, similar channels (*letakpasam.lv* and *drauskpats.lt*) were launched as early as 2009; the company now has the discounted brand for customers in all three countries. Considering the changed consumption habits of customers, If, in cooperation with Estonian mobile telephone (EMT), launched the new mobile travel insurance. EMT customers who travel abroad can obtain travel insurance via EMT text messaging services.

In order to ensure customer satisfaction, the company has continuously been contributing to the development of insurance products and introduced a bonus program for regular customers on the market in Estonia. With the deductible bonus the customer can now collect a bonus which will reduce the direct expenses of the customer in cases of an insurance claim. The introduction of this program brought along positive sales figures in Estonia, and projecting to the future has established a unique competitive advantage in the local insurance market.

An important contribution to the strengthening of competitiveness has been made by the implementation of the new compulsory motor third party liability insurance system, which is independent from the Traffic Insurance Found sales program. This gave an advantage to using independent pricing modelling, and also allowed the introduction of new services in the Internet-based e-office, where customers can now purchase a new policy without signing contract in our office.

As a result of its extensive preparations, the company has successfully implemented the Euro, and unplanned business interruptions have been avoided.

In Latvia, the new sales program for selling private health insurance and commercial customers services were launched. Furthermore the issuing of motor third part liability renewal policies was automated, which allowed us to improve the service level and efficiency of internal processes.

The main direction for development in Lithuania was dedicated to make the claims handling process smoother and to improve the cooperation with mediators. New functionality gives customers quicker resolution of a claim registered either via a partner or via the internet.

During 2010, the company has continuously contributed to loss prevention projects for schools, kindergartens and sports clubs via security funds. With the aim of increasing prominence among various interest groups we began cooperation in sponsoring the Estonian Tennis Association in 2010. The sponsorship of leaders in the particular field of sports sets a good pattern and contributes to a healthier society. In the field of culture, If continued investments in the development of the Insurance Museum by improving cooperation with associations and universities. The most important event of the year for the Insurance Museum was the celebration of the 30th anniversary of the museum in December.

RESULTS FROM OPERATIONS

in thousands of Estonian kroons

	2 010	**2 009**
Premiums written, gross	1 697 185	1 937 681
Premiums earned, net of reinsurance	1 709 964	2 017 918
Claims incurred, net of reinsurance	1 011 348	1 146 292
Total operating expenses	490 474	586 375
Technical result	214 495	292 298
Net profit	253 279	392 213
Combined ratio	87,2%	85,1%
Expense ratio	28,1%	28,3%
Loss ratio	59,1%	56,8%
Financial assets	2 820 693	2 561 802
Return on investments per annum	1%	4%
Balance sheet volume	3 513 688	3 330 530
Owner's equity	1 400 740	1 147 518

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

Results

In 2010, the technical result decreased in comparison to the year before, and ended at Millions EEK 214 (2009: 292 Millions EEK). A fall in the technical result was affected by a decrease in premiums and claims outcomes – a higher outcome of large claims and increased claims frequency.

Premium earned

Gross written premiums decreased Millions EEK 241 to Millions EEK 1,697 (2009: 1,938 Millions EEK). This decrease is in line with the overall market fall, followed by the macroeconomic development. Premium volumes decreased in all three Baltic countries.

Claims and operating expenses

Claims, including claims handling expenses, decreased Millions EEK 135 to Millions EEK 1,011 (2009: 1,146 Millions EEK).

Operating expenses, excluding claims handling expenses, decreased Millions EEK 91 to Millions EEK 490 (2009: 581 Millions EEK). 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 decreased to 253 Millions EEK (2009: 392 Millions EEK). Of total taxes, current tax costs accounted for 10 Millions EEK (2009: 16 Millions EEK) and the deferred tax income for 9 Millions EEK (2009: 4 Millions EEK)

Financial ratios

The company's expense ratio fell to 28.1% (2009: 28.3 %).

The loss ratio, excluding claims handling expenses, worsened during 2010 and amounted to 59.1% (56.8 %). This worsening in the risk ratio is explained by the higher outcome of large claims and increased claims frequency in motor and property products. Large claims were three times higher than usual in Lithuania. The results for motor products were negatively affected by harsh winter weather at the beginning and end of the year, and the results of property products were negatively affected by complicated weather conditions throughout the year.

Combined ratio increased slightly to 87.2% (85.1 %).

INVESTMENT RESULT

In 2010 If P&C Insurance AS continued to invest conservatively, with the majority of funds invested into Euro term deposits and short-term Western European government bonds. Credit and interest rate risks were held at a moderate level for the portfolio throughout the year. As of 31 December, 2010, the interest rate risk measured by the weighted average modified duration of the fixed income instruments was at 1.3 years. The average weighed credit rating for the holdings in the investment portfolio as of 31 December, 2010 was AA- (using Standard & Poor's scale).

As at the end of December 2010, close to 60% of funds were invested in term deposits, approximately 38% of funds in government bonds and the rest in corporate bonds. Investments into Western European government bonds consisted primarily of bonds from Germany, Finland, the Netherlands and France. The portfolio did not have any exposure to government bonds from Greece, Ireland, Portugal or Spain. There was no open currency exposure in the investment portfolio, that is, all investments were in Euros (99,9%) or EEK-denominated instruments.

If P&C Insurance AS investment portfolio earned a return of 1 % in 2010 (4% in 2009). In general, factors affecting the return of the If P&C Insurance AS investments the most in 2010 were the continually low level of interest rates in the Euro zone and the rise of interest rates in the second half of the year. The latter enabled to achieve only moderate returns from the bond portfolio as rising interest rates are negative for bondholders.

SOLVENCY CAPITAL

Solvency capital increased to 1,354 Millions EEK, compared with Millions EEK 1,113 in 2009.

RISK IN OPERATIONS

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

PERSONNEL

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

On December the 31, 2010 the number of full time employees in the company was 534 (2009: 560), two-thirds of them women and one-third men. The company's personnel expenses totalled 233 Millions EEK in 2010, having decreased by 12 % in a year (2009: 264 Millions EEK).

Over the last few years, a constant theme in the company has been the strengthening of the competence of our employees and the increasing of employee engagement and commitment. To accelerate this work even more during 2010 a strategic theme known as "skills and initiatives" was launched. The aim of the initiative is to forcefully influence the culture of the company to generate even more focus on competence building, innovation and customer focus, the pillars of our value creation.

Special variable compensation programmes have been created in the company to provide motivating and engaging reward systems that drive individual performance in line with If's overall goals and as a result increase commitment to and interest in If's overall result. In addition to the aforementioned, several benefits which support healthy life style, important family events and education are also made available to employees.

APPLIED ACCOUNTING PRINCIPLES

2010 Annual Accounts of the Company have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU.

The financial statements include the accounts of the Company with its branches and the subsidiary AS If Kinnisvarahaldus.

Andris Morozovs,
Chairman of the Management Board

Mihkel Uibopuu,
Member of the Management Board

Heinar Ólak,
Member of the Management Board

Dace Ivaska,
Member of the Management Board

Žaneta Stankeviciene,
Member of the Management Board

Artur Praun,
Member of the Management Board

Financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in thousands of Estonian kroons	Note	2010	2009
REVENUE			
PREMIUMS EARNED, NET OF REINSURANCE			
Premiums earned		1 768 141	2 135 009
Premiums ceded		-58 177	-117 091
TOTAL	3	**1 709 964**	**2 017 918**
OTHER INCOME			
Reinsurance commissions		4 321	4 410
Return on investments	4	39 036	112 289
Other income		2 032	2 637
TOTAL		**45 389**	**119 336**
TOTAL REVENUE		**1 755 353**	**2 137 254**
EXPENSES			
CLAIMS INCURRED, NET OF			
REINSURANCE			
Claims incurred, gross	5	-1 014 951	-1 194 917
Reinsurer's share in claims paid	5	3 603	48 625
TOTAL		**-1 011 348**	**-1 146 292**
EXPENSES			
Insurance contract acquisition costs	6	-351 203	-425 937
Administrative expenses	6	-139 271	-160 438
TOTAL		**-490 474**	**-586 375**
TOTAL EXPENSES		**-1 501 822**	**-1 732 667**
NET RESULT BEFORE TAXES		**253 530**	**404 587**
INCOME TAX		-252	-12 374
NET PROFIT FOR THE FINANCIAL YEAR		**253 279**	**392 213**
OTHER COMPREHENSIVE INCOME			
Exchange differences on translating foreign operations		-57	-232
TOTAL		**-57**	**-232**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**253 222**	**391 981**
Total comprehensive income attributable to:			
Equity holders of the parent		253 222	391 981

The notes to the financial statements set out on pages 15 to 59 form an integral part to the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of Estonian kroons	Note	31.12.2010	31.12.2009
ASSETS			
Cash and cash equivalents	7	76 756	92 869
Financial assets	10	2 820 693	2 561 802
Receivables related to insurance activities	8	237 914	270 054
Accrued income and prepaid expenses	9,16	66 576	63 098
Reinsurance assets	15	171 960	212 175
Intangible assets	11	46 540	33 970
Property, plant and equipment	12	93 249	96 562
TOTAL ASSETS		**3 513 688**	**3 330 530**
LIABILITIES AND OWNER'S EQUITY			
Liabilities related to insurance activities	13	90 931	96 282
Accrued expenses and prepaid revenues	14,16	64 172	54 272
Liabilities arising from insurance contracts	15	1 957 845	2 032 458
Total liabilities		**2 112 948**	**2 183 012**
Share capital		100 000	100 000
Share premium		57 560	57 560
Mandatory reserve		36 962	36 962
Profit carried forward		952 939	560 783
Net profit for the year		253 279	392 213
Total owner's equity	18	**1 400 740**	**1 147 518**
TOTAL LIABILITIES AND OWNER'S EQUITY		**3 513 688**	**3 330 530**

