SEESAM INSURANCE AS

Annual report 2011 / PDF version

Commercial Register number:	10055752
Financial year:	01 January 2011 - 31 December 2011
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Core business:	Non-life insurance
Chairman of the management board:	Ivo Kuldmäe
Auditor:	KPMG Baltics OÜ

Appended documents:
1. Independent auditors' report
2. Profit allocation proposal
3. List of business activities

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REPORT BY THE MANAGEMENT BOARD

Seesam Insurance AS ('Seesam' or 'the company') strives to be a company that is easy to communicate with.

Seesam's mission is to

Offer its customers a sense of security
Be the best employer
Be a reliable partner
Be an ethical and forward-looking company.

Seesam was founded in 1991. Seesam's sole shareholder is Pohjola Insurance Ltd (Finland). The company's share capital amounts to 3,000,000 euros.

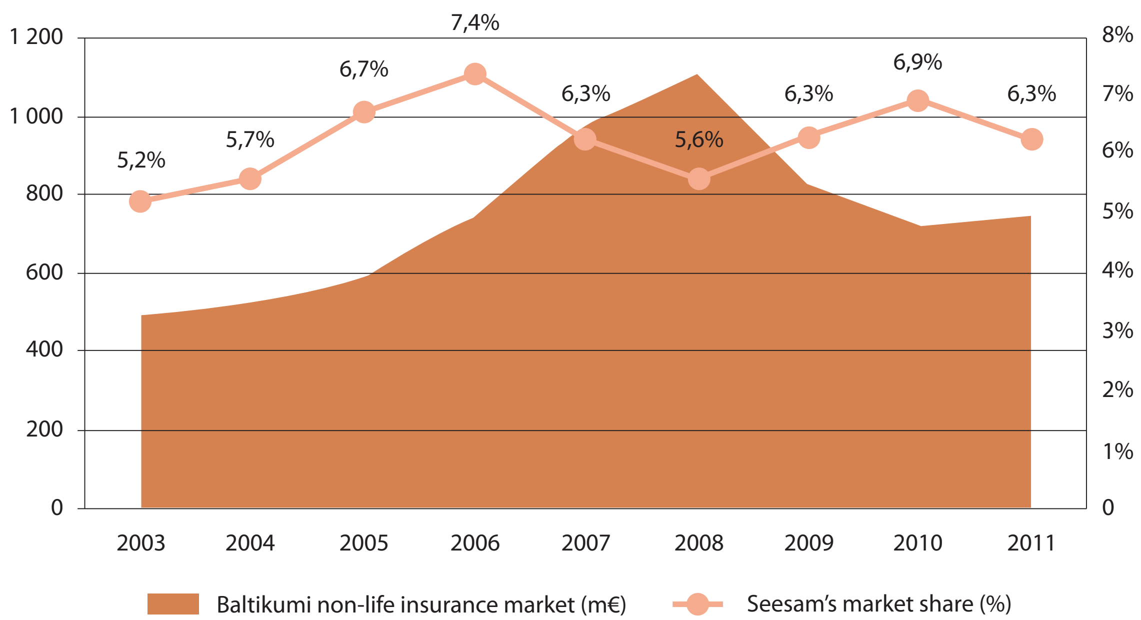
Operating environment and the insurance market

In 2011 the recovery of the Baltic economies exceeded expectations. During the first three quarters exports and domestic consumption grew vigorously, business investment increased and the leasing market picked up. According to Eurostat, real GDP growth rates for 2011 were as follows: Estonia 7.6%, Latvia 5.5% and Lithuania 5.9%. However, growing energy and raw materials prices triggered rapid inflation. Compared with 2010, the price level rose by 5.1% in Estonia, 4.2% in Latvia and 4.1% in Lithuania.

Towards the end of 2011 economic growth rates began decelerating. Because of the euro-zone debt crisis, the situation of the Baltic countries' foreign trade partners has deteriorated sharply and the European economic environment remains uncertain. The Baltic countries' economic outlooks for 2012 are positive but considerably more modest than those for 2011.

In 2011 developments in the Baltic non-life insurance market differed radically by country. If in Latvia the volumes of insurance premiums decreased (according to estimates by 4-5%) and in Estonia premium revenue remained expectedly stable (-0.5%) then in Lithuania the non-life insurance market grew by a solid 12%.

