If P&C Insurance AS

2014

Annual report

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ANNUAL REPORT

Business name:	If P&C Insurance AS
Registry code:	10100168
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E-mail:	info@if.ee
Web page:	www.if.ee
Main field of activity:	non-life insurance services (EMTAK 65121)
Beginning of financial year:	1 January 2014
End of financial year:	31 December 2014
Chairman of the Management Board:	Andris Morozovs
Auditor:	Ernst & Young Baltic AS

TABLE OF CONTENTS

MANAGEMENT REPORT	**4**
FINANCIAL STATEMENTS	**9**
STATEMENT OF COMPREHENSIVE INCOME	9
STATEMENT OF FINANCIAL POSITION	10
STATEMENT OF CHANGES IN EQUITY	11
STATEMENT OF CASH FLOWS	12
NOTES TO THE FINANCIAL STATEMENTS	13
Note 1. Accounting principles and basis of estimations used in the preparation of the financial statements	13
Note 2. Risks and risk management	25
Note 3. Premiums earned, net of reinsurance	45
Note 4. Return on investments	45
Note 5. Claims incurred, net of reinsurance	46
Note 6. Operating expenses	47
Note 7. Cash and cash equivalents	47
Note 8. Receivables related to insurance activities and specification of bad debts	48
Note 9. Accrued income and prepaid expenses	49
Note 10. Financial investments	50
Note 11. Intangible assets	53
Note 12. Property, plant and equipment	54
Note 13. Liabilities related to insurance activities	55
Note 14. Accrued expenses and deferred income	55
Note 15. Liabilities related to insurance contracts and reinsurance assets	56
Note 16. Corporate income tax	59
Note 17. Investment into subsidiary	61
Note 18. Owner's equity	62
Note 19. Operating lease	63
Note 20. Related parties transactions	63
Note 21. Events after the balance sheet date	67
INDEPENDENT AUDITOR'S REPORT	**68**
PROPOSAL FOR THE DISTRIBUTION OF THE PROFIT	**69**
SIGNATURES TO THE ANNUAL REPORT 2014	**70**

MANAGEMENT REPORT

Organization

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

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

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

Legal structure of the company

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

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

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

Results from operations

RESULTS

Despite uncertainties in the global economy, the Baltic's have experienced economic growth. The good result development continued in If.
In 2014, the technical result increased in comparison with the year before to €15.5 million (2013: €12.5 million). Increase in technical result was supported by premium growth and favourable claims outcome, large claims outcome was low and mild weather in the beginning of the year resulted in positive claims development in Motor lines.

PREMIUM WRITTEN

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

CLAIMS AND OPERATING EXPENSES

Claims cost, including claims handling costs, decreased €1.3 million to €66.9 million (2013: € 68.2 million).
The loss ratio, including claims handling costs, improved during 2014 and amounted to 56.4% (2013: 60.5%). Loss ratios improved in all major products due to lower outcome of large claims and decrease in average claim. Results of motor products were supported by mild winter weather in the beginning of the year.

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

NET PROFIT AND TAX

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

INVESTMENT RESULT

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

Three-year summary

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

FORMULAS

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

Solvency capital

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

Objectives and policies for financial risk management

The core of the Company’s insurance operations is the transfer of risk from the insured clients to the insurer. The Company’s result depends on both the underwriting result and the return on investment assets. The Company’s risk management approach is to ensure that sufficient return is achieved for the risks taken in all business transactions. All risks are taken into account in risk-return considerations and pricing decisions.

The key objectives for risk management are to ensure that the Company has sufficient capital in relation to the risks in the business activities and to limit fluctuations in financial results. This requires all risks to be properly identified and monitored. The Company’s risks, exposures and risk management are described in Note 2.

Personnel

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

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

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

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

Outlook

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

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

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

Operations

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

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

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

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

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

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

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

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

Applied accounting principles

The 2014 Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the EU.

The financial statements include the accounts of the Estonian company with its branches.

Heinar Olak,
Member of the Management Board

Artur Praun,
Member of the Management Board

FINANCIAL STATEMENTS

Statement of comprehensive income

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

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

FINANCIAL STATEMENTS

Statement of financial position

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

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

Statement of changes in equity

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

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

Statement of cash flows

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

1. THE COMPANY AND ITS ACTIVITIES

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

2. BASIS OF PREPARATION

The 2014 financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Union. The financial statements have been prepared on a historical cost basis, except for certain financial investments which have been measured at fair value.

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

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

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

The financial statements include the accounts of the insurance company in Estonia and the accounts of its branch offices in Latvia and Lithuania. Branches as individuals entities prepare their financial statements for the same period, and use the same accounting principles in all material aspects applied for the Company as a whole. All in-house balances and transactions, unrealised gains and losses resulting from those transactions between the Estonian unit, the branch in Latvia and the branch in Lithuania are eliminated in full.

FINANCIAL STATEMENTS

3. CHANGES IN ACCOUNTING POLICY, ESTIMATES AND DISCLOSURES

The financial statements are composed based on consistency and comparability principles, which means that the Company 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 Company.

3.1. Adoption of new and/or changed International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations
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 amended standard IAS 27 Separate Financial Statements has been adopted in the Company during the year. As a result of the new standards IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosures of Interests in Other Entities this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The amendment affects note disclosure only and has no impact on the Company's financial position or performance.

3.2. New IFRS standards and interpretations issued but not yet effective
The Company has not early adopted any IFRS standards or interpretations. The Company considers that only the new standards IFRS 9 Financial instruments and IFRS 15 Revenue have significance to the Company's future financial reporting.

Improvements to IFRSs
In December 2013 IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle, which is a collection of amendments to the following IFRSs applicable to the company's Financial Statements (effective for financial years beginning on or after 1 January 2015):

- IFRS 13 Fair value Measurement;

In December 2013 IASB issued the Annual Improvements to IFRSs 2010 – 2012 Cycle (effective for financial years beginning on or after 1 February 2015):

- IFRS 13 Fair value Measurement;
- IAS 16 Property, Plant and Equipment;
- IAS 24 Related Party Disclosures;
- IAS 38 Intangible Assets.

In September 2014 IASB issued the Annual Improvements to IFRSs 2012 – 2014 Cycle (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU):

- IFRS 7 Financial Instruments: Disclosures.

The adoption of these amendments may result in changes to accounting policies or disclosures but will not have any significant impact on the financial position or performance of the Company. The Company plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

4. MATERIAL JUDGMENTS, ESTIMATES AND RESOLUTIONS

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

A) EVALUATION OF LIABILITIES FROM INSURANCE CONTRACTS

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

As of the end of 2014, gross insurance technical provisions amounted to €121,488 thousand (2013: €119,425 thousand), of which the reinsurer's share amounted to €3,044 thousand (2013: €3,383 thousand). Insurance technical provisions have been described in section 5 of Note 1.

B) FINANCIAL ASSETS MEASURED AT FAIR VALUE

Calculation of the fair value of financial assets has been described in section Note 1, section 5 (f). Financial assets measured at fair value amounted to €200,072 thousand as at the end of 2014 (€171,888 thousand in 2013). The fair value of financial assets is established on the basis of active bid price listing of the Bloomberg system. The fair value of unlisted financial assets is determined on the basis of similar market transactions or, if no such transactions have been made, on the basis of the value determined by using the generally accepted valuation techniques. Certificates'of deposit fair value has been determined through annualized discount factors which are in the range 0.99821 – 1.00000 (2013: 0.99829 – 0.99961).

C) IMPAIRMENT OF INTANGIBLE ASSETS

Management's best knowledge and estimates have been used for the performed comprehensive reassessment of previously capitalized IT software development costs under intangible assets and intangible assets' impairment test. Impairment test has been performed in order to determine if there is an indication that the carrying amount of previously capitalized IT systems may not be recoverable. As at the end of 2014, the impairment charge recognized in operating expenses amounted to € 4,537 thousand (2013: € 518 thousand). Additional information is in Note 11.

5. MAIN ACCOUNTING PRINCIPLES

A) ACCOUNTING FOR THE SUBSIDIARY IN THE COMPANY'S FINANCIAL STATEMENTS

Investments in subsidiary are recognized in the Company's financial statements at cost less impairment (if any). This means that the investment is initially recognized at acquisition cost, consisting of the fair value of the payable amount, adjusted thereafter by the impairment losses arising from the drop in the value of the investment.

Impairment tests are 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.