The notes to the financial statements set out on pages 15 to 59 form an integral part to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

in thousands of Estonian kroons	Note	2 010	2 009
Cash flow from operating activities			
Premiums received	3, 8, 13	1 752 744	2 009 160
Premiums ceded	3, 13	-53 636	-127 306
Claims paid, incl. Claims handling expenses	5, 6, 8	-1 025 370	-1 146 125
Cash flow from reinsurance		25 644	115 053
Employee-related and service-related expenses		-458 833	-569 686
Investments in shares		-	-121 529
Proceeds from disposals of shares		282	152 461
Investments in fixed income securities		-965 192	-861 091
Proceeds from disposals of fixed income securities		931 170	1 556 077
Investments in term deposits		-24 632 032	-8 091 705
Return on term deposits		24 406 211	7 954 989
Interest received		37 823	94 312
Cash flow operating activities, net		**18 811**	**964 610**
Total cash flow from investing activities			
Acquisition of subsidiaries		-	-1 001 382
Purchase of property, plant and equipment, and intangible assets	11,12	-35 154	-11 419
Proceeds from disposal of property, plant and equipment, and intangible assets		232	1 886
Cash flow from investing activities, net		**-34 922**	**-1 010 915**
Change in cash flow, net		**-16 111**	**-46 305**
Cash and cash equivalents at the beginning of the period	7	**92 869**	**140 585**
Effects of exchange rate changes on cash and cash equivalents		-2	-1 411
Cash and cash equivalents at the end of the period	7	**76 756**	**92 869**

The notes to the financial statements set out on pages 15 to 59 form an integral part to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of Estonian kroons	Restricted equity			Unrestricted		
	Share capital	Share premium	Mandatory reserve	Profit brought forward	Net profit for the year	Total equity
Equity at beginning of 2008	**100 000**	**57 560**	**36 962**	**332 157**	**-**	**526 679**
Total comprehensive income	-	-	-	4 205	224 652	**228 858**
Equity at end of 2008	**100 000**	**57 560**	**36 962**	**336 363**	**224 652**	**755 537**
Equity at beginning of 2009	**100 000**	**57 560**	**36 962**	**561 015**	**-**	**755 537**
Total comprehensive income	-	-	-	-232	392 213	**391 981**
Equity at end of 2009	**100 000**	**57 560**	**36 962**	**560 783**	**392 213**	**1 147 518**
Equity at beginning of 2010	**100 000**	**57 560**	**36 962**	**952 996**	**-**	**1 147 518**
Total comprehensive income	-	-	-	-57	253 279	**253 222**
Equity at end of 2010	**100 000**	**57 560**	**36 962**	**952 939**	**253 279**	**1 400 740**

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

The notes to the financial statements set out on pages 15 to 59 form an integral part to the consolidated financial statements.

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

1. The group and its activities

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

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

The consolidated financial statements of the Company for the year ended 31 December 2010 were authorized for issue in accordance with a resolution of the Management Board on 15 February 2011.

2. Basis of preparation

The consolidated financial statements 2010 of the Company have been prepared in accordance with the International Financial Reporting Standards (IFRS), and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as passed by the European Union. The consolidated financial statements have been prepared on a historical cost basis, except for certain financial investments which are recorded at fair value through profit and loss.

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

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

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

3. Changes in accounting policies

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

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

The accounting policies and presentation adopted in preparation of the current financial statements are consistent with those of the previous financial year. In addition, the following new/revised standards have been adopted, which had no material effect on the financial results and disclosures of the Group in 2010, because the Group did not have the respective financial statement items and transactions addressed by these changes:

a) Amendment to IFRS 2 *Share-based Payment;*

b) Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements;*

c) Amendment to *IAS 39 Financial Instruments: Recognition and Measurement* – Eligible Hedged Items;

d) IFRIC 12 *Service Concession Arrangements;*

e) IFRIC 17 *Distributions of Non-cash Assets to Owners;*

f) IFRIC 18 *Transfers of Assets from Customers;*

g) Improvements to IFRS (issued in 2008 and 2009 and effective on 1 January 2010).

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

In the opinion of the management of the Group the new or revised IFRS standards and their interpretations issued by the time of preparing the current consolidated financial statements, but not effective yet, and not applied early by the Group, do not have any significant effect on the value of the assets and liabilities of the Group as of 31 December 2010. These standards and interpretations will be applied where applicable starting from their effective date and are as follows:

a) Amendments to IFRS 7 *Financial instruments: Disclosures* (effective for financial years beginning on or after 1 July 2011, once adopted by the EU);

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

The Group has not yet evaluated the impact of the implementation of this standard.

c) Amendments to IAS 12 *Income Taxes* (effective for financial years beginning on or after 1 January 2012, once adopted by the EU);

The Group has not estimated yet the impact of the implementation of these changes.

d) Amendments to IAS 24 *Related Party Disclosures* (effective for financial years beginning on or after 1 January 2011);

The implementation of these amendments will have no impact on the financial position or performance of the Group, however it may impact the related parties disclosures.

e) Amendment to *IAS 32 Financial Instruments: Presentation* – Classification of Rights Issues (effective for financial years beginning on or after 1 February 2010);

f) Amendment to IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for financial years beginning on or after 1 January 2011);

g) IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for financial years beginning on or after 1 July 2010):

h) Improvements to IFRSs

In May 2010 IASB issued omnibus of amendments to its standards. The amendments become effective for annual periods on or after either 1 July 2010 or 1 January 2011, but they are still to be adopted by the EU. Other amendments resulting from Improvements to IFRSs to the following standards will not have any impact on the accounting policies, financial position or performance of the Group:

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

4. Material judgements, estimates and resolutions

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

a) Evaluation of liabilities from insurance contracts

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

As of the end of 2010, gross insurance technical provisions amounted to 1,957, 845 thousands kroons (2009: 2,032,458 thousands kroons), of which the reinsurer's share amounted to 171,960 thousands kroons (2009: 212,175 thousands kroons). Insurance technical provisions have been described in section n, o and p of Note 1.5.

b) Evaluation of recourses and salvages

Recourses and salvages are evaluated on a quarterly basis. The recoverability of each recourse is evaluated separately in accordance with the management's best judgement. Only claims with significant recoverability are recorded in the balance sheet. As of the end of 2010, the total balance of recourses amounted to 191,834 thousand kroons of which 21,833 thousand kroons was deemed to be with significant recoverability by the management (in 2009, 160,565 thousand kroons and 17,633 thousand kroons, respectively). Salvages are evaluated on the basis of the sales price of similar assets on the market. As of the end of 2010, the management assessed the salvage value to amount to 6,656 thousand kroons (2009: 4,080 thousand kroons).

c) Financial assets measured at fair value

Calculation of the fair value of financial assets has been described in section h of Note 1.5. Financial assets measured at fair value through profit and loss amounted to 1,133,126 th. kroons as at the end of 2010 (2,561,802 th. kroons in 2009). As at 31st of December 2010 all term deposits are reclassified from the assets category "measured at fair value through profit and loss" to the financial assets category "loans and receivables".The further disclosure regarding reclassification is presented in section h of the Note 1.5. All financial assets can be realised within 12 months and are therefore recognised as current assets. The fair value of financial assets is established on the basis of the Wall Street Systems (formerly known as Trema Suite and Finance Kit) report, where the price of financial assets has been previously established in accordance with the active market price listings of the Bloomberg system. The fair value of unlisted financial assets is determined on the basis of similar market transactions or, if no such transactions have been made, on the basis of the value determined by using the generally accepted valuation techniques.

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

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

c) Segment reporting

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

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

The financial statements are presented in Estonian kroons, which is the functional and reporting currency of the Company. Items included in the financial statements of each of the Company's entities are measured using their functional currency which is the currency of the primary economic environment in which entity operates. Foreign currency transactions are translated into Estonian kroons on the basis of the exchange rates of the European Central Bank, used in the entire If Group. Monetary assets and liabilities denominated in foreign currency are translated into Estonian kroons on the basis of the currency exchange rates of the European Central Bank officially valid on the balance sheet date. Foreign exchange gains and losses resulting from the revaluation are recorded in the income statement of the reporting period.

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

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

	As at 31.12.2010	As at 31.12.2009
1 Estonian kroon (EEK) =	EEK	EEK
Latvian lat (LVL)	22,0561	22,0592
Lithuanian litas (LTL)	4,5316	4,5316
Average exchange rate for the period	**2 010**	**2 009**
1 Estonian kroon (EEK) =	EEK	EEK
Latvian lat (LVL)	22,0826	22,1679
Lithuanian litas (LTL)	4,5316	4,5344

e) Revenue recognition

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

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

Insurance premiums

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

- acquisition costs – direct and indirect expenses arising from the acquisition of insurance contracts, incl. direct expenses, such as commission fees for mediators, expenses on preparation of insurance documents or inclusion of contracts in the portfolio, as well as indirect expenses, such as advertising expenses, administrative expenses related to the processing of applications and issue of policies.
- claims handling expenses – consist of expenses directly related to particular losses as well as administrative expenses indirectly related to claims handling. Claims handling expenses include both direct payments to third parties and the respective expenses incurred by the insurer, incl. wages and salaries, social tax and administrative expenses related to claims handling.
- administrative expenses – expenses related to premium collection, portfolio management as well as bonus and benefit handling. Administrative expenses include insurance-related expenses which do not constitute acquisition costs or claims handling expenses.