Seesam believes that in 2012 the Baltic non-life insurance market will grow moderately. The upward trend should be underpinned by general economic growth in the region and the insurance prices that are expected to remain at least at the current level.



Highlights of the year

Merger of the Baltic Seesam entities

In May 2011 Seesam purchased from the parent company 100% of the shares in Seesam Lietuva UADB and Seesam Latvia AAS (the purchase and sale agreements were signed on 10 May 2011 and 11 May 2011 respectively). The transaction was followed by a merger process, which was carried out with the contribution of the representatives of Seesam's Estonian, Latvian and Lithuanian entities and the parent company's representatives from Finland.

On 31 May 2011 Seesam's business name changed. The former business name Seesam Rahvusvaheline Kindlustuse Aktsiaselts was replaced by **Seesam Insurance AS**. The purpose of the name change was to convey a clear and uniform corporate image in the Baltic market. Implementation of a new business name did not cause any changes in Seesam's daily operation or its communication with customers and business partners.

In connection with the merger, Seesam applied for two new activity licences. Based on a decision adopted by the Financial Supervision Authority of the Republic of Estonia on 15 July 2011, Seesam Insurance AS obtained activity licences for providing health insurance and guarantee insurance.

The merger was completed by the end of 2011. As from December, the company, which is registered in Estonia, offers insurance services in Latvia and Lithuania through local branches.

A new structure was created for the merged entity, which should ensure efficient and effective management across the Baltics. Because of cultural differences and the specific features of each insurance market, sales and claims handling services will be managed locally while other functions and support services will be managed centrally, on a pan-Baltic basis.

Seesam remains committed to offering its customers a sense of security through personal communication and reliable service.

The first euro-year

On 1 January 2011 the Republic of Estonia joined the euro-zone and the Estonian kroon was replaced by the euro. In connection with this, the company had to make changes to its insurance databases, financial accounting, insurance terms and conditions, product manuals, application forms, promotional materials, website, etc.

Online sales environment

One of our main goals is to ensure the customers' satisfaction with our staff and services. In 2011 a lot of work was done in Estonia, Latvia and Lithuania to organise customer satisfaction surveys and to measure customer satisfaction. Satisfaction questionnaires were sent to all customers that had purchased an insurance policy or had received claims handling services from Seesam during a month. In Estonia, customer satisfaction surveys are conducted using TNS Emor's MyClient platform. In Latvia and Lithuania, the assistance of local service providers is used. In addition, in 2011 the Lithuanian branch implemented Net Promoter Score, an internationally recognised customer relationship gauging tool, which allows comparing customer satisfaction metrics with those of other companies.

Customer satisfaction

One of our main goals is to ensure the customers' satisfaction with our staff and services. In 2011 a lot of work was done in Estonia, Latvia and Lithuania to organise customer satisfaction surveys and to measure customer satisfaction. Satisfaction questionnaires were sent to all customers that had purchased an insurance policy or had received claims handling services from Seesam during a month. In Estonia, customer satisfaction surveys are conducted using TNS Emor's MyClient platform. In Latvia and Lithuania, the assistance of local service providers is used. In addition, in 2011 the Lithuanian branch implemented Net Promoter Score, an internationally recognised customer relationship gauging tool, which allows comparing customer satisfaction metrics with those of other companies.

Loyalty programme

In September we launched a loyalty programme in Lithuania that is aimed at recognising customers that are loyal to Seesam and to offer them an opportunity to insure their property at more favourable rates than those offered to other customers. The programme includes seasonal special offers from Seesam's business partners. Loyalty programmes are being designed also for Seesam's Estonian and Latvian customers.

New products in the Baltics

Children's accident insurance in Latvia

In 2011 Seesam launched children's accident insurance. The product is specifically designed for children from birth to the age of 22 and incorporates both accident and civil liability insurance. The product is a vital complement to other types of cover because in the heat of play both smaller and bigger accidents can happen. Children cannot foresee danger the same way as adults. Therefore, they are more prone to accidents. Seesam's children's accident insurance helps to cover the costs of post-accident treatment as well as any loss caused to third parties.