B) TRANSACTIONS, RECEIVABLES AND LIABILITIES IN FOREIGN CURRENCY AND TRANSLATION OF THE ACCOUNTS OF FOREIGN BRANCHES

The financial statements are presented in Euros, which is the functional and reporting currency of the Company. Items included in the financial statements of each of the Company's entities are measured using their functional currency which is the currency of the primary economic environment in which entity operates. Foreign currency transactions are translated into Euro on the basis of the exchange rates of the European Central Bank. Monetary assets and liabilities denominated in foreign currency are translated into Euro on the basis of the currency exchange rates of the European Central Bank officially valid on the balance sheet date. Foreign exchange gains and losses resulting from the revaluation are recorded in the statement of comprehensive income of the reporting period.
Income statement items in foreign currency are translated to Euro using average exchange rate for the month during which they were reported. Lithuanian branch 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 statement of comprehensive income are reported directly against shareholders equity.
The following exchange rates have been applied in the financial statement:

	31.12.2014 EUR	31.12.2013 EUR
Latvian lat (LVL)	-	1.4229
Lithuanian litas (LTL)	0.2896	0.2896

C) REVENUE RECOGNITION

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

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

Insurance premiums

The collected insurance premiums are recorded upon entry into force of the insurance policy and adjusted with the changes in prepaid premiums, calculated based on the pro rata method. Premiums written are premiums received and receivable under the insurance contracts or, in case of installment payments, those installment payments with the due date in the accounting period. If the due date of the first installment payment is later than the effective date of the contract, the recognition of insurance premiums will be based on the effective date of the contract. Insurance premiums and installment payments received for contracts whose effective date is later than the balance sheet date, are recognized as a prepayment. There are differences in the recognition of insurance premiums in Estonia comparing to Latvia and Lithuania. The majority of first installments of insurance premium in Estonia are recognized after the cash receipt from the client, but in Latvia and Lithuania first installment of insurance premium is recognized in gross written premium on an accrual basis. This difference has no material impact on the financial results of the Company because the lag between signing the policy and receiving the first installment from the policyholder is in period 1-15 days and significant part of the amount is deferred as unearned premium provision.

Reinsurance commissions

Reinsurance commission fees consist of the commission fees received from reinsurers under the reinsurance contract.

D) EXPENSES

The company's expenses are divided according to their function as follows:

- Insurance contract acquisition costs – direct and indirect expenses arising from the acquisition of insurance contracts, incl. direct expenses, such as commission fees for mediators, expenses on preparation of insurance documents as well as indirect expenses, such as advertising expenses, administrative expenses related to the processing of applications and issue of policies.
- Claims handling expenses – consist of administrative expenses indirectly related to claims handling. Claims handling expenses include the respective expenses incurred by the insurer, incl. wages and salaries, social tax and administrative expenses related to claims handling.
- Administrative expenses include insurance-related expenses which do not constitute acquisition costs or claims handling expenses.

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

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

E) CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents consists of bank balances and overnight deposits.

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

F) FINANCIAL ASSETS

Initial recognition and measurement

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

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

Financial assets are recognized initially at fair value plus, in case of investments not at fair value through profit or loss, directly attributable transaction costs.
Prior to September 2012, the Company recorded investments in the fair value through profit or loss category. Financial assets at fair value through profit or loss were assets held for trading except for certificates of deposits which were designated upon initial recognition at fair value through profit or loss.
Starting from September 2012 the Company elected to classify newly purchased financial assets in available-for-sale category because investments held for trading time were not traded actively. The Company has classified term deposits as loans and receivables.

The Company has not classified any financial assets as "investments held to maturity" in the reporting or comparative period. The Company had no derivative instruments.
Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset. Loans and receivables are recognized when cash is advanced.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:
Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are assets which held for trading except for certificates of deposit which are designated upon initial recognition at fair value through profit or loss. For investments designated as at fair value through profit or loss, the following criteria are met:
- the assets are part of a group of financial assets, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy

FINANCIAL STATEMENTS

These investments are initially recorded at fair value. Subsequent to initial recognition, they are remeasured at fair value on the balance sheet date. Gains and losses arising from changes in fair value, or realized on disposal, together with the related interest income, are recognized under “Return on investments” in the statement of comprehensive income.
The Company evaluates its financial assets at fair value through profit and loss (held for trading) whether the intent to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management’s intent to sell them in the foreseeable future significantly changes, the Company may elect not to classify newly purchased financial assets in the fair value through profit or loss category. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation. The fair value of listed securities is based on the bid price of the security on the balance sheet date. If a market for a financial instrument is not active, or the instrument is not quoted, the fair value is established by using generally accepted valuation techniques.

Available-for-sale financial assets
Available-for-sale financial investments include debt securities and certificates of deposit which are purchased starting from September 2012. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses recognised in other comprehensive income in the available-for-sale reserve (equity). Where the insurer holds more than one investment in the same security that they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale investments is reported as interest income using the effective interest rate (EIR).When the asset is derecognised the cumulative gain or loss is recognised in return of investments, or determined to be impaired, or the cumulative loss is recognised in the statement of comprehensive income and removed from the available-for-sale reserve.

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

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

Receivables from customers, reinsurance receivables and other receivables are recognized at nominal value when incurred (on the transaction date), and, subsequent to initial recognition, at cost less applicable impairment. Receivables are measured on an individual basis.

Derecognition of financial assets

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:
- The rights to receive cash flows from the asset have expired

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

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

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

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

Impairment of financial assets

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset, other than those at fair value through profit and loss, may be impaired. A financial asset is impaired and impairment losses are incurred, if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset, and if that event has an impact, that can be reliably estimated, on the estimated future cash flows of the financial asset.
There is objective evidence of impairment, if an issuer or debtor e.g. encounters significant financial difficulties that will lead to insolvency and to estimation that the customer will probably not be able to meet the obligations to the Company.
When there is objective evidence of impairment of a financial asset carried at amortized cost, the amount of the loss is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows discounted at the receivable's original effective interest rate. The difference is recognized as an impairment loss in profit or loss. The impairment is assessed individually.
Impairment loss of financial assets related to operating activities is charged to expenses in the statement of comprehensive income (under "Administrative expenses") while the impairment loss of financial assets related to investing activities is recognized as a reduction of the "Return on investments" in the statement of comprehensive income.
If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can objectively be related to an event occurring after the impairment was recognized (e.g. default status is removed), the previously recognized impairment loss shall be reversed through profit or loss.

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

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

G) PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

H) INTANGIBLE ASSETS

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

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

Intangible assets include capitalized costs for the development of various insurance systems. Intangible assets with a finite useful life are written down to the recoverable amount (the higher of the fair value, less sales expenses, or the value-in-use), if the carrying amount is no longer recoverable. Impairment tests will be conducted to determine whether the recoverable amount has dropped below the carrying amount, if there is any indication that the carrying amount may not be recoverable. Impairment losses are charged to expenses in the income statement, under "Insurance contract acquisition costs", "Claims handling expenses", and "Administrative expenses" in accordance with the functionality.
On each balance sheet date, the Company assesses whether there is any indication that the previous impairment is no longer justified. If there is any such indication, the group will assess the recoverable amount and, if necessary, reverse the previous write-down. The reversal of the write-down is recorded as a reduction of the expenses during the period when the reversal occurred.

I) FINANCIAL LIABILITIES

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

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

J) INSURANCE CONTRACTS

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

K) DEFERRED ACQUISITION COSTS

Insurance contracts acquisition costs directly related to premiums that are carried over to the next period are recognized in the statement of financial position as deferred acquisition costs. Direct acquisition costs are deferred on the basis of the ratio of the provision for unearned premiums to premiums written. Deferred acquisition costs include only direct insurance contract acquisition costs, such as commission fees to mediators.

L) PROVISION FOR UNEARNED PREMIUMS

The provision for unearned premiums is set up for future losses and operating expenses that may arise during the term of the insurance contract, depending on which share of the collected insurance premium has been received for the future insurance service. The provision for unearned premiums is calculated separately for each contract, based on the share of the unexpired term of the contract of the total term of the contract.

M) PROVISION FOR CLAIMS OUTSTANDING

The provision for claims outstanding is set up for claims incurred but not yet settled, including claims incurred but not yet reported (IBNR). In order to cover claims handling expenses of incurred unsettled claims, a provision for claims handling expenses is set up under the provision for claims outstanding.
The provision for claims outstanding is calculated using case-by-case valuation method for reported claims as well as statistical methods (IBNR provision). The provision for claims outstanding is not discounted, except the motor third party liability annuities that are discounted to the net present value using discount rate which is in Estonia and Latvia 2.50% and in Lithuania 1.53%.

N) REINSURANCE

The main forms of reinsurance contracts are excess-of-loss reinsurance contracts and proportional reinsurance contracts. The contracts are, as a rule, concluded for a term of one year. Reinsurance coverage is purchased in the course of standard insurance in order to minimize the potential net loss by hedging the risks. All reinsurance contracts transfer a significant portion of the insurance risk.
Reinsurance assets consist of reinsured insurance liabilities. The reinsurer's share of the provision for unearned premiums and the provision for claims outstanding has been recorded in accordance with the reinsurance contracts.
Any impairment of reinsurance assets are recorded in the statement of comprehensive income.