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

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

g) Cash and cash equivalents

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

Comparing to the last reporting period the restatement is done for components of cash and cash equivalents. Company considering all deposits not depending on the term as part of its investments portfolio.

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

h) Financial assets

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

– financial assets measured at fair value through profit and loss (shares held for trading and bonds which are not intended to be held to maturity, as well as other securities);
– loans and receivables (deposits, loans, accounts receivable and other receivables);
– investments held-to- maturity (financial assets which are non-derivative instruments and have fixed or determinable payments and fixed terms of redemption, provided that the company is planning to and is capable of holding the assets to maturity);
– available–for-sale financial assets (all other financial assets that are designated as available for sale or not mentioned above into any other category).

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

Recalssification of deposits from the category "measured at fair value through profit and loss" to the category "loans and receivables" has been performed as at the 31st of December 2010 because it better reflects the present intention of the holding.

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

Recognition and derecognition

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

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

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

Financial assets at fair value through profit and loss

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

The fair value of listed securities is based on the closing price of the security, as well as the official exchange rate of the European Central Bank on the balance sheet date. If a market for a financial instrument is not active, or the instrument is not quoted, the fair value is established by using generally accepted valuation techniques.

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

Loans and receivables

Loans and receivables comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in short term. Loans and receivables are initially recognized at cost which is the fair value of the consideration given, including transaction costs that are directly attributable to the acquisition of the asset. Loans and receivables are subsequently measured at their amortised cost by using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition, as well as expenses directly related to the transaction, over the year to maturity.

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

Impairement of financial assets

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

There is objective evidence of impairment, if an issuer or debtor e.g. encounters significant financial difficulties that will lead to insolvency and to estimation that the customer will probably not be able to meet the obligations to the Company.

When there is objective evidence of impairment of a financial asset carried at amortised 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 recognised as an impairment loss in profit or loss. The impairment is assessed individually.

Impairment loss of financial assets related to operating activities is charged to expenses in the income statement (under "Administrative expenses") while the impairment loss of financial assets related to investing activities is recognised 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 recognised impairment loss shall be reversed through profit or loss.

i) Property, plant and equipment

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

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

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

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

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

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

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

j) Intangible assets

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

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

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

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

k) Financial liabilities

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

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

l) Insurance contracts

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

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

m) Deferred acquisition costs

Acquisition costs directly related to premiums that are carried over to the next period are recognized in the balance sheet as deferred acquisition costs. Direct acquisition costs are deferred on the basis of the ratio of the provision for unearned premiums to premiums written. Deferred acquisition costs include direct insurance contract acquisition costs, such as commission fees to mediators, provision fees to sales employees (incl. taxes) and policy 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, and the index of the pension increase and the discount rate recommended by the guarantee fund in Estonia and the discount rate recommended by Insurance Supervisory Authority in Lithuania. In Latvia three annuities estimated with very low loss of income amounts are reserved under Case reserves.

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

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

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

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

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

The group as the lessor

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

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

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 2010 (21/79 until 31 December 2009) 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% (2009: 15%) and for Lithuanian branch 15% (2009: 20%).

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 recognised 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. Pursuant to the Articles of Association of If P&C Insurance AS, the company's reserve capital amounts to 20,000 thousand kroons. Reserve capital can be used for covering the loss or for increasing the share capital of the company. The mandatory reserve cannot be paid out as dividends.

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 2010) and the date of preparing the financial statements, but are related to transactions that took place in the reporting period or earlier periods, are recorded in the financial statements.

Note 2 Risk management

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

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

a) Management of insurance risk and risk assessment strategy

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

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

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

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

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

In order to have more balanced risk profile company implemented customer pricing scheme for private clients linked products since 2009.

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

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

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

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

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

in thousands EEK

31.12.2010 Type of insurance	Gross liabilities related to insurance contracts	Reinsurers' share of liabilities	Net liabilities
Compulsory Motor TPL	701 805	11 197	690 608
Motor Own Damage	328 686	53	328 633
Private Property	153 259	13 434	139 825
Corporate Property	227 541	64 395	163 146
Liability	343 535	21 755	321 780
Personal Accident	26 370	39	26 331
Health	35 710	-	35 710
Other	140 939	61 087	79 852
TOTAL	**1 957 845**	**171 960**	**1 785 885**

31.12.2009 Type of insurance	Gross liabilities related to insurance contracts	Reinsurers' share of liabilities	Net liabilities
Compulsory Motor TPL	661 843	30 162	631 681
Motor Own Damage	369 580	1 019	368 561
Private Property	174 521	8 820	165 701
Corporate Property	259 690	73 516	186 174
Liability	348 599	37 353	311 246
Personal Accident	30 473	134	30 339
Health	50 824	-	50 824
Other	136 928	61 171	75 757
TOTAL	**2 032 458**	**212 175**	**1 820 283**

Overview of most important types of insurance:

MOTOR THIRD PARTY LIABILITY INSURANCE

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

Risk management

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

PROPERTY, MOTOR OWN DAMAGE, PERSONAL ACCIDENT AND LIABILITY INSURANCE

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

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

Risk management

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

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

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

Key assumptions

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

Sensitivity analysis

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

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

Key-assumptions	Change in assumptions	Result in 2010 12m, TEEK	Change on gross general insurance contracts liabilities, TEEK	Change on net general insurance contracts liabilities, TEEK	Impact on 2010 net profit and reduction of shareholders' equity, TEEK
Premiums earned (net of reinsurance)	decrease 5%	1 709 964		-85 498	-85 498
Claim costs (gross)	increase 5%	957 625	47 881	47 881	-47 881
One big claim	1 additional claim		60 000	10 000	-10 000
Increase of claims handling expenses	increase 5%	57 326	2 866	2 866	-2 866

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

b) Concentration risk management and control

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

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

c) Management of financial risk

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

How the management determines credit, liquidity and market risk you can find from graphs pages 28–30.

CREDIT RISK

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

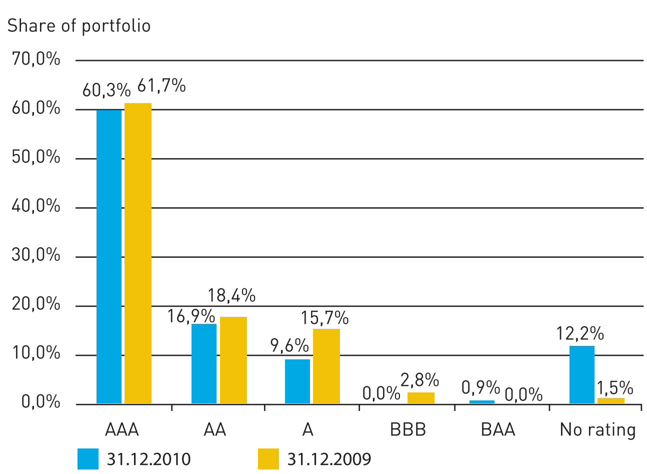
The company's credit risk is related to the solvency of the insured persons and insurance brokers, the organisation of reinsurance and the management of financial investments.

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

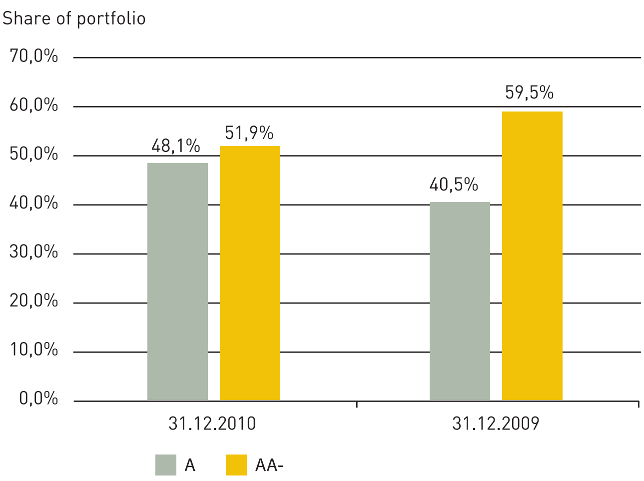
Reinsurance contracts are concluded mainly with the parent company. Every individual reinsurance contract is concluded on the basis of an analysis of the reinsurer's solvency and credibility.