Cyclist insurance in Lithuania

In June, Seesam launched another special product – cyclist insurance that is offered in Lithuania. The package includes accident insurance and liability insurance for cyclists. In contrast to the common approach where the main focus is on insuring the bicycle as an item of movable property, this product focuses on the cyclist and what can happen when riding a bike. Cyclist insurance covers injuries incurred during cycling as well as loss or damage caused to third parties (e.g. a collision with a pedestrian).

Headstone insurance in Latvia

For the first time, Seesam offers an opportunity to ensure the memorial and headstones of the deceased loved ones. The need for this particular product has increased because of numerous cases of vandalism at cemeteries where crosses and gravestones have been destroyed. Although for Seesam headstone insurance is a product of relatively small volume, it provides our customers with a broader sense of security.

Travel insurance supplement in Estonia

At the beginning of September Seesam was the first to launch in the Estonian market a unique insurance cover – cancellation for any reason. It is a supplement to trip interruption insurance that provides cover against unexpected events, which are not covered by ordinary trip interruption insurance. Examples include illness of a pet, an urgent work assignment, a conflict with a travel companion, etc. If the cover is purchased and the conditions are met, the customer will be compensated 70% of irrecoverable travel costs.

Key performance indicators

	Financial year				
€, millions	2011	2010	2009	2008	2007
Gross premiums written	37.2	29.8	29.7	31.7	35.2
Net earned premiums	36.9	26.4	28.8	29.7	32.1
Claims and claims handling costs paid	26.0	19.3	18.4	20.3	21.8
Claims and claims handling costs incurred (net of reinsurance)	27.1	19.8	16.7	19.9	23.9
Net profit/loss for the year	-1.6	2.38	7.91	2.97	2.23
Insurance provisions (net)	39.1	18.9	16.5	18.2	18.6
Investments in financial instruments	52.0	42.8	36.7	31.1	27.3
Net loss ratio[1] %	73.4	74.9	57.9	66.8	74.4
Net expense ratio[2] %	31.8	24.9	24.4	22.4	21.5
Combined ratio[3] %	105.2	99.8	82.3	89.2	95.9

[1]Claims and claims handling costs incurred (net) / net earned premiums
[2](acquisition costs and administrative expenses – reinsurance commissions and profit participation) / net earned premiums
[3]Net expense ratio + net loss ratio

Financial performance

Seesam ended the year 2011 with a loss of 1.6 million euros. The negative result is mainly attributable to smaller than expected premium revenue and growth in claims incurred in home insurance and vehicle-related insurance.

Premium revenue

As regards Seesam's insurance portfolio, the most significant development was a decrease in the proportion of vehicle-related insurance. This had two primary reasons. Firstly, Seesam decided not to go along with price reduction in motor third party liability and voluntary motor (comprehensive auto) insurance because that would have been irresponsible from the point of view of the company's sustainable operation. Secondly, Seesam's performance was affected by the partnership agreement signed between SEB and RSA in Estonia in the first half of 2011.
Seesam's net premium revenue for 2011 was 36.9 million euros, which was less than expected.

Claims paid

Claims and claims handling costs paid in 2011 totalled 26.0 million euros, 71.0% of which was attributable to voluntary motor and motor third party liability insurance. The ratio of claims and claims handling costs paid to gross premiums written was 69.9%.

Claims and claims handling costs incurred (net of reinsurance) totalled 27.1 million euros. The net loss ratio dropped to 73.4%.

Expenses

Seesam's consolidated operating expenses totalled 11.9 million euros. The net expense ratio was 31.8% and the combined ratio was 105.2%.
Insurance contract acquisition costs amounted to 7.2 million euros and the ratio of acquisition costs to gross premiums written was 19.3%. Administrative expenses totalled 4.6 million euros and investment management expenses amounted to 0.1 million euros.

Investments in financial instruments

At 31 December 2011, the carrying amount of Seesam's investments in financial instruments was 52.0 million euros, a 9.2 million euro increase compared with the end of 2010. The investments comprised government bonds (50%), debt securities issued by companies (18%) and financial institutions (16%), equities and fund units (15%), and available-for-sale financial assets (1%).

Investments in financial instruments cover Seesam's insurance contract liabilities 1.2-fold and the minimum solvency margin requirement is satisfied approximately three-fold. Seesam's investment income for 2011 amounted to 254.5 thousand euros.