O) ACCOUNTING FOR LEASE

Lease transactions, where all material risks and rewards from ownership of an asset are transferred to the lessee, are treated as finance lease. All other lease transactions are treated as operating lease.

The Company as the lessee

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

The Company as the lessor

The Company had no assets leased out under finance lease in the reporting period or in the comparative period.
Assets leased out on operating lease terms are recognized in the balance sheet pursuant to standard procedure, similarly with other PPE. Leased-out assets are depreciated based on the depreciation principles applied by the Company for assets of similar type. Operating lease payments are recorded during the rental period as income based on the straight-line method.

P) CORPORATE INCOME TAX

Pursuant to the Estonian Income Tax Act, Estonian companies are not subjected to pay income tax on the profit since 1 January 2000. Rather, they are subjected to income tax on the paid dividends. The established tax rate is 21/79 of the net dividend paid in 2014. Starting from 2015 the established tax rate is 20/80 of the net dividend paid.
Corporate income tax on the payment of dividends is recorded under income tax expense in the statement of comprehensive income at the moment of announcing the dividends, irrespective of the period for which the dividends were announced or when the dividends are actually paid. The maximum possible income tax liability related to dividend payment is disclosed in Note 18.
Because of different corporate income tax laws in Latvia and Lithuania the Company tax expenses is calculated in accordance with IAS 12 Income taxes. This entails that current as well as deferred tax is calculated and reported. Current taxes are calculated for every unit in accordance with the tax rules in each country. Branch offices are taxed on their results in the country concerned. In Estonia the company is liable for taxation only on the income not taxed in branches and only when dividends will be paid out. For Latvian branch tax rate is 15% (2013: 15%) and for Lithuanian branch 15% (2013: 15%).
Deferred tax attributable to temporary differences between the amounts reported and the equivalent actual taxation is reported in the company's accounts. For income reported in the income statement for the period but which is not taxed until a later period, a deferred tax cost is charged, which results in a corresponding liability item, deferred tax liabilities. Similarly, costs that will not result in tax deductions until a later period give rise to a deferred tax revenue and a corresponding deferred tax asset. Deferred tax asset are recognized for unused tax losses in the Lithuanian branch. Deferred tax assets and liabilities are not reported net because they pertain to different countries tax authorities. Current and deferred tax disclosure is made in Note 16.

Q) EVENTS AFTER THE BALANCE SHEET DATE

Material circumstances that have an effect on the valuation of assets and liabilities and became evident between the balance sheet date (31 December 2014) and the date of approving the financial statements, but are related to transactions that took place in the reporting period or earlier periods, are recorded in the financial statements.

Note 2. Risks and risk management

A) OVERVIEW OF COMPANY'S RISK MANAGEMENT

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

Risk Strategy

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

The risk management strategies are to:

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

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

Risk Management System

The Risk Management System is part of the larger Internal Control System.

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

Key to fulfilling these objectives is to:

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

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

Risk governance and reporting structure

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

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

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

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

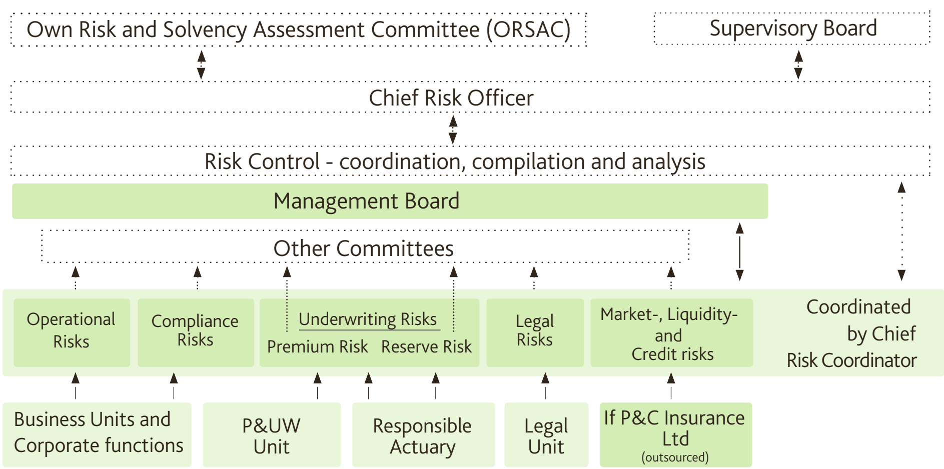
Key to fulfilling these objectives and securing the activities is to:

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

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

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

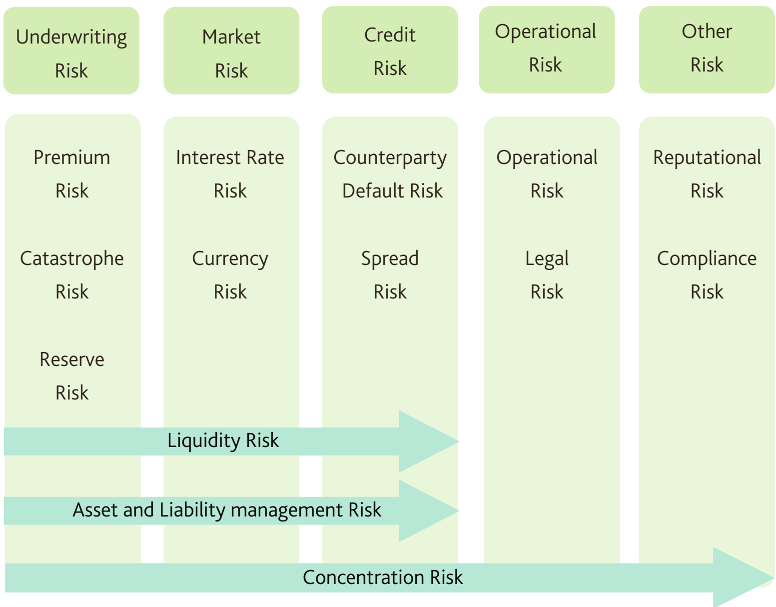
Table 1. Risk management reporting system



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

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

Table 2. Categorization of risks



B) CAPITAL MANAGEMENT

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

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

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

Regulatory measures
Insurance is a regulated business and there are formal national rules for minimum capital and capital structure. The capital base is the amount of capital that is available to cover unexpected losses in the insurance and investments operations. The solvency position is a measure to assess an insurance company's ability to fulfil its liabilities to the policyholders.
Solvency is reported regularly to the supervisory authorities and the company has the principle that capitalization should meet the minimum statutory capital requirements at each moment. Every insurance undertaking must have an adequate available solvency margin to ensure that the insurance undertaking is capable of meeting the obligations arising from insurance contracts at all times, which shall be at least equal to the requirements and conforming to the structure provided by the Insurance Activities Act. The minimum solvency margin of an insurance undertaking shall be equal to at least € 3.7 million. The required and available solvency margin of an insurance undertaking engaged in non-life insurance shall be calculated pursuant to the Insurance Activities Act. The Company fulfilled all minimum requirements regarding the amount of assets included in available solvency margin of insurance undertakings during 2014 (it did so during 2013 as well).

Table 3. Capital position

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

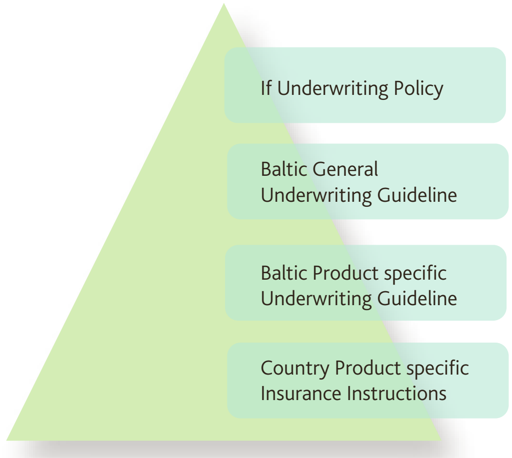
C) UNDERWRITING RISKS

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

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

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

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



The UW Policy is supplemented with guidelines outlining in greater detail how to conduct underwriting within each business area. These guidelines cover such areas as tariff and rating models for pricing, guidelines in respect of standard conditions and manuscript wordings, as well as authorities and limits, such as sums insured and risks that are not acceptable to undertake.

The Baltic General Underwriting Guideline (BUWGL) is established in the Company. The purpose of this guideline is to elaborate on principles for underwriting activities established by the UW Policy and to set standards that will ensure achievement of long-term target profitability and set goals. The BUWGL is followed in conjunction with any applicable laws and regulations in each country. Next level guidelines or insurance instructions - Baltic product specific Underwriting Guideline (based on BUWGL Baltic common underwriting principles for certain product line) followed by Country product specific Insurance Instructions (principles governing product in each country) - are continuation of previous level rules, specifying and detailing all related matters.