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

Ratings of bond issuers (S&P)



Ratings of term deposits (S&P)



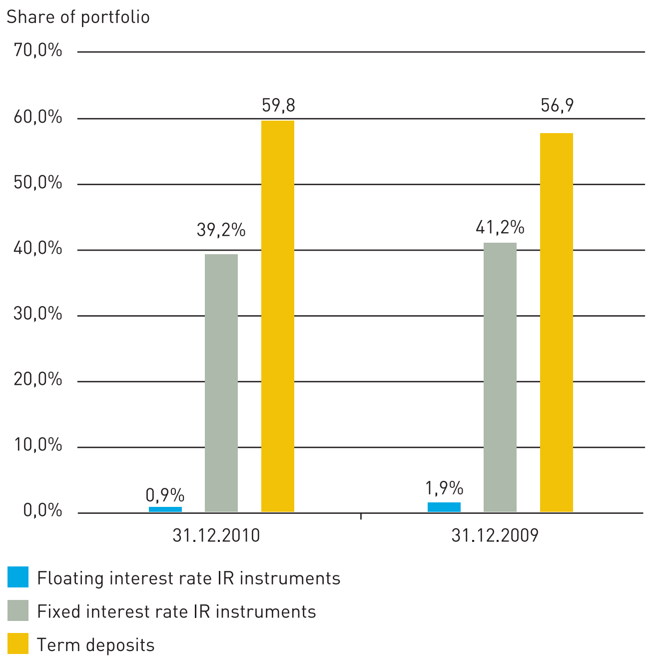
The table below shows the maximum exposure to credit risk for the components of the balance sheet.

in thousand EEK	31.12.2010	31.12.2009
Cash and cash equivalents	76 756	92 869
Financial assets	2 820 693	2 561 802
Receivables related to insurance activities	237 914	270 054
Reinsurance assets	171 960	212 175
Total credit risk exposure	**3 307 323**	**3 136 900**

LIQUIDITY RISK

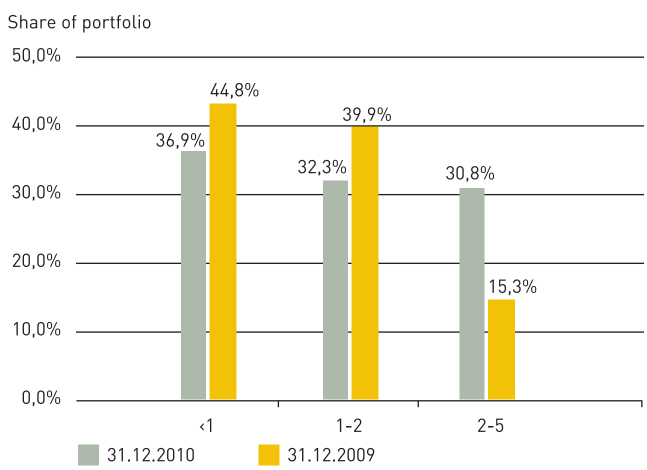
The realization of this risk may result in a situation, where financial assets may have to be realized at a price considerably below the market price. Liquidity risk means the company's inability to fulfill its obligations due to the financial market situation or incorrect decisions in the management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

Financial assets



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.

Division of bonds and other fixed income securities by maturity terms

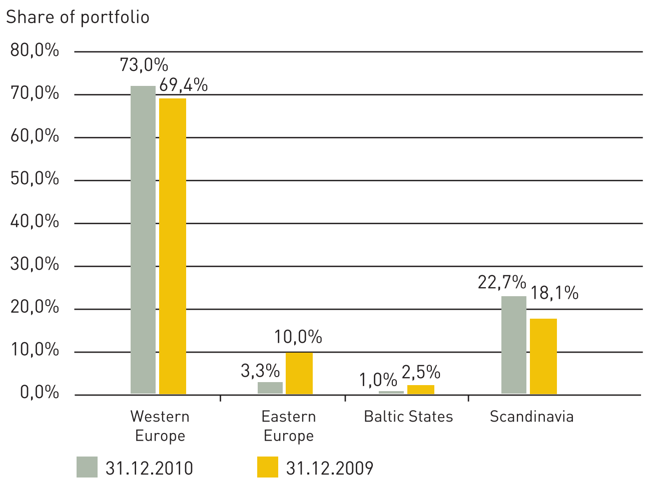


MARKET RISK

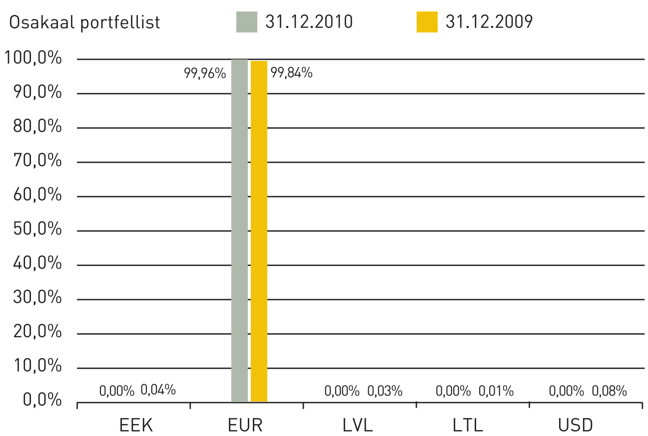
Market risk arises from changes in interest rates, exchange rates and the prices of financial assets. The company monitors the said risks on a daily basis and market risk limits have been set by the investment committee.

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

Division of bonds and other fixed income securities by geographical areas

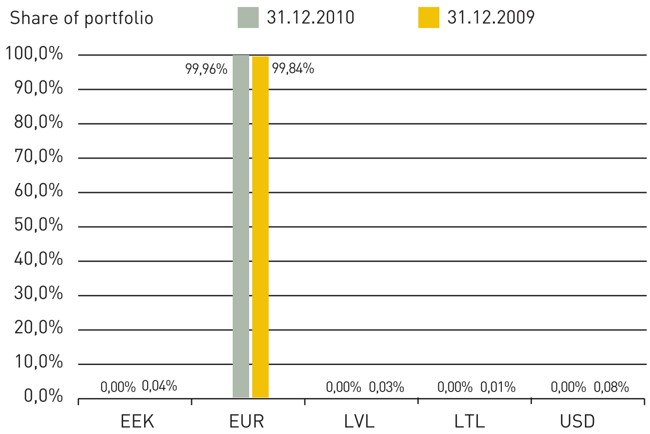


Finantsvarade jaotus valuutade lõikes



Currency risk means a potential loss arising from changes in the exchange rates. The company has hedged this risk by keeping financial investments only in euro which is approved by investment policy of the Company. At the end of 2010 almost 100% of investments are in euros. As the rate of euros is fixed in relation to the Baltic currencies, the currency risk is estimated to be very low.

Division of financial assets by currencies



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

Sensitivity analysis

The below table brings out some of the key assumptions indicating the effect of potential changes, other factors remaining constant. The analysis is based on the investment portfolio as of 31.12.2010 and shows the potential effect of the key assumptions on the return on investment.

in millions of EEK	Parallel shift in the interest curve		Change in share prices	
Market risk sensitivity analysis	up by 100 bps	down by 100 bps	+10%	-10%
Effect on financial results	-20,1	20,6	-	-

d) Management and hedging of operational risk

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

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

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

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

Preparation for Solvency II

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

The introduction of a new economic risk-based solvency regime aims to deepen the integration of the insurance and reinsurance market, enhance the protection of policyholders and beneficiaries, improve international competitiveness of EU insurers and reinsures 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 lead to companies focusing on sound risk management and internal control procedures and thus encompass a risk awareness throughout the organization.

A separate program to prepare If for the anticipated changes was introduced during 2010. A number of projects within the program have been initiated to secure full compliance with Solvency II in 2012. The program has encompassed involvement in the Solvency II debate and entailed the possibility of continuous review of If's risk management framework, internal control and corporate governance. well as the internal capital model.

The company has participated in the fifth pre-study QIS 5 in Solvency II was done during the autumn of 2010. The summary of the pre-study is expected to show the effect on the European insurance industry.

Note 3 Premiums earned, net of reinsurance

	2 010	2 009
Premiums written, gross	1 697 185	1 937 681
incl. 100% of the reinsured portion	31 010	30 338
Change in the provision for unearned premiums	70 956	197 328
Premiums earned, gross of reinsurance	**1 768 141**	**2 135 009**
Reinsurance premiums	-46 866	-117 755
Change in the provision for unearned premiums	-11 311	664
Premiums earned, ceded	**-58 177**	**-117 091**
TOTAL	**1 709 964**	**2 017 918**

Note 4 Return on investments

	2 010	2 009
Interest income/expense		
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other fixed income securities	19 001	32 549
Designated at fair value through profit and loss at inceptions:		
From deposits	2 577	14 088
Loans and receivables		
From deposits	16 094	-
From cash and cash equivalents	351	1 747
TOTAL	**38 022**	**48 384**

Profit from disposals		
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other fixed income securities	6 504	14 918
From bond funds	-	119
From cash and cash equivalents	-	29
TOTAL	**6 504**	**15 066**
Loss from disposals		
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other fixed income securities	-	-39 325
From shares	-4 949	-830
From bond funds	-	-834
TOTAL	**-4 949**	**-40 989**
Profit/loss from change in fair value		
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other fixed income securities	-5 860	89 641
From shares	5 045	621
From bond funds	-	-434
From currency exchange	274	-
TOTAL	**-541**	**89 828**
TOTAL RETURN ON INVESTMENTS	**39 036**	**112 289**

Note 5 Claims incurred, net of reinsurance

	2 010	2 009
Gross		
Claims paid during the year related to that year	-777 170	-809 470
Claims paid related to previous years	-257 125	-359 390
Amounts recovered from salvage and recourses	73 026	81 234
Change in the provision for claims outstanding	3 644	-40 396
Claims handling costs	-57 326	-66 895
TOTAL	**-1 014 951**	**-1 194 917**
Reinsurer's share		
Claims paid during the year related to that year	2 878	3 175
Claims paid related to previous years	29 685	103 686
Change in the provision for claims outstanding	-28 960	-58 236
TOTAL	**3 603**	**48 625**
Net		
Claims paid during the year related to that year	-701 266	-725 061
Claims paid related to previous years	-227 440	-255 704
Claims handling costs	-57 326	-66 895
Change in the provision for claims outstanding	-25 316	-98 632
TOTAL	**-1 011 348**	**-1 146 292**

The development of claims: 2006-2010

The overview of claims 2006-2010 has been provided in the below tables. The claims have been presented separately for each year. For accident years older than 2006 only claim developments since 2006 are shown, because in the financial systems of the Company there is information available to report claims development triangles backwards in time only since year 2006 (*).