People

At the end of 2011 Seesam employed 365 people: 108 in Lithuania, 102 in Latvia and 155 in Estonia. Compared with the end of the previous financial year, the number of staff did not change significantly.

Following the merger of the Seesam entities, at the end of 2011 preparations began for implementing the structural changes. The most important ones entailed restructuring of the sales department and creating functions that are managed on a pan-Baltic basis.

An employee satisfaction survey indicated that most of the structural changes were well received. A satisfaction index of 4.14 on a 5-point scale is an exceptional result. Moreover, there was even a slight improvement compared with the prior year (2010: 4.10 points).

Seesam's human resource activities are aimed at supporting the company's business. The main focus is on improving individual performance and developing potential capabilities. In 2011 we paid particular attention to enhancing management skills and competencies and raising sales qualifications. The same areas will remain priorities also in 2012.

Management

In 2011, Seesam's supervisory board had the following members:

- Mr Jouko Markku Kalevi Pölönen - chairman
- Mr Vesa Tapio Aho
- Mr Erkki Mikael Silvennoinen
- Mr Toomas Abner
- Mr Reima Juhana Rytsölä
- Mr Jorma Juhani Alanne

Seesam's management board had the following members: Mr Ivo Kuldmäe (chairman) and Mr Andri Püvi.

On 20 December 2011 the supervisory board resolved to appoint to the management board the following new members, effective as from 1 January 2012:

Mr Martin Sandberg – member of the management board
Mr Aigars Freimanis – member of the management board
Ms Brigita Elona Blavaščiūnienė – member of the management board

Throughout the year, the chief executive officer of Seesam Insurance AS was Mr Andri Püvi.

Outlook for 2012

The crisis in the Baltic non-life insurance market has bottomed out and 2012 is expected to bring certain sales growth. However, market recovery will not be swift because the trends displayed by the macroeconomic indicators do not look very promising.

In terms of claims paid, 2012 may prove better than 2011. The main reason is a mild winter that reduces loss incurrence voluntary motor, motor third party liability and property insurance.

Insurance prices will not change significantly. Price sensitivity remains high, particularly as regards sales via brokers.
In Estonia prices may increase (at least in voluntary motor insurance) if an amendment to the VAT Act that regulates application of VAT to leased vehicles takes effect.

Seesam's main priority in 2012 is to improve the efficiency of its sales organisation and thereby also its service quality. We have invested in the quality of our claims handling service for years and intend to continue this in 2012.

Other important areas include reducing losses from the insurance portfolio and improving risk management. The target is to earn a profit in 2013.

The year 2012 will be Seesam's first full year as a merged entity. The change will not cause any additional obligations for our customers. Seesam remains a financially solid and highly professional insurance partner for both individuals and companies.

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Chairman of the Management Board
Ivo Kuldmäe

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Member of the Management Board
Andri Püvi

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Member of the Management Board
Brigita Elona Blavaščiūnienė

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Member of the Management Board
Martin Sandberg

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Member of the Management Board
Aigars Freimanis

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2011	2010
Gross premiums written	4	37,151,597	29,751,913
Written premiums ceded to reinsurers	4	-2,354,111	-2,031,502
Change in the provision for unearned premiums	4	2,248,697	-1,275,751
Reinsurers' share of change in the provision for unearned premiums	4, 17	-176,850	-10,615
Net earned premiums		**36,869,333**	**26,434,045**
Investment income, net	5	254,484	2,323,418
Other operating income	6	292,972	151,210
Net income		**37,416,789**	**28,908,673**
Claims and claims handling costs incurred	7	-28,917,479	-18,532,390
Reinsurers' share of claims and claims handling costs incurred	7	1,853,395	-1,262,399
Net claims and claims handling costs incurred		**-27,064,084**	**-19,794,789**
Acquisition costs	8	-7,162,580	-4,156,382
Administrative expenses	8	-4,640,038	-2,485,923
Investment management expenses	8	-116,177	-85,520
Total operating expenses		**-11,918,795**	**-6,727,825**
PROFIT/LOSS BEFORE INCOME TAX		**-1,566,090**	**2,386,059**
INCOME TAX INCOME/EXPENSE		**95**	**0**
NET PROFIT/LOSS FOR THE YEAR		**-1,565,995**	**2,386,059**
TOTAL COMPREHENSIVE INCOME/EXPENSE FOR THE YEAR		**-1,565,995**	**2,386,059**