The Company manages the underwriting risk on a day-to-day basis. A crucial factor affecting the profitability and risk of P&C insurance operations is the ability to accurately estimate future claims and administrative costs and thereby correctly price insurance contracts. The pricing of private segment risks and smaller corporate segment risks are set through tariffs and detailed risk selection rules. The underwriting of bigger and more complex corporate segment risks is based to a greater extent on general principles and individual underwriting than strict tariffs. In general, pricing is based on statistical analyses of historical claims data and assessments of the future development of claims frequency and claims inflation.

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

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

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

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

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

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

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

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

D) RESERVE RISK

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

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

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

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

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

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

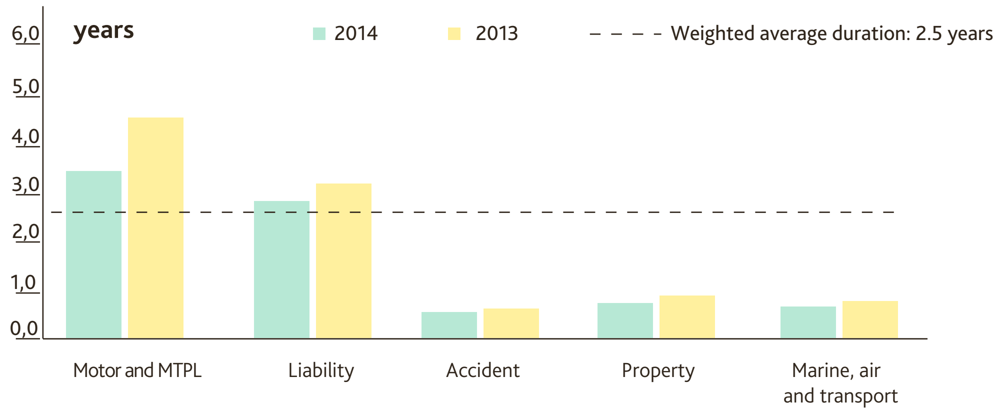
Risk profile

Table 5. Technical provisions per product, 31 December

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

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

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



FINANCIAL STATEMENTS

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

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

€000

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

E) MANAGEMENT OF FINANCIAL RISK

Components of financial risk include market risk, interest rate risk, credit risk and liquidity risk. In order to minimize the possible risks, financial assets are spread across different financial instruments. The management of aforementioned risks is based on the principles approved by the parent company. The investment policy is reviewed and approved on an annual basis for every coming year in accordance with the economic situation. The main objective of this is to earn sufficient income, hedge risks and fulfil the possible obligations arising from insurance contracts. The policy include general principles, specific risk restrictions and a decision making structure. The said policy establishes assets allocation, market and credit risk limits for the investments and the regional distribution thereof. Assets allocation is defined by a reference portfolio and deviations from reference weights. Interest risk is limited by duration restrictions; equity risk is managed by limiting the total level of equity exposure and the exposure to each individual entity; and operational currency risk is managed by limiting the exposure in a single currency. Under aforementioned policy the credit risk is limited by allowing a maximum exposure per rating class and per issuer/counterparty. To measure and limit the credit risk, credit ratings from Standard Poor's and Moody's are used. The requirements deriving from the Insurance Activities Act are taken into account.

F) FINANCIAL ASSETS AND LIABILITIES

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

Table 7. Financial assets and financial liabilities, 31 December

€000	31.12.2014	31.12.2013
Financial assets measured at fair value through profit and loss:		
Classified as held for trading		
Bonds and other interest-bearing securities	42,631	82,440
Available-for-sale financial assets		
Bonds and other interest-bearing securities	157,441	89,448
TOTAL FINANCIAL ASSETS AT FAIR VALUE	**200,072**	**171,888**
Financial assets measured at amortised cost:		
Loans and receivables		
Term deposits	23,207	26,917
Other assets		
Receivables related to direct insurance activities	10,453	10,529
Receivables from reinsurance	162	376
Other receivables	146	158
Cash and cash equivalents	3,353	2,812
Accrued income	804	989
TOTAL FINANCIAL ASSETS	**238,197**	**213,669**
Financial liabilities valued at amortised cost:		
Liabilities related to direct insurance activities	4,174	3,579
Liabilities related to reinsurance	1,023	1,041
Other liabilities	258	210
Accrued expenses	4,625	3,957
TOTAL FINANCIAL LIABILITIES	**10,080**	**8,787**

A careful process is followed and controls are performed in order to ensure correct fair values of financial assets and liabilities. For example, controls are made by several different external sources and assessments of abnormal price changes are performed when necessary. Different valuation methods are used to determine the fair value depending on the type of financial instruments and to what extent they are traded on active markets. The valuation of bonds is usually based on prices from Bloomberg. For a limited portion of assets, the value is determined using other techniques. Please find additional information about used techniques in the Note 1, section 4 (b).

Financial instruments measured at fair value have been classified into three hierarchy levels depending on their liquidity and valuation methods. The control of hierarchy levels is done quarterly and if conditions have changed for the existing level, the holding in question is moved to the correct hierarchy level. The valuation of financial assets is shown in Table 8. As an adaptation to prevailing industry practice, the Company made a detailed review of the subdivision into levels during 2014. The result of the review justified an adjustment of the classification of bonds and other interest-bearing securities. Debt securities amounting to €109,611 thousand has thus been moved from level 2 to level 1.

Table 8. Determination of hierarchy of fair value

€000

31.12.2014	Level 1	Level 2	Level 3	Total fair value
Financial assets at fair value through profit or loss				
Debt securities	42,630	-	-	**42,630**
Available-for-sale financial assets				
Debt securities	96,193	61,249	-	**157,442**
Loans and receivables				
Term deposits	-	23,207	-	**23,207**
TOTAL	**138,823**	**84,456**	**-**	**223,279**

31.12.2013	Level 1	Level 2	Level 3	Total fair value
Financial assets at fair value through profit or loss				
Debt securities	-	82,440	-	**82,440**
Available-for-sale financial assets				
Debt securities	38,718	50,730	-	**89,448**
Loans and receivables				
Term deposits	-	26,917	-	**26,917**
TOTAL	**38,718**	**160,087**	**-**	**198,805**

Level 1 – Financial assets and liabilities with values based on quoted prices in active markets for identical assets or liabilities.
Quoted prices in active markets are considered the best estimate of an asset's fair value. An active market is typically characterized by quoted prices that are easily and regularly available and that represent actual and regularly occurring transactions at arm's length distance. In order to evaluate the activity in an market with respect to frequency and volume the Company uses information compiled and published by Bloomberg.
Assets in the category include interest-bearing assets (including government guaranteed bonds) that have noted prices on an active market at the time of valuation.

Level 2 – Financial assets and liabilities with values based on quoted prices or valuation based on directly or indirectly observable market data
In the level 2 hierarchy all essential inputs are observable either directly or indirectly. The large majority of the instruments in level 2 are traded in a market with daily quoted prices and regularly occurring market transactions but where the market in not considered to be active enough regarding frequency and volume. A very limited part of the instruments are model valued with the help of market data that is indirectly observable, meaning that prices can be derived from observable markets where market interest rates and underlying rates normally are updated daily or, in exceptional cases, at least on a monthly basis.
Instruments which are valued at level 2 include interest-bearing assets where the market is not active enough like corporate bonds, certificates of deposit and term deposits.

Level 3 - Financial assets and liabilities which are traded on an illiquid market, with non-observable market data or indications of trading levels without any actual trade.
When neither quoted prices in active markets nor observable market data is available, the fair value of financial instruments is based on valuation techniques which are based on non-observable market data. Level 3 comprises unquoted instruments, distressed assets encountering financial difficulties.

Table 9. Reconciliation of movements in Level 3 financial instruments measured at fair value

€000

Financial assets at fair value through profit or loss	At 1 January 2014	Total gains in income statement	Sales	Transfers from level 1 and level 2	At 31 December 2014
Debt securities	-	4	-4	-	-
TOTAL	**-**	**4**	**-4**	**-**	**-**

Financial assets at fair value through profit or loss	At 1 January 2013	Total losses in income statement	Sales	Transfers from level 1 and level 2	At 31 December 2013
Debt securities	43	-9	-34	-	-
TOTAL	**43**	**-9**	**-34**	**-**	**-**

G) MARKET RISKS

Market risk is the risk of loss, or of an adverse change in financial situation, resulting directly or indirectly, from fluctuations in the level or in the volatility of market prices of assets and financial instruments.