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

The company believes the estimates on claims outstanding as of the end of 2010 to be adequate. Due to the imprecision of the reservation process, the possibility of changes cannot, however, be ruled out.

Development of claims in TEEK, gross

	...-2006	2007	2008	2009	2010
At 31 December					
Accident year*	1 257 812	1 333 908	1 481 234	1 226 130	1 121 590
1 year later	1 164 437	1 250 145	1 363 169	1 172 141	
2 years later	1 149 796	1 222 839	1 354 299		
3 years later	1 195 801	1 207 769			
4 years later	1 108 206				
Provision for outstanding claims (incl. IBNR) as of 31.12.2010 (TEEK)	376 940	123 199	206 887	226 090	390 326

Claims paid, regresses and salvages (accumulated) in TEEK, gross

	...-2006	2007	2008	2009	2010
At 31 December					
Accident year*	932 350	826 370	906 359	765 850	731 191
1 year later	1 226 273	1 058 139	1 129 959	948 151	
2 years later	1 274 477	1 075 706	1 146 993		
3 years later	1 354 876	1 083 878			
4 years later	1 377 447				

Development of claims in TEEK, net

	...-2006	2007	2008	2009	2010
At 31 December					
Accident year*	971 825	1 291 119	1 407 845	1 209 393	1 116 624
1 year later	877 613	1 201 244	1 312 123	1 158 171	
2 years later	873 661	1 173 658	1 300 851		
3 years later	865 905	1 167 960			
4 years later	769 935				
Provision for outstanding claims (incl. IBNR) as of 31.12.2010 (TEEK)	250 007	117 029	189 754	219 178	388 227

Claims paid, regresses and salvages (accumulated) in TEEK, net

	...-2006	2007	2008	2009	2010
At 31 December					
Accident year*	815 114	820 750	900 117	762 677	728 313
1 year later	1 033 460	1 022 635	1 094 858	938 667	
2 years later	1 052 107	1 037 873	1 110 681		
3 years later	1 059 276	1 042 854			
4 years later	1 062 875				

Note 6 Operating expenses

	2 010	2 009
Personnel expenses	-232 912	-263 586
Commissions to intermediaries	-125 004	-139 927
Data processing	-59 567	-68 963
Expenses on premises	-37 119	-42 190
Office expenses (incl. communication expenses)	-21 449	-26 440
Other operating expenses	-71 749	-112 164
TOTAL	**-547 800**	**-653 270**

Division of costs on the basis of functions		
Insurance contract acquisition costs	-351 203	-425 937
Administrative expenses	-139 271	-160 438
incl. investment expenses	-5 783	-11 206
Claims handling expenses	-57 326	-66 895
TOTAL	**-547 800**	**-653 270**

Note 7 Cash and cash equivalents

	31.12.2010	31.12.2009
Cash total by currencies		
EEK	51 126	41 892
EUR	1 703	5 214
GBP	20	1
LTL	15 484	30 793
LVL	7 262	13 028
NOK	30	23
PLN	-	-
RUB	244	-
USD	887	1 918
TOTAL	**76 756**	**92 869**

The annual interest earned from the current account balances amounts to 0.1 - 2.5% (in 2009: 0.19-5.15% p.a.).

Note 8 Receivables related to insurance activities

	31.12.2010	31.12.2009
Receivables related to direct insurance activities, incl.	201 887	250 488
- policyholders	143 663	192 469
- intermediaries	29 093	35 160
- other	643	1 146
- recourses with significant recoverability	21 832	17 633
- salvages	6 656	4 080
Receivables from reinsurance	28 447	17 207
- incl. from related parties	22 444	12 887
Other receivables	7 580	2 359
- incl. from related parties	659	577
TOTAL	**237 914**	**270 054**
Term of the receivables		
Neither past-due nor impaired:		
- not due yet	188 477	221 517
- due for up to 3 month	25 501	28 054
Past-due but not impaired:		
- due for 3-6 months	8 017	6 209
- due for 6-12 months	1 783	2 576
- due for over 1 year	14 136	11 698
TOTAL	**237 914**	**270 054**

All afore-mentioned receivables are not impaired, except for receivable in Lithuanian branch in amount of 2,107 thousand kroons.

Note 9 Accrued income and prepaid expenses

	31.12.2010	31.12.2009
Deferred tax receivable	11 171	2 599
Deferred acquisition costs (incl. the reinsured portion)	46 325	52 184
Prepaid expenses	9 080	8 315
TOTAL	**66 576**	**63 098**

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

Term of the accrued income and prepaid expenses:	**31.12.2010**	**31.12.2009**
Neither past-due nor impaired:		
- not due yet	66 576	63 098

Deferred acquisition costs	**2 010**		
	Share of acquisition costs (gross)	**Reinsurer's share of acquisition costs (gross)**	**Share of acquisition costs (net)**
Balance as of January 1	**52 977**	**-793**	**52 184**
Acquisition costs deferred during the year	132 260	-4 351	127 909
Reversal of previously deferred acquisition costs	-137 847	4 081	-133 766
Exchange-rate difference	-	-2	-2
Balance as of December 31	**47 390**	**-1 065**	**46 325**

Deferred acquisition costs	**2 009**		
	Share of acquisition costs (gross)	**Reinsurer's share of acquisition costs (gross)**	**Share of acquisition costs (net)**
Balance as of January 1	**70 401**	**-1 265**	**69 136**
Acquisition costs deferred during the year	146 669	-4 454	142 215
Reversal of previously deferred acquisition costs	-163 371	4 914	-158 457
Exchange-rate difference	-722	12	-710
Balance as of December 31	**52 977**	**-793**	**52 184**

Note 10 Financial assets

	31.12.2010	31.12.2009
Financial assets measured at fair value through profit and loss		
Classified as held for trading		
Shares, equity funds and bond funds	1	187
- listed	-	186
- unlisted	1	1
Bonds and other fixed income securities	1 133 127	1 104 830
- listed	1 132 057	1 102 922
- unlisted	1 070	1 908
incl. with a floating interest rate	26 044	49 695
incl. with a fixed interest rate (0.75%-5,75%)	1 107 083	1 055 135
Designated at fair value through profit and loss at inceptions		
Term deposits		1 456 785
- unlisted		1 456 785
TOTAL	**1 133 128**	**2 561 802**
Loans and receivables		
Term deposits	1 687 565	-
TOTAL	**1 687 565**	**-**
FINANCIAL ASSETS TOTAL	**2 820 693**	**2 561 802**

Financial assets measured at fair value through profit and loss	**2 010**	**2 009**
Balance at Jan.1	**2 561 802**	**3 080 497**
Shares, equity funds and bond funds		
Purchase	-	121 529
Sale	-5 231	-153 952
Change in fair value through profit and loss	5 045	315
Bonds and other fixed income securities		
Purchase	965 192	1 611 888
Sale	-924 910	-2 257 834
Change in fair value through profit and loss	-5 853	55 705
Change in accrued interest	-6 377	-8 711
Designated at fair value through profit and loss at inceptions		
Term deposits		
Purchase	-	8 091 705
Maturity	-1 454 811	-7 951 906
Change in accured interest	-1 974	-14 806
Currency exchange rate differences	245	-12 628
Balance at Dec. 31	**1 133 128**	**2 561 802**
Loans and receivables	**2 010**	**2 009**
Balance at Jan.1	**-**	**-**
Term deposits		
Purchase	24 632 032	-
Maturity	-22 951 400	-
Change in accrued interest	6 933	-
Balance at Dec. 31	**1 687 565**	

Term deposits earn an annual interest 0.9%-1.76% (as of 31.12.2009: 0.64%-1.08%).