The notes on pages 15 to 58 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	2011	2010
ASSETS			
Property and equipment	10	4,576,938	4,400,115
Intangible assets	11	721,365	135,091
Intangible insurance assets	11	1,886,793	1,017,256
Investments in financial instruments			
Equities and fund units at fair value through profit or loss	12, 13	7,967,096	11,353,363
Debt securities at fair value through profit or loss	12, 13	43,990,392	31,393,837
Available-for-sale financial assets	13	35,000	35,000
Total investments in financial instruments		**51,992,488**	**42,782,200**
Other receivables	15	929,831	618,327
Prepaid taxes		340,298	0
Reinsurance assets	15	3,883,042	520,979
Receivables from reinsurers	15	1,489	53,148
Receivables from policyholders and insurance brokers	15	3,642,121	622,661
Cash and cash equivalents	14	3,501,374	838,074
TOTAL ASSETS		**71,475,739**	**50,987,852**
LIABILITIES AND EQUITY			
Equity			
Share capital	16	3,000,000	3,000,000
Share premium		0	1,298,971
Statutory capital reserve	16	1,009,886	1,009,886
Retained earnings (prior years)		22,804,776	22,996,220
Profit/loss for the year		-1,565,995	2,386,059
Total equity		**25,248,667**	**30,691,136**
Liabilities			
Insurance contract liabilities	17	43,018,493	19,423,744
Payables to reinsurers	15	237,343	113,476
Other insurance payables	18	1,556,274	252,196
Payables to suppliers and other payables	19	1,193,070	269,978
Other provisions	19	18,905	76,012
Taxes payable	19	169,854	161,310

Deferred income tax liability	22	33,133	0
Total liabilities		**46,227,072**	**20,296,716**
TOTAL LIABILITIES AND EQUITY		**71,475,739**	**50,987,852**

The notes on pages 15 to 58 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Insurance premiums received		35,950,379	27,633,117
Reinsurance premiums paid		-1,774,961	-1,453,770
Claims and claims handling costs paid		-24,809,295	-17,903,464
Paid in operating expenses		-10,786,009	-5,686,973
Interest received		1,815,514	1,260,455
Net acquisitions and divestments of equity instruments		6,483,014	1,916,091
Cash flows from debt instruments and deposits		10,753,381	-6,945,302
Investment management expenses paid	8	-116,177	-85,520
Net cash from/used in operating activities		**17,515,846**	**-1,265,366**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries, net of cash acquired		-14,635,380	0
Acquisition of property and equipment and intangible assets		-209,241	-181,184
Net cash used in investing activities		**-14,844,621**	**-181,184**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of finance lease liabilities including initial down payments		-7,925	-8,805
Net cash used in financing activities		**-7,925**	**-8,805**
NET CASH INFLOW/OUTFLOW		**2,663,300**	**-1,455,355**
Cash and cash equivalents at beginning of year		**838,074**	**2,293,429**
Cash and cash equivalents at end of year	**14**	**3,501,374**	**838,074**
INCREASE /DECREASE IN CASH AND CASH EQUIVALENTS		**2,663,300**	**-1,455,355**

The notes on pages 15 to 58 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory capital reserve	Retained earnings	Total
At 31 December 2009	**3,000,000**	**1,298,971**	**1,009,886**	**22,996,220**	**28,305,077**
Profit for the year	-	-	-	2,386,059	2,386,059
At 31 December 2010	**3,000,000**	**1,298,971**	**1,009,886**	**25,382,279**	**30,691,136**
Changes from business combinations	-	-1,298,971	-	-2,577,503	**-3,876,474**
Loss for the year	-	-	-	-1,565,995	**-1,565,995**
At 31 December 2011	**3,000,000**	**0**	**1,009,886**	**21,238,781**	**25,248,667**

For further information on share capital and equity, please refer to note 16.

The notes on pages 15 to 58 are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant accounting policies

Seesam Insurance AS is a non-life insurance company incorporated and domiciled in Estonia. The consolidated financial statements of Seesam Insurance AS for 2011 comprise the 12-month figures of Seesam Insurance AS's Estonian operations and the figures of its Latvian and Lithuanian branches (until 30 November 2011 the branches were subsidiaries) as from their acquisition on 1 June 2011. Seesam Insurance AS completed the cross-border merger on 30 November 2011. As from 1 December 2011, Seesam's Latvian and Lithuanian entities operate as the branches of Seesam Insurance AS.