Risk management and Control
Investment strategy of the Company is to maximize long term investment returns within the levels of risk appetite and the corresponding capital allocation while meeting solvency requirements. The Investment Policy defines the asset allocation with reference weights and threshold values, limits per insurer, as well as mandates and authorities. When making asset allocation decisions and setting return and liquidity targets, the structure of the company's technical provisions and risk-bearing capacities, regulatory requirements, rating targets and risk tolerance are taken into account. Market risk management is based on matching the investment assets with the insurance liabilities, as well as on maintaining a good diversification among asset classes and within each asset class.

Risk profile
The Company's investments operations generated a return of 2.3 % in 2014 (2013: 0.5%). The investment assets amounted as at the end of the reporting period to €223,279 thousand (2013: €198,805 thousand).
The major market risks comprise interest rate risk, credit risk and credit spread risk. The exposure towards market risk can be described through the allocation of investment assets and the sensitivity of values to changes in key risk factors.

Table 10. Allocation of investment assets

€000	31.12.2014	%	31.12.2013	%
Bonds and other interest-bearing securities	200,072	90%	171,888	86%
Loans and receivables (term deposits)	23,207	10%	26,917	14%
TOTAL	**223,279**	**100%**	**198,805**	**100%**

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 1%.

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 31.12.2014 with comparative as of 31.12.2013 and is calculated before taxes.

Table 11. Sensitivity analysis of the fair value of financial assets

Company's investment portfolio on 31 December 2014

€000	**1 % Parallel shift in the interest curve**	
Market risk sensitivity analysis	Up	Down
Effect on financial results	-3,751	3,922

Company's investment portfolio on 31 December 2013

€000	**1 % Parallel shift in the interest curve**	
Market risk sensitivity analysis	Up	Down
Effect on financial results	-3,908	4,066

There is no exposure to equity price risk because there are no equity instruments in the portfolio and, according to the Investment Policy, it is not allowed to invest in equity instruments.
The Company is exposed to operational currency risk. Currency risk means a potential loss arising from changes in the exchange rates. The majority of the insurance liabilities of the Company are in the euro and Lithuanian litas for Lithuanian branch.
The company has managed this risk by keeping financial investments only in euros, which is approved by investment policy of the Company. At the end of 2014, 100% of investments are in euros (the same as at the end of 2013). As the rate of the Lithuanian curreny is pegged to euro, the currency risk is estimated to be very low.

H) INTEREST RATE RISK

Interest rate risk refers to the sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates.

Risk management and Control
According to the Company’s Investment Policy, the nature of the insurance commitments, with respect to interest rate risk and inflation risk is taken into account in the composition of investment assets. The interest rate risk is managed by sensitivity limits for instruments sensitive to interest rate changes.

Since the technical provisions are predominantly stated in nominal terms in the balance sheet, the Company is mainly exposed to changes in future inflation. However, the economic value of these provisions, meaning the present value of future claims payments, is exposed to changes in interest rates. Furthermore, the provisions for annuities in Estonia and Lithuania are discounted and potential changes in the discount rates will affect the level of technical provisions in the company's balance sheet.
The discount rates vary between countries mainly due to legislative differences, but are at least indirectly impacted by the prevailing interest rate environment. The duration of provisions and thus sensitivity to changes in interest rates are analyzed in greater detail in Table 6 and Figure 1 in the section concerning reserve risk.

Risk profile
The duration of bonds and other interest-bearing investments was 1.7 years at year end 2014 (1.9 years in 2013). The duration of those investments is shown in Table 12.

Table 12. Duration and breakdown of bonds and other interest-bearing investments per instrument type , 31 December

	2014			2013		
€000	Carrying amount	%	Duration years	Carrying amount	%	Duration years
Scandinavian companies bonds	55,126	24.7%	1.9	54,567	27.4%	1.7
EU governments bonds	29,212	13.1%	1.1	38,718	19.5%	2.2
EU companies (excl. Scandinavian) bonds	58,522	26.2%	3.6	65,868	33.1%	2.8
Short-term fixed income	80,419	36.0%	0.6	39,652	19.9%	0.3
TOTAL	**223,279**	**100%**	**1.7**	**198,805**	**100%**	**1.9**

I) CREDIT RISK INCLUDING CREDIT SPREAD RISK

Credit risk is the risk of loss or of adverse change in financial situation resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which insurance undertakings are exposed in the form of counterparty default risk, spread risk or market risk concentrations. Credit risks arise both from investment, insurance and reinsurance operations.
Spread risk refers to the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure.

In general, credit risk refers to losses arising from occurred defaults of debtors or other counterparties or from increases in assumed probability of defaults. In the case of default the final loss depends on the value of the asset less any collateral and recoveries at the time of default.

Credit Risk in Investments Operations
Credit risk in the investment operations can be measured as counterparty default risk and spread risk. In most cases part of the credit risk is already reflected by higher spread and thereby the asset has a lower market value, even in the case of no default. Therefore, the spread is in essence the market price of credit risk and therefore spread risk is categorized as a market risk.
The additional risk, stemming either from lack of diversification in the asset portfolio or from large exposure to default risk by (i) a single issuer of securities or (ii) a group of related issuers not captured by the spread risk or counterparty default risk, is measured as concentration risk.

Risk management and control
Credit risk in the investment operation is managed by specific limits stipulated in the Company's Investment Policy. In this document, limits are given for maximum exposures towards single issuers, type of debt category and per rating class. The spread risk is further limited by sensitivity restrictions for instruments sensitive to spread changes.
Before investing, potential investments are analyzed thoroughly. The creditworthiness and future outlook of the issuer are assessed together with any security or collateral as well as structural details of the potential investment. Internal risk indicators are critical factors in the assessment, however, macroeconomic environment, current market trends and external opinions of analysts and credit ratings by rating agencies are also taken into account. In addition, portfolio performance and the counterparties' credit standings are monitored continuously. The development of the portfolios with respect to credit risk is monitored at the Company level, as well as at the If Group level, and be reported to the Investment Control Committee on a regular basis. Credit exposures are reported by ratings, instruments and the industry sectors.

Risk profile
The table 13 below shows the maximum exposure to credit risk for the components of the balance sheet.

Table 13. Assets exposure to credit risk

€000	31.12.2014	31.12.2013
Cash and cash equivalents	3,353	2,812
Financial investments	223,279	198,805
Receivables related to insurance activities	10,762	11,063
Reinsurance assets	3,044	3,383
Total credit risk exposure	**240,438**	**216,063**

The most significant credit risk exposures in the Company arise from investments in bonds and other interest-bearing investments. The exposures are shown by sectors, asset classes and rating category in Table 14.

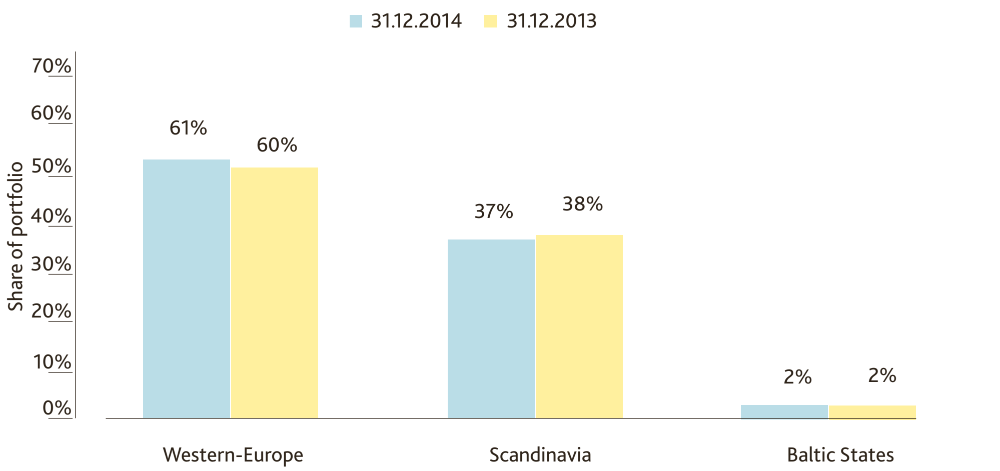
Table 14. Exposures by sectors, asset classes and rating, 31 December