Shares	31.12.2010	31.12.2009
Shares	1	187
TOTAL	**1**	**187**

Division of bonds and other fixed income securities by issuers		
	31.12.2010	**31.12.2009**
Issued by Estonian companies	1 069	1 908
Issued by foreign governments	1 069 871	1 001 009
Issued by foreign financial institutions	62 187	71 587
Issued by foreign companies	-	30 326
TOTAL	**1 133 127**	**1 104 830**

Ratings of bond issuers (S&P)		Percentage of fair value
	31.12.2010	**31.12.2009**
AAA	60%	62%
AA	17%	18%
A	10%	16%
BBB	0%	3%
BAA	1%	0%
No rating	12%	2%
TOTAL	**100%**	**100%**

Division of bonds and other fixed income securities by maturity terms		
	31.12.2010	**31.12.2009**
up to 1 year	417 911	495 474
1-2 years	366 194	440 378
2-5 years	349 022	168 978
TOTAL	**1 133 127**	**1 104 830**

Deposits by maturity terms		
	31.12.2010	31.12.2009
Up to 6 months	600 948	1 456 785
6-12 months	1 086 617	-
TOTAL	1 687 565	1 456 785

Financial assets measured at fair value through profit and loss

	31.12.2010		31.12.2009	
Classified as held for trading	Fair value	Acquisition cost	Fair value	Acquisition cost
Shares	1	1	187	5 231
Bonds and other fixed income securities	1 133 127	1 135 269	1 104 830	1 094 002
Designated at fair value through profit and loss at inceptions:				
Term deposits	-	-	1 456 785	1 454 811
TOTAL	**1 133 128**	**1 135 270**	**2 561 802**	**2 554 043**

Loans and receivables

	31.12.2010		31.12.2009	
	Fair value	Acquisition cost	Fair value	Acquisition cost
Term deposits	1 687 565	1 680 633	-	-
TOTAL	**1 687 565**	**1 680 633**	**-**	**-**

Financial assets measured at fair value through profit and loss by currencies, as of 31.12.2010

	Estonian kroon (EEK)	Euro (EUR)	Latvian lat (LVL)	Lithuanian litas (LTL)	US dollar (USD)	TOTAL
Shares	1	-	-	-	-	1
Bonds and other fixed income securities	1 069	1 132 058	-	-	-	1 133 127
TOTAL	**1 070**	**1 132 058**	**-**	**-**	**-**	**1 133 128**

Financial assets measured at fair value through profit and loss by currencies, as of 31.12.2009

	Estonian kroon (EEK)	Euro (EUR)	Latvian lat (LVL)	Lithuanian litas (LTL)	US dollar (USD)	TOTAL
Shares	1	-	-	186	-	187
Bonds and other fixed income securities	1 129	1 100 863	780	-	2 058	1 104 830
Designated at fair value through profit and loss at inceptions:						
Term deposits	-	1 456 785	-	-	-	1 456 785
TOTAL	**1 130**	**2 557 648**	**780**	**186**	**2 058**	**2 561 802**

Bonds with a fixed interest rate, by interest rates and currencies, as of 31.12.2010

Interest rate/currency	Estonian kroon (EEK)	Euro (EUR)	Latvian lat (LVL)	Lithuanian litas (LTL)	US dollar (USD)	TOTAL
Interest rate: 0-1,9 %	-	342 435	-	-	-	**342 435**
Interest rate: 2.0-2.9%	-	-	-	-	-	**-**
Interest rate: 3.0-3.9%	-	325 581	-	-	-	**325 581**
Interest rate: 4.0-4.9%	-	254 519	-	-	-	**254 519**
Interest rate: 5.0-5.9%	-	184 547	-	-	-	**184 547**
Interest rate: 6.0-15.0%	-	-	-	-	-	**-**
TOTAL	**-**	**1 107 083**	**-**	**-**	**-**	**1 107 083**

Bonds with a fixed interest rate, by interest rates and currencies, as of 31.12.2009

Interest rate/currency	Estonian kroon (EEK)	Euro (EUR)	Latvian lat (LVL)	Lithuanian litas (LTL)	US dollar (USD)	TOTAL
Interest rate: 0.1-1,9 %	1 129	2	-	-	-	**1 131**
Interest rate: 2.0-2.9%	-	167 906	-	-	-	**167 906**
Interest rate: 3.0-3.9%	-	294 897	-	-	-	**294 897**
Interest rate: 4.0-4.9%	-	205 295	-	-	-	**205 295**
Interest rate: 5.0-5.9%	-	317 283	-	-	-	**317 283**
Interest rate: 6.0-15.0%	-	67 843	780	-	-	**68 623**
TOTAL	**1 129**	**1 053 226**	**780**	**-**	**-**	**1 055 135**

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

	31.12.2010	31.12.2009
Bonds with a fixed interest rate	1 107 083	1 055 135
TOTAL	**1 107 083**	**1 055 135**

Financial assets with a floating interest rate measured at fair value through profit and loss, which are exposed to changes of market interest rates and thereby are exposed to cash flow

	31.12.2010	31.12.2009
Bonds with a floating interest rate	26 044	49 695
TOTAL	**26 044**	**49 695**

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.

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.

On the level 3, the measurement is based on other inputs rather than observable market data.

Financial assets designated at fair value through profit or loss				
31.12.2010	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Equity securities	-	-	1	1
Debt securities	1 012 768	119 288	1 071	1 133 127
TOTAL	**1 012 768**	**119 288**	**1 072**	**1 133 128**

Financial assets designated at fair value through profit or loss				
31.12.2009	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Equity securities	186	-	1	187
Debt securities	869 056	233 864	1 910	1 104 830
Term deposits	-	1 456 785	-	1 456 785
TOTAL	**869 242**	**1 690 649**	**1 911**	**2 561 802**

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

	At 1 January 2010	Total gains/ losses in income statement	Sales	Transfers from level 1 and level 2	At 31 December 2010	Total gains or losses for the period included in profit or loss for assets held at 31 December 2010
Financial assets designated at fair value through profit or loss						
Equitiy securities	1	-	-	-	1	-
Debt securities	1 910	-60	-780	-	1 070	-60
TOTAL	**1 911**	**-60**	-780	**-**	**1 071**	**-60**

	At 1 January 2009	Total gains/ losses in income statement		Transfers from level 1 and level 2	At 31 December 2009	Total gains or losses for the period included in profit or loss for assets held at 31 December 2009
Financial assets designated at fair value through profit or loss						
Equitiy securities	180	7	-	-185	1	-
Debt securities	79 498	-8 849	-	-68 739	1 910	**-7 823**
TOTAL	**79 678**	**-8 842**	-	**-68 924**	**1 911**	**-7 823**

	2010			2009		
	Realised gains	Fair value gains and losses	Total	Realised gains	Fair value gains and losses	Total
Total gains or losses included in profit or loss for the period	25	-85	**-60**	-871	-7 971	**-8 842**
Total gains or losses included in profit and loss for the period for assets held at the end of the reporting period	25	-85	**-60**	-182	-7 641	**-7 823**

Note 11 Intangible assets

	Computer software
Net book value 31.12.2008	**42 531**
Acquisition (incl. prepayment)	8 318
Write-off	-4 962
Reclassification	297
Acquisition cost 31.12.2009	99 420
-incl. fully depreciated	41 652
Depreciation charge for the year	-14 013
Depreciation of written-off non-current assets	2 361
Accumulated depreciation 31.12.2009	-64 888
Translation differences	-562
Net book value 31.12.2009	**33 970**
Acquisition (incl. prepayment)	29 025
Write-off	-18 778
Reclassification	-
Acquisition cost 31.12.2010	108 285
-incl. fully depreciated	53 666
Depreciation charge for the year	-9 034
Depreciation of written-off non-current assets	11 351
Accumulated depreciation 31.12.2010	-61 751
Translation differencies	6
Net book value 31.12.2010	**46 540**

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

Note 12 Property, plant and equipment

	Land	Buildings	Other PPE	TOTAL
Net book value 31.12.2008	**6 007**	**76 896**	**23 745**	**106 648**
Acquisition	-	93	3 008	3 101
Reclassificatiohn	-	-	-297	-297
Write-off	-	-	-1 061	-1 061
Disposal	-	-	-6 461	-6 461
Acquisition cost 31.12.2009	6 007	107 876	74 025	187 908
-incl. fully depreciated	-	-	43 668	43 668
Depreciation charge for the year	-	-2 156	-8 347	-10 503
Depreciation charge of sales and disposals	-	-	5 467	5 467
Accumulated depreciation 31.12.2009	-	-33 044	-57 971	-91 015
Translation differences	-	-	-331	-331
Net book value 31.12.2009	**6 007**	**74 832**	**15 723**	**96 562**
Acquisition	-	683	5 445	6 128
Reclassification	-	-	-	-
Write-off	-	-1 175	-7 662	-8 837
Disposal	-	-	-410	-410
Acquisition cost 31.12.2010	6 007	107 385	70 647	184 039
-incl. fully depreciated	-	-	61 299	61 299
Depreciation charge for the year	-	-2 162	-6 068	-8 230
Depreciation charge of sales and disposals	-	157	7 878	8 035
Accumulated depreciation 31.12.2010	-	-35 049	-55 742	-90 791
Translation differences			1	1
Net book value 31.12.2010	**6 007**	**72 336**	**14 906**	**93 249**

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

Note 13 Liabilities related to insurance activities

	31.12.2010	31.12.2009
Liabilities related to direct insurance activities, incl.	59 418	59 237
-policyholders	32 449	27 955
-intermediaries	24 835	28 648
-others	2 134	2 633
Liabilities related to reinsurance	23 853	30 446
Other liabilities (Note 1.5a)	7 660	6 599
TOTAL	**90 931**	**96 282**

All above mentioned liabilities are current liabilities.

Note 14 Accrued expenses and deferred income

	31.12.2010	31.12.2009
Taxes payable	16 367	12 151
Employee-related liabilities	4 558	4 638
Vacation and social tax reserve	8 775	9 696
Performance pay reserve (incl. wage-based taxes)	21 858	18 201
Deferred income tax	798	1 509
Other accrued expenses	11 816	8 077
TOTAL	**64 172**	**54 272**
Terms of liabilities		
Up to 12 months	64 172	54 272
Taxes payable are divided into the following categories:		
Value added tax	1 645	728
Personal income tax	2 246	2 316
Social tax	4 210	4 215
Unemployment insurance	494	499
Funded pension	156	62
Corporate income tax	7 411	4 168
Other taxes	205	162
TOTAL	**16 367**	**12 151**

Note 15 Liabilities related to insurance contracts and reinsurance assets

Liabilities related to insurance contracts and reinsurance assets

	31.12.2010	31.12.2009
Gross		
Provision for incurred and reported claims and claims handling expenses	846 342	851 518
Provision for incurred but not reported claims	528 344	526 834
Provision for unearned premiums	583 159	654 106
TOTAL	**1 957 845**	**2 032 458**
Reinsurer's share		
Provision for incurred and reported claims and claims handling expenses	153 631	182 111
Provision for incurred but not reported claims	5 616	6 094
Provision for unearned premiums	12 714	23 970
TOTAL	**171 960**	**212 175**
Net		
Provision for incurred and reported claims and claims handling expenses	692 711	669 407
Provision for incurred but not reported claims	522 728	520 740
Provision for unearned premiums	570 445	630 136
TOTAL	**1 785 885**	**1 820 283**

2 010			
The provision for claims reported by policy holders and claims incurred but not yet reported (IBNR)	**Liabilities arising from insurance contracts**	**Reinsurer's share of liabilities**	**Net**
Balance as of January 1	**1 378 352**	**-188 205**	**1 190 147**
Change in the provision for claims incurred but not yet settled, related to current year	275 394	-1 194	274 200
Change in the provision for claims incurred but not yet settled, related to previous years	-282 116	29 676	-252 441
Change in the provision for claims incurred but not reported, related to current year	115 005	-894	114 111
Change in the provision for claims incurred but not reported, related to previous years	-113 486	1 372	-112 114
Change in the provision for claims handling expenses	1 560	-	1 560
Translation difference	-22	-2	-24
Balance as of December 31	**1 374 686**	**-159 247**	**1 215 439**

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

Provision for unearned premiums	2 010		
	Liabilities arising from insurance contracts	**Reinsurer's share of liabilities**	**Net**
Balance as of January 1	**654 106**	**-23 970**	**630 136**
Premiums written in the year	1 697 185	-46 866	1 650 319
Premiums earned during the year	-1 768 141	58 177	-1 709 965
Translation difference	9	-54	-45
Balance as of December 31	**583 159**	**-12 713**	**570 445**

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

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

	31.12.2010	31.12.2009
up to 1 year	946 262	946 030
1-2 years	273 028	281 169
2-5 years	367 310	283 346
5-10 years	237 893	193 576
Over 10 years	133 352	328 337
TOTAL	**1 957 845**	**2 032 458**

Note 16 Corporate income tax

(a) Income tax expense		
	2010	**2009**
Current tax	9 534	16 154
Deferred tax	-9 283	-3 780
Total income tax expense	**252**	**12 374**
Specification of current taxes		
Latvia	9 018	6 774
Lithuania	-8 766	5 600
Total	**252**	**12 374**

(b) Reconciliation of tax charge		
	2010	**2009**
Profit before tax	**253 531**	**404 587**
Tax at 15%	**8 400**	**7 510**
Tax at 20%	**-**	**9 056**
Differences arising from tax rate changes	-	867
Permanent differences	755	1 468
Temporary differences	-246	-4 000
Recognition of previously unrecognized tax asset	40	111
Prior year tax adjustment	-195	-115
Donation	-198	-686
Differences arising from unrealized gains and losses	-8 304	-1 837
Total tax charge for the year	**252**	**12 374**

(c) Deferred tax liability		
	31.12.2010	**31.12.2009**
Deferred tax liability		
Accelerated capital allowances	2 590	3 010
Provision for amounts recoverable by subrogation	906	710
Total deferred tax liability	**3 496**	**3 720**
Deferred tax asset		
Vacation reserve	-2 026	-1 724
Doubtful debts	-4 359	-3 844
Asset valuation allowance for doubtful receivables	843	757
Loss carried forward	-8 326	-
Total deferred tax asset	**-13 869**	**-4 811**
Net deferred tax asset	**-10 372**	**-1 091**
Specification of deferred taxes	**2010**	**2009**
Deferred tax liability		
Latvia	2 590	3 009
Lithuania	906	711
Total deferred tax liability	**3 496**	**3 720**
Deferred tax asset		
Latvia	-1 791	-1 501
Lithuania	-12 077	-3 310
Total deferred tax asset	**-13 868**	**-4 811**
Net deferred tax liability/(asset)		
Latvia	799	1 508
Lithuania	-11 171	-2 599
Net deferred tax liability/(asset)	**-10 372**	**-1 091**

(d) Current corporate income tax liability		
	31.12.2010	**31.12.2009**
At 1 January	**4 168**	8 014
Calculated	9 534	16 155
Paid	-6 284	-19 872
Translation difference	-7	-129
At 31 December	**7 411**	**4 168**

Note 17 Investment into subsidiary

AS If Kinnisvarahaldus		
Field of activity: real estate management		
Legal address: Pronksi 19, Tallinn 10124	**31.12.2010**	**31.12.2009**
Acquisition cost of shares	**73 725**	**73 725**
Number of shares	8 790 000	8 790 000
Participation	**100%**	**100%**
Total owner's equity	115 752	113 816
Share capital	87 900	87 900
Share premium	987	987
Mandatory reserve	5 194	2 388
Retained earnings	19 736	17 671
Profit for the period	1 936	4 870
Investment in the parent company's balance sheet	**73 725**	**73 725**

Note 18 Owner's equity

Insurance is a highly regulated business and there are formal rules for minimum capital and capital structure. Capital adequacy and solvency are reported regularly to the supervisory authorities and company originates principle that capitalization should meet the minimum statutory capital requirements at each moment. Every insurance undertaking shall have an adequate available solvency margin to ensure that the insurance undertaking is capable of meeting the obligations arising from insurance contracts at all times, which shall be at least equal to the requirements and conforming to the structure provided by Insurance Activities Act. The required solvency margin of an insurance undertaking shall be equal at least EUR 3.5 million. The required available solvency margin of an insurance undertaking engaged in non-life insurance shall be calculated pursuant to Insurance Activities Act. Group fulfilled all minimum requirements to amount of assets included in available solvency margin of insurance undertakings during 2010 (also during 2009).

	31.12.2010	**31.12.2009**
Owner's equity	1 400 740	1 147 518
Intangible assets	46 540	33 970
Available solvency margin	1 354 200	1 113 548
Required solvency margin	375 787	375 787
Surplus of solvency margin	**978 413**	**737 761**

Share capital

As of 31.12.2010, the company had issued a total of 10,000,000 shares (2009: 10,000,000 shares), paid for in full. The shares have a nominal value of 10 kroons per share (2009: 10 kroons). The minimum number of shares allowed by the Articles of Association is 5,000,000 and the maximum number of shares 20,000,000. The Insurance Activities Act stipulates that share capital must amount to at least 3 million euros. The group thus met the share capital requirement established by law. The company has one type of common shares. Common shares grant their owner all the rights stipulated in the Commercial Code – the right to participate at the General Shareholders' Meeting, profit allocation, division of assets upon dissolution, the right to receive information on the company's activities from the management board at the General Shareholders' Meeting, the pre-emptive right to register new shares proportionally with the nominal value of shares held in case of share capital increase, etc.

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

Share premium

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

As of 31.12.2010, share premium amounted to 57,560 thousand kroons (31.12.2009: 57,560 thousand kroons).

Mandatory reserve

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

The company's mandatory reserve amounts to 20,000 thousand kroons in accordance with the Articles of Association, as is in the required amount. As of 31.12.2010, mandatory reserve amounted to 36,962 thousand kroons (31.12.2009: also 36,962 thousand kroons).

Profit carried forward

On 3 April 2010, the sole shareholder resolved the profit for 2009 in amount of 392,213 thousand kroons to be carried forward.

Net profit for 2010 was 253,279 thousand kroons and as of 31.12.2010 profit to be carried forward amounted to 1,206,218 thousand kroons.

The company's potential income tax liability

As of 31.12.2010 the company's retained earnings amounted to 1,206,218 thousand kroons and the net book value of intangible assets to 46,540 thousand kroons (31.12.2009: 952,996 thousand kroons and 33,970 thousand kroons, respectively).

The maximum possible income tax liability related to the payment of the company's retained earnings as dividends is 243,531 thousand kroons (2009: 192,995 thousand kroons). The company could thus pay 916,143 thousand kroons (2009: 726,030 thousand kroons) in net dividends. The potential income tax liability calculation has not been taken into account that the profits allocated to the permanent establishments in Latvia and Lithuania are exempt from Estonian income tax.

The maximum possible income tax liability has been calculated based on the assumption that the net dividends to be paid, and the related total income tax expenses to be recorded in the income statement of 2010 would not exceed the distributable profit as of 31.12.2010.

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

Note 19 Operating lease

The company leases office space and passenger cars under operating lease terms. Total rental expenses carried in the consolidated income statement amount to to 33,288 thousand kroons (2009: 29,196 thousand kroons).

As of 31.12.2010, the company had the following deferred liabilities arising from operating lease contracts:

- up to 1 years	17 253	kroons	(as of 31.12.2009 17,371 th.kroons)
- 1 to 5 years	42 210	kroons	(as of 31.12.2009 44,025 th.kroons)
- more than 5 years	22 851	kroons	(as of 31.12.2009 30,222 th. kroons)

Note 20 Related party transactions

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

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

Insurance contracts with total premiums of 109 thousand kroons were concluded with the management individuals in the financial period (same period in 2009: 139 thousand kroons). The Management Board members received a total of 11,276 thousand kroons in remuneration, including social tax (2009: 17,408 thousand kroons). Termination benefits were not paid to members of the Management Board during the reporting year (2009: 3,019 thousand kroons). Loans were not given to the members of the Management Board during the reporting year (2009: 662 thousand kroons). No remuneration was paid to members of the Supervisory Board in 2010 and 2009.