2014 €000	AAA	AA+- AA-	A+ - A-	BBB+- BBB-	BB+ - C	Non- rated	Fixed income total
Basic Industry	-	-	-	-	1,173	2,065	**3,238**
Capital Goods	-	-	-	6,413	-	-	**6,413**
Consumer Products	-	-	-	4,505	-	-	**4,505**
Covered Bonds	15,847	5,039	-	-	-	-	**20,886**
Energy	-	-	-	4,454	-	-	**4,454**
Financial Institutions	-	70,866	22,481	23,207	-	-	**116,554**
Governments	29,213	-	-	-	-	-	**29,213**
Health Care	-	-	-	-	-	5,278	**5,278**
Services	-	-	-	4,820	-	4,036	**8,856**
Telecommunications	-	-	5,256	2,664	-	2,010	**9,930**
Transportation	-	-	2,672	-	-	-	**2,672**
Utilities	-	-	-	11,280	-	-	**11,280**
TOTAL	**45,060**	**75,905**	**30,409**	**57,343**	**1,173**	**13,389**	**223,279**

2013 €000	AAA	AA+- AA-	A+ - A-	BBB+- BBB-	BB+ - C	Non- rated	Fixed income total
Basic Industry	-	-	-	-	1,132	2,008	**3,140**
Capital Goods	-	-	-	4,548	-	-	**4,548**
Consumer Products	-	-	4,580	2,433	-	-	**7,013**
Covered Bonds	12,715	8,006	-	-	-	-	**20,721**
Energy	-	-	-	4,390	-	-	**4,390**
Financial Institutions	-	39,022	52,664	5,667	-	-	**97,353**
Governments	9,959	28,759	-	-	-	-	**38,718**
Health Care	-	-	-	-	-	4,985	**4,985**
Services	-	-	-	4,759	-	-	**4,759**
Telecommunications	-	-	-	2,493	-	-	**2,493**
Utilities	-	-	-	10,685	-	-	**10,685**
TOTAL	**22,674**	**75,787**	**57,244**	**34,975**	**1,132**	**6,993**	**198,805**

The distribution of bonds and other interest bearing securities related to credit risks according to geographic region is presented in detail in the Figure 2 below.

Figure 2. Division of bonds and other interest-bearing securities by geographical areas.



The credit risk in the Company´s investment portfolio is mainly associated with banks in the Nordic region.

Credit Risk in Insurance Operations

In addition to the credit risk associated with investment assets, credit risk arises from insurance operations most importantly through ceded reinsurance. Credit risk related to reinsurers arises through reinsurance receivables and through the reinsurers' portion of claims outstanding.

Risk Management and Control

Reinsurance contracts of the Company are concluded mainly with If P&C Insurance Ltd. (Sweden), which is rated by Standard & Poor's as A. Every individual reinsurance contract is concluded on the basis of an analysis of the reinsurer's solvency and credibility and according to the list of allowed counterparties approved by Supervisory Board of the Company.

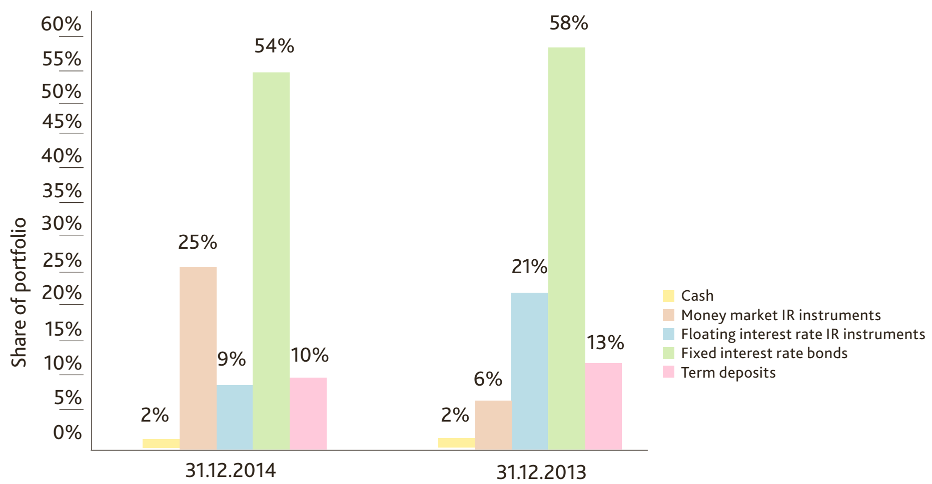
The company's credit risk is related to the solvency of the insured persons and payers of recourses, insurance intermediaries, but exposure towards policyholders is very limited, because non-payment of premiums generally results in the cancellation of insurance policies.
The company has an operational credit policy and is actively dealing with hedging credit risk. The terms and conditions for the validity of insurance cover are set forth in the general insurance terms and conditions. Contracts concluded with insurance intermediaries specify payment terms and compliance with these is systematically checked.

K) LIQUIDITY RISK

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

Risk management and control
In P&C insurance, the premiums are collected in advance and large claims payments are usually known long before they fall due, thus limiting the liquidity risk.
Liquidity management includes inter-coordinated decisions in regards to the structure of the term of assets and obligations. The main objective in liquidity management is to ensure the company's ability to fulfil all its obligations arising from insurance contracts and insurance activities in a timely manner. The Company's excess–of–loss reinsurance contracts contain clauses permitting the immediate draw down of funds to meet claim payments. It is also aimed at ensuring the fulfilment of the requirements established under the Insurance Activities Act of Estonia and adequately responding to significant changes in the business environment. In order to maintain an adequate level of liquidity, the Company keeps some of its assets in liquid instruments such as overnight deposits, short-term deposits, certificates of deposit and bonds and other interest-bearing instruments. Liquidity risk is reduced by having investments that are readily marketable in liquid markets. The available liquidity of financial investmenis analyzed and reported in risk report on quarterly basis.
A more detailed classification of financial investments is presented in Figure 3 below.

Figure 3. Financial investments



Risk profile
The maturities of cash flows for technical provisions, financial assets and liabilities are presented in Table 15. In the table, financial assets and liabilities are divided into contracts with an exact contractual maturity profile. In addition, the table shows expected cash flows for net technical provisions, which are inherently associated with a degree of uncertainty.

Table 15. Maturities of cash flows for financial assets, liabilities and net technical provisions, 31 December 2014

€000	Carrying amount			Cash flows						
	Carrying amount	Without maturity	With contractual maturity	2015	2016	2017	2018	2019	2020-2029	2030-
Financial assets	**238,197**	**4,157**	**234,040**	108,651	36,712	36,645	5,436	38,764	12,026	493
Financial liabilities	**10,080**	**-**	**10,080**	10,080	-	-	-	-	-	-
Net technical provisions	**118,444**	**-**	**118,444**	66,563	14,890	9,681	6,754	4,789	12,998	2,769

L) CONCENTRATION RISK

Concentration risk is all risk concentrations towards a single counterparty, industry sector or geographic region with a material loss potential that is not captured by any other risk type.

Risk management and control
In the Company's Underwriting Policy, Investment Policy and Reinsurance Security Policy limits are set for maximum exposures towards single issuers and per rating class. Concentration risks for the Company are mainly market and credit risks related to the individual counterparties' investment in the portfolio.

Quantification of Concentration Risk
Concentrations are illustrated in table 14 Credit exposures by sectors, asset classes and rating, 31 December 2014 which are shown in Credit Risk section.

Table 16. Concentration of market and credit risks in the 5 biggest individual counterparties by asset classes, 31 December.

2014

€000	Term Deposits	Certificates of Deposit	FRN and bonds	**Total**
Danske Bank A/S and branches	23,207	4,694	4,658	**32,559**
Nordea Finland Plc and branches	-	21,094	10,038	**31,132**
Svenska Handelsbanken AB	-	18,782	3,283	**22,065**
Netherlands government	-	-	19,208	**19,208**
Pohjola Pankki	-	12,642	5,026	**17,668**
TOTAL	**23,207**	**57,212**	**42,213**	**122,632**

FINANCIAL STATEMENTS

2013 €000	Term Deposits	Certificates of Deposit	FRN and bonds	Total
Danske Bank A/S and branches	26,917	-	4,675	**31,592**
Netherlands government	-	-	28,759	**28,759**
Nordea Finland Plc and branches	-	2,398	13,008	**15,406**
Svenska Handelsbanken AB	-	10,337	3,263	**13,600**
Raiffeisen-Boerenleenbank BA/Netherlands	-	-	10,018	**10,018**
TOTAL	**26,917**	**12,735**	**59,723**	**99,375**

M) OPERATIONAL RISK

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

The definition includes legal risk that can be described as the risk of loss due to unpredictable or unknown legal development or uncertain interpretations of regulations and defective documentation.

Risk management and control

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

- Operational and Compliance Risk Assessment process: self-assessments identifying operational risks are performed quarterly. Identified risks are assessed from a likehood and impact perspective. The control status for each risk is assessed where a traffic light system is used: Green – good control of risk, Yellow – attention required, Red – attention required immediately. The most severe risks with control status yellow or red are reported quarterly also to the Operational Risk Committee of the If Group;
- Trend analyses are performed on a yearly basis, during which the most important trends affecting the insurance industry are identified and the effects on the Company are assessed. In this process, the most severe external operational risks are identified;
- Incidents are reported via a web-based system. The reported incidents are received by the line organization in order to perform analyses.