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

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

	Calculated reinsurance premiums		Indemnifications and commissions received	
	2010	2009	2010	2009
If P&C Insurance Ltd (Sweden)	21 649	86 725	1 643	1 671
If P&C Insurance Company Ltd (Finland)	530	299	1 514	22

Receivables and payables related to the above transactions as of 31.12.2010 and 31.12.2009:

	31.12.2010	31.12.2009
Receivables		
If P&C Insurance Ltd (Sweden)	22 444	12 887
Payables		
If P&C Insurance Ltd (Sweden)	17 293	24 494

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

	Services purchased		Services rendered	
	2010	2009	2010	2009
Mandatum Life Insurance Baltic SE	3	17	959	942
Nordea Group companies	1 741	-	10 604	-
If P&C Insurance Ltd (Sweden)	-	-	-	10
If P&C Insurance Company Ltd (Finland)	-	-	-	21

Receivables and payables related to the above transactions as of 31.12.2010 and 31.12.2009:

	31.12.2010	31.12.2009
Receivables		
SE Sampo Life Insurance Baltic	51	53
Nordea Bank Finland	529	519
If P&C Insurance Ltd (Sweden)	6	2
If P&C Insurance Company Ltd (Finland)	5	2
Payables		
SE Sampo Life Insurance Baltic	1	1
Nordea Bank Finland	276	248

Note 21 Events after the balance sheet date

Staring from the 1st of January 2011 joined Estonia euro zone and Estonian kroon (EEK)has been replaced by euro (EUR). From this date the Company accounting has been converted into euro and all reports in 2011 and subsequent years will be presented in euro. All comparatives will be converted to euro by official exchange rate 15,6466 EEK for 1 EUR.

Note 22 The parent company's unconsolidated financial statements, as required by the Accounting Act of the Republic of Estonia

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

PARENT COMPANY'S UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of Estonian kroons	2010	2009
REVENUE		
PREMIUMS EARNED, NET OF REINSURANCE		
Premiums earned	1 768 141	2 135 010
Premiums ceded	-58 177	-117 091
TOTAL	**1 709 964**	**2 017 919**
OTHER INCOME		
Reinsurance commissions	4 321	4 407
Return on investments	38 758	110 423
Other income	2 032	2 637
TOTAL	**45 111**	**117 468**
TOTAL REVENUE	**1 755 075**	**2 135 387**
EXPENSES		
CLAIMS INCURRED, NET OF REINSURANCE		
Claims incurred, gross	-957 625	-1 128 021
Claims handling expenses	-57 413	-66 981
Reinsurer's share in claims paid	3 603	48 625
TOTAL	**-1 011 435**	**-1 146 377**
EXPENSES		
Insurance contract acquisition costs	-351 424	-426 161
Administrative expenses	-140 621	-163 131
TOTAL	**-492 045**	**-589 292**
TOTAL EXPENSES	**-1 503 480**	**-1 735 669**
INCOME TAX	-252	-12 374
NET PROFIT FOR THE FINANCIAL YEAR	**251 343**	**387 343**
OTHER COMPREHENSIVE INCOME		
Exchange differences on translating foreign operations	-57	-231
TOTAL	**-57**	**-231**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**251 286**	**387 112**

PARENT COMPANY'S UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of Estonian kroons	31.12.2010	31.12.2009
ASSETS		
Cash and cash equivalents	38 247	58 781
Financial assets	2 894 417	2 635 527
Receivables related to insurance activities	237 778	269 981
Accrued income and prepaid expenses	66 572	63 093
Reinsurance assets	171 960	212 175
Intangible assets	46 540	33 970
Property, plant and equipment	15 664	16 314
TOTAL ASSETS	**3 471 178**	**3 289 841**
LIABILITIES AND OWNER'S EQUITY		
Liabilities related to insurance activities	91 078	96 553
Accrued expenses and prepaid revenues	63 541	53 403
Liabilities arising from insurance contracts	1 957 845	2 032 457
Total liabilities	**2 112 464**	**2 182 413**
Share capital	100 000	100 000
Share premium	57 560	57 560
Mandatory reserve	36 962	36 962
Profit carried forward	912 849	525 563
Net profit for the year	251 343	387 343
Total owner's equity	**1 358 714**	**1 107 428**
TOTAL LIABILITIES AND OWNER'S EQUITY	**3 471 178**	**3 289 841**

PARENT COMPANY'S UNCONSOLIDATED STATEMENT OF CASH FLOWS

in thousands of Estonian kroons	**2 010**	**2 009**
Cash flow from operating activities		
Premiums received	1 752 749	2 009 160
Premiums ceded	-53 459	-127 306
Claims paid, incl. claims handling expenses	-1 025 457	-1 146 211
Proceeds from reinsurance	25 644	115 053
Employee-related and service-related expenses	-463 794	-575 035
Investments in shares	-	-121 529
Proceeds from disposals of shares	282	152 461
Investments in fixed income securities	-965 192	-861 091
Proceeds from disposals of fixed income securities	931 170	1 556 077
Investments in term deposits	-24 600 032	-8 036 705
Return on term deposits	24 374 211	7 875 989
Interest received	37 545	92 254
Cash flow from operating activities, net	**13 666**	**933 117**
Total cash flow from investing activities		
Acquisition of subsidiaries	-	-1 001 382
Acquisition of non-current assets and intangible assets	-34 430	-11 011
Disposals of non-current assets and intangible assets	232	1 886
Cash flow from investing activities, net	**-34 198**	**-1 010 507**
Change in cash flow, net	**-20 532**	**-77 390**
Cash and cash equivalents at the beginning of the period	**58 781**	**137 584**
Effects of exchange rate changes on cash and cash equivalents	**-2**	**-1 413**
Cash and cash equivalents at the end of the period	**38 247**	**58 781**

PARENT COMPANY'S UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of Estonian kroons	Restricted equity			Unrestricted		
	Share capital	Share premium	Mandatory reserve	Profit brought forward	Net profit for the year	Total equity
Equity at beginning of 2008	**100 000**	**57 560**	**36 962**	**302 539**	**-**	**497 060**
Total comprehensive income	-	-	-	4 206	219 049	**223 255**
Equity at end of 2008	**100 000**	**57 560**	**36 962**	**306 745**	**219 049**	**720 316**
Equity at beginning of 2009	**100 000**	**57 560**	**36 962**	**525 794**	**-**	**720 316**
Total comprehensive income	-	-	-	-231	387 343	**387 112**
Equity at end of 2009	**100 000**	**57 560**	**36 962**	**525 563**	**387 343**	**1 107 427**
Equity at beginning of 2010	**100 000**	**57 560**	**36 962**	**912 906**	**-**	**1 107 428**
Total comprehensive income	-	-	-	-57	251 343	**251 286**
Equity at end of 2010	**100 000**	**57 560**	**36 962**	**912 849**	**251 343**	**1 358 714**

PARENT COMPANY'S ADJUSTED UNCONSOLIDATED EQUITY IN ACCORDANCE WITH THE REQUIREMENTS OF THE COMMERCIAL CODE OF ESTONIA:

	31.12.2010	31.12.2009
Parent company's unconsolidated equity	1 358 714	1 107 428
Investment in the parent company's balance sheet (minus)	-73 725	-73 725
Subsidiary's value under the equity method (plus)	115 752	113 816
Total	**1 400 741**	**1 147 519**

Auditor's report

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Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS If P&C Insurance

We have audited the accompanying financial statements of AS If P&C Insurance and its subsidiary (hereafter "the Group"), which comprise the balance sheet as at 31 December 2010, 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 financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, 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.

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Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The financial information of AS If P&C Insurance as a parent company in Note 22 is presented because it is required by the Estonian Accounting Law and is not a required part of the consolidated financial statements prepared under International Financial Reporting Standards as adopted by the European Union. Such financial information has been subject to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, is prepared in all material respects in accordance with the requirements of the Estonian generally accepted accounting principles and in relation to the consolidated financial statements taken as whole.

Tallinn, 22 February 2011

Ivar Kiigemägi
Ernst & Young Baltic AS

Tiina Sõmer
Authorised Auditor

Proposed appropriation of earnings

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

Profit carried forward	952,939 thousand kroons
Net profit for the financial year 2010	253,279 thousand kroons

Total fund available as of 31.12.2010: 1,206,218 thousand kroons

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

Andris Morozovs,
Chairman of the Management Board

Dace Ivaska,
Member of the Management Board

Mihkel Uibopuu,
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

Signatures of the management board to the annual report 2010

The Management Board of AS If P&C Insurance has prepared the management report and financial statements for 2010.

Management Board:

Andris Morozovs	Chairman of the Management Board		15.02.2011
Mihkel Uibopuu	Member of the Management Board		15.02 2011
Heinar Olak	Member of the Management Board		15/02 2011
Artur Praun	Member of the Management Board		15.2. 2011
Dace Ivaska	Member of the Management Board		15.02 2011
Zaneta Stankeviciene	Member of the Management Board		15.02 2011