The continuity of operational risk management is secured through the Operational Risk coordinators activities on Business Units level and the Chief Risk Coordinator activities on Company level. The Business Units ensure that they have the resources and tools in place to report, as required, to the Company's Chief Risk Coordinator. The Chief Risk Coordinator works across all business units, evaluating and supporting the units in their work to identify, assess, mitigate and monitor all risks. The Company's Chief Risk Coordinator quarterly provides the Management Board and If Group Operational Risk Committee (ORC) with a risk report. The ORC of If Group coordinates the operational risk process and ensures its continuity. The committee's task is to provide opinions, advice and recommendations to the the Own Risk and Assessment Commitee (ORSAC) and report the current operational risk status.

In order to manage operational risks the Company has approved a number of different steering documents; Operational Risk Policy, Contingency Plans, Security Policy, Outsourcing Policy, Complaints Handling Policy, Claims Handling Policy, and other steering documents related to different parts of the organization. These documents are being reviewed and up dated at least yearly. In addition to this the Company has detailed processes and guidelines in order to manage possible external and internal frauds. Internal training on ethical rules and guidelines is always on-going.
In the Company, legal risk, which is included in the definition of operational risk, is defined as changes in law or regulation, a truly unpredictable legal development, and defective documentation/transactions.
The Legal Unit is responsible for identifying legal risks within the Company. In addition, the Legal Unit is responsible for being updated on legislation, case law and products in relation to the insurance business. The Company's Chief Risk Coordinator quarterly provides the Management Board and the ORC with a risk report.

N) OTHER RISK

COMPLIANCE RISK

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

Risk management and control
The line organization owns and manages their compliance risks in the daily activities and reports to the Chief Risk Coordinator. A compliance risk is often the consequence of a legal or operational risk. A compliance risk could therefore be the risk of not abiding by new or amended external rules, so called practical risk. Another example is the risk of not organizing the Company's business in accordance with good practice in the insurance industry, a so called structural risk.
Practical compliance risks in the business are identified within the Operational and Compliance Risk Assessment process. The structural compliance risks, and overarching practical compliance risks, are identified by the Company's Chief Risk Coordinator in cooperation with the Compliance unit of If Group through self-assessment and dialogue within the unit.
Identified risks are assessed from a severity perspective, encompassing likelihood and impact. The control status for each risk is assessed using a traffic light system: Green – good control of risk, Yellow – attention required, Red – attention required immediately.
The Company's Chief Risk Coordinator quarterly provides the Management Board and the Chief Compliance Officer of If Group with a risk report.
The most severe compliance risks with control status yellow or red are reported quarterly by the Chief Risk Coordinator through Chief Complience Officer to the Own Risk and Assessment Commitee (ORSAC).

REPUTATIONAL RISK

A reputational risk is often a consequence of a materialized operational or compliance risk and is defined as potential damage to the company through deterioration of its reputation amongst customer and other stakeholders.
A good reputation is vital for an insurance company, which means that trust is an important factor in the Company's relationship with its customers, employees and other stakeholders. The Company's reputation is determined by how stakeholders perceive our performance in each and every aspect of the Company's performance.

Risk management and control
Since operational and other risks may evolve into reputational risks if not handled correctly, the Communication department continuously work to ensure that all employees are aware of the importance of maintaining a good reputation and understand how to deal with potential reputational risks. One important part of this preventive work is to ensure that information about incidents in the organization that may lead to an increased reputational risk are forwarded to the Communication Department without delay, a so-called early warning notification. Furthermore information about If in media, traditional as well as social, is followed closely as are possible customer complaints in order to act appropriately.

O) PREPARATION FOR SOLVENCY II

Solvency II (SII) is a risk-based solvency regime, which aims to deepen the integration of the insurance and reinsurance market, enhance the protection of policyholders and beneficiaries, improve international competitiveness of EU insurers and reinsurers and promote better regulation. Compared to the Solvency I, the regulatory capital requirements under SII will more closely reflect the specific risk profile of each undertaking.
Following political agreement in November 2013, significant steps have been taken towards full implementation of SII, which is expected by 1st January 2016. Draft Delegated Acts were published by the Commission in October. EIOPA has launched a series of consultations during the year for supplementary rules and guidelines. This will finalize the technical implementation of SII.

The 1st of January 2014 saw the onset of the so-called “Preparatory phase”, which will last until SII is fully implemented. The Company submitted its first Solo ORSA supervisory report in December. Company is also preparing S2 Pillar 3 reports, which will be submitted to supervisors for the first time during Preparatory phase in May 2015.

To meet with requirements of the Preparatory phase and with those expected once SII has fully entered into force, If’s internal work to ensure compliance has continued its development during the year.

While awaiting the postponed implementation of the Solvency II regulation in the EU, common guidelines have been issued from EIOPA (European Insurance and Occupational Pensions Authority) side to the local supervisory authorities. The guidelines concern supervision of how the insurance companies prepare for Solvency II regarding the governance system, the forward looking risk assessment and supervisory reporting. Based on the above mentioned guidelines, Estonian Financial Supervisory Authority has issued the recommended guidelines to insurers regarding the arrangement of business activities.

Note 3. Premiums earned, net of reinsurance

€000	2014	2013
Premiums written, gross	122,574	116,906
Change in the provision for unearned premiums	-797	-517
Premiums earned, gross of reinsurance	**121,777**	**116,389**
Reinsurance premiums	-2,978	-3,434
Change in the provision for unearned premiums	-152	-79
Premiums earned, ceded	**-3,130**	**-3,513**
TOTAL	**118,647**	**112,876**

Note 4. Return on investments

€000	2014	2013
INTEREST INCOME/EXPENSE		
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other interest-bearing securities	1,231	1,231
Designated at fair value through profit and loss		
From certificates of deposit	-	26
Available-for-sale financial assets		
From bonds and other interest-bearing securities	1,345	466
Loans and receivables		
From deposits	66	90
From cash and cash equivalents	2	2
TOTAL	**2,644**	**1,815**
PROFIT FROM DISPOSALS		
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other interest-bearing securities	9	2
Available- for -sale financial financial assets		
From bonds and other interest-bearing securities	72	1
TOTAL	**81**	**3**
LOSS FROM DISPOSALS		
Financial assets at fair value through profit and loss		
Classified as held for trading		
From bonds and other interest-bearing securities	-497	-6
TOTAL	**-497**	**-6**

€000	2014	2013
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 interest-bearing securities	798	-96
Designated at fair value through profit and loss		
From certificates of deposit	-	-22
TOTAL	**798**	**-118**
Investment expenses	-566	-374
TOTAL RETURN ON INVESTMENTS	**2,460**	**1,320**

Reconciliation of fair value reserve of available-for-sale financial assets	**2014**	**2013**
Opening balance, available-for-sale financial assets	-32	328
Changes in fair value during the year, recognized in comprehensive income	2 419	-360
CLOSING BALANCE, AVAILABLE-FOR-SALE FINANCIAL ASSETS	**2,387**	**-32**

FINANCIAL STATEMENTS

Note 5. Claims incurred, net of reinsurance

€000	2014	2013
Gross		
Claims paid during the year related to that year	-50,191	-50,007
Claims paid related to previous years	-17,162	-16,908
Amounts recovered from salvage and recourses	5,368	5,418
Change in the provision for claims outstanding	-1,266	-3,324
Claims handling costs	-4,065	-3,718
TOTAL	**-67,316**	**-68,539**
Reinsurer's share		
Claims paid during the year related to that year	45	74
Claims paid related to previous years	503	146
Change in the provision for claims outstanding	-178	71
TOTAL	**370**	**291**
Net		
Claims paid during the year related to that year	-44,778	-44,515
Claims paid related to previous years	-16,659	-16,762
Claims handling costs	-4,065	-3,718
Change in the provision for claims outstanding	-1,444	-3,253
TOTAL	**-66,946**	**-68,248**

Note 6. Operating expenses

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

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

Note 7. Cash and cash equivalents

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

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

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

*Receivables are due within 1 year

SPECIFICATION OF CHANGE IN BAD DEBT PROVISION

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

FINANCIAL STATEMENTS

Note 9. Accrued income and prepaid expenses

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

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

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

Note 10. Financial investments

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

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS

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

AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

LOANS AND RECEIVABLES

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

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

DIVISION OF BONDS AND OTHER INTEREST-BEARING SECURITIES BY MATURITY TERMS €000	31.12.2014	31.12.2013
up to 1 year	72,256	52,801
1-2 years	34,470	14,999
2-5 years	81,175	75,271
5-10 years	12,171	28,817
TOTAL	**200,072**	**171,888**

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

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

BONDS WITH A FIXED INTEREST RATE, BY INTEREST RATES

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

Note 11. Intangible assets

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

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

FINANCIAL STATEMENTS

Note 12. Property, plant and equipment

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

Note 13. Liabilities related to insurance activities

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

All above mentioned liabilities are current liabilities.

Note 14. Accrued expenses and deferred income

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

Note 15. Liabilities related to insurance contracts and reinsurance assets

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

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

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

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

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

The development of claims: 2006- 2014

The overview of claims 2006-2014 has been provided in the below tables. The claims have been presented separately for each year. For accident years older than 2006 only claim developments since 2006 are shown. The tables provides an overview of the accumulated estimates of claims development (claims paid, incl. recourses and salvages, provision for incurred and reported loss, and IBNR provision) on the gross and net basis. The information on the claims paid is presented in the last 2 tables of claims development disclosure. The tables do not include information on actual claims handling expenses and the provision for claims handling expenses.

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

Development of claims gross

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

Development of claims net

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

Claims paid, recourses and salvages (accumulated) gross

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

Claims paid, recourses and salvages (accumulated) net

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

Note 16. Corporate income tax

(A) INCOME TAX EXPENSE

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

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

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

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

(D) CURRENT CORPORATE INCOME TAX LIABILITY/RECEIVABLE (-)

€000	31.12.2014	31.12.2013
At 1 January	**24**	**-111**
Calculated	973	542
Paid	-576	-407
At 31 December	**421**	**24**

Note 17. Investment into subsidiary

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

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

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

Note 18. Owner's equity

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

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

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

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

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

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

Dividends paid and proposed

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

FINANCIAL STATEMENTS

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

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

The maximum possible income tax liability has been calculated based on the assumption that the net dividends to be paid, and the related total income tax expenses to be recorded in the statement of comprehensive income in 2015, would not exceed the retained earnings as of 31.12.2014.

The profit available for distribution may be further limited by the solvency margin requirements.

Note 19. Operating lease

The company leases office space and passenger cars under operating lease terms. Total rental expenses carried in the Company's income statement amount to €808 thousand (2013: €1,956 thousand).

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

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

Note 20. Related party transactions

1. Information about related companies

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

Parent company and other group companies
If P&C Insurance Holding Ltd is located in Stockholm, Sweden and is the parent company of If Group. It is a holding company and owns and administers the shares of If Group companies. The holding company owns the Swedish companies, If P&C Insurance Ltd and life insurance If Livförsäkring AB, the Finnish company If P&C Insurance Company Ltd. the Estonian company If P&C Insurance AS, as well as the Russian company CJSC If Insurance. If's operations in Denmark, Norway and partly in Finland are conducted via branches. In addition to the Nordic branches, If P&C Insurance Ltd has established branches in Germany, France, the Netherlands and the United Kingdom.
The holding company owns also If IT Services A/S which is located in Copenhagen, Denmark, and its line of business is to purchase IT operation services for the If Group's companies in the Nordic and Baltic area.
If P&C Insurance Holding Ltd. (Sweden) is a wholly owned subsidiary of Sampo plc., a Finnish listed company.

Relations with Sampo
Sampo Plc is located in Helsinki, Finland. The Company's field of activity is to own and administer shares, other stocks and real estate, to trade in securities, and carry on other investment activities. The entity is the parent company of Sampo Group and is involved in the management and investment activities of e.g. Sampo Life Sub-Group and If Sub-Group. Sampo plc. manages the Company's investments assets. Compensation for these services is based on a fixed commission calculated in accordance with the market value of the managed investments assets.
The Company concluded agreements with such Sampo subsidiaries operating in life insurance as Mandatum Life Insurance Baltic SE, located in Estonia, Mandatum Life Insurance Baltic SE, Latvian branch and Mandatum Life Insurance Baltic SE, Lithuanian branch regarding the marketing and sales of products through its own distribution channels. The compensation takes the form of commission.

Relations with Nordea
Nordea is a company associated with Sampo, so is a company related to If. If P&C Insurance Holding Ltd. has entered into an agreement with Nordea regarding the distribution of P&C insurance products through Nordea's banking offices in Sweden, Finland and the Baltics. The agreement came into force in 2013. The Company concluded local agreements in all Baltic countries and cooperation has been started. Nordea is a banking partner of the Company and agreements have been concluded covering the management of bank accounts and related services.
In assets management, investments are made by the Company in floating rate notes and certificates of deposit issued by companies in the Nordea Group.

Other related parties

The Company's shareholders, staff, Management Board and Supervisory Board members, their close relatives and other individuals with whom the above persons have significant influence are considered related parties.

2. Transactions with members of the Management Board and members of the Supervisory Board.

Insurance contracts with total premiums of €9 thousand were concluded with the Management Board members in the financial period (2013: €9 thousand). The Management Board members received a total of €1,085 thousand in remuneration in 2014, including social tax (2013: €1,189 thousand). No termination benefits were paid to members of the Management Board during 2014 (2013: 0). According to the conditions of the contract concluded with the members of the Management Board, termination benefit up to 12 months shall be paid if the contract is terminated. No remuneration was paid to members of the Supervisory Board in 2014 and 2013. The remuneration of the Chairman and other members of the Management Board consists of a fixed remuneration, variable compensation, and participation in long-term incentive programs. The proportion of the variable compensation does not exceed 30% of the fixed remuneration. Variable compensation is based on the performance of the Company and If Group (measured by combined ratio, volume of gross written premiums, net profit targets) and the reaching of personal work goals. For the reporting year the majority of set financial targets has been achieved.

3. Transactions with other group or related companies

3.1. The company has concluded reinsurance contracts with If P&C Insurance Ltd (Sweden) and If P&C Insurance Company Ltd (Finland).

	Calculated reinsurance premiums		Indemnifications and commissions received	
€000	**2014**	**2013**	**2014**	**2013**
If P&C Insurance Ltd (Sweden)	1,806	2,006	17	108
If P&C Insurance Company Ltd (Finland)	135	145	10	11

Receivables and payables related to the above transactions as of 31.12.2014 and 31.12.2013:

€000	**31.12.2014**	**31.12.2013**
Receivables		
If P&C Insurance Ltd (Sweden)	11	204
Payables		
If P&C Insurance Ltd (Sweden)	549	1,023

FINANCIAL STATEMENTS

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

€000	Services purchased 2014	2013	Services rendered 2014	2013
Mandatum Life Insurance Baltic SE	-	-	25	29
Nordea Group companies	424	159	559	593
If P&C Insurance Ltd (Sweden)	-	-	306	70
If P&C Insurance Company Ltd (Finland)	-	-	9	-
Sampo plc.	423	375	-	-
If IT Services	-	-	79	142
Support Services AS	3	338	36	66

Receivables and payables related to the above transactions as of 31.12.2014 and 31.12.2013:

€000	31.12.2014	31.12.2013
Receivables		
Mandatum Life Insurance Baltic SE	3	3
Nordea Group companies	43	42
If P&C Insurance Ltd (Sweden)	89	41
If IT Services AS	-	48
Payables		
Nordea Group companies	21	14
Sampo Plc.	111	99
Support Services AS	-	11

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

€000	31.12.2014	31.12.2013
Financial assets		
Nordea Group companies	31,132	15,406

€000	2014	2013
Investment income/expense		
Nordea Group companies	140	19

FINANCIAL STATEMENTS

Note 21. Events after the balance sheet date

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

Building a better working world

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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, which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 AS If P&C Insurance as at 31 December 2014, 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.

Tallinn, 23 February 2015

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

Tiina Leif
Authorised Auditor's number 441

PROPOSAL FOR THE DISTRIBUTION OF THE PROFIT

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

Profit carried forward	€ 81,762,463
Net profit for the financial year 2014	€ 17,015,723
Total profit available for distribution as of 31.12.2014:	**€ 98,778,186**

The Management Board proposes:

to distribute as dividends to the sole shareholder	€ 5,800,000
to carry forward	€ 92,978,186

Andris Morozovs
Chairman of the Management Board

Dace Ivaska
Member of the Management Board

Sanita Livdāne
Member of the Management Board

Žaneta Stankevičienė
Member of the Management Board

Heinar Olak
Member of the Management Board

Artur Praun
Member of the Management Board

Jukka Tapani Laitinen
Member of the Management Board

Ville Valtteri Haapalinna
Member of the Management Board

Tiit Kolde
Member of the Management Board

SIGNATURES TO THE ANNUAL REPORT 2014

The Management Board of If P&C Insurance AS has prepared the management report and financial statements for 2014.

Signatures:

Heinar Olak	Member of the Management Board		23.02. 2015
Artur Praun	Member of the Management Board		23.02. 2015