1. Statement of compliance and basis of preparation

1.1. Statement of compliance

hese consolidated financial statements for 2011 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except where indicated otherwise.

Under the Estonian Commercial Code, final approval of the annual report including the consolidated financial statements, which has been prepared by the management board and approved by the supervisory board, rests with the general meeting. Shareholders may decide not to approve the annual report that has been prepared and submitted by the management board and may demand preparation of a new annual report.

The management board authorised these consolidated financial statements for issue on 15 March 2012.

1.2. Basis of preparation

The consolidated financial statements of Seesam Insurance AS have been prepared under the historical cost convention, except for the following assets that are measured at fair value:

- financial instruments at fair value through profit or loss;
- other receivables (salvage and subrogation receivables); and
- available-for-sale financial assets, except for those financial assets whose fair value cannot be determined reliably.

Several International Financial Reporting Standards as adopted by the European Union require management to make judgements, estimates and assumptions. Although the estimates are based on management's best judgement, actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised. Further information on estimates and assumptions is disclosed in note 2.

In accordance with the Estonian Accounting Act, the parent company's separate primary financial statements (statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity) are to be disclosed in the notes to the consolidated financial statements. The separate primary financial statements of Seesam Insurance AS are presented in note 25 *Parent company's separate primary financial statements.* The parent company's financial statements have been prepared using the same accounting policies and measurement bases as those applied on the preparation of the consolidated financial statements.

1.3. Consolidation and business combinations

Branches

A branch is an economic entity established for offering services on behalf of a company. A branch is not an independent legal person. The company is liable for the obligations arising from the activities of a branch.

The company has to maintain separate accounts concerning its foreign branches. The financial statements of a branch with separately maintained accounts are included in the consolidated financial statements from the date the activity of the branch commences until the date the activity of the branch ceases.

Subsidiaries
Subsidiaries are entities controlled by the parent. Control exists when the parent has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation
In preparing consolidated financial statements, the financial statements of all entities controlled by the parent are combined with those of the parent line by line. The balances and transactions and any unrealised income and expenses and gains and losses arising from transactions between the parent and its branches are eliminated in preparing the consolidated financial statements.

Business combinations between entities under common control
Acquisitions of entities under common control are accounted for using the modified purchase method. Under the modified purchase method, the interest acquired in an entity is recognised at the pre-acquisition carrying amount of the net assets acquired (i.e. at the value at which the net assets were measured in the acquiree's financial statements). The difference between the cost of the business combination and the carrying amount of the net assets acquired is recognised as a decrease or increase in the acquirer's equity. The decrease or increase in the acquirer's equity that arises from the application of the modified purchase method is recognised in share premium. If the previously recognised positive amount of share premium is not sufficient for deducting the difference resulting from the application of the modified purchase method, the remaining portion of the difference is recognised as a reduction of retained earnings.

2. Functional and presentation currency

In connection with a change of the official currency of the Republic of Estonia, as from 1 January 2011 the company's functional and presentation currency is the euro, which replaced the Estonian kroon. Prior period financial information that was presented in Estonian kroons has been translated to euros in accordance with the relevant Council Regulation (EU) in which the conversion rate was set at 15.6466 kroons per 1 euro. Because of the fact that the Estonian kroon was previously pegged to the euro at the same exchange rate, the change in the functional and presentation currency had no effect on the company's financial position, financial performance or cash flows
A transaction in a foreign currency is recorded in the functional currency by applying the exchange rate quoted by the central bank at the date of the transaction. In the statement of financial position, monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the central bank exchange rates ruling at that date.
The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year and the amortised cost in foreign currency translated at the exchange rate at the end of the year.
Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income within Net gain/loss on financial transactions.
Each branch determines its own functional currency and records items in its financial statements using that functional currency. Accordingly, the assets and liabilities of foreign branches, including fair value adjustments, are translated to euros at foreign exchange rates ruling at the reporting date.
In these consolidated financial statements all figures are presented in euros unless indicated otherwise.

3. Cash and cash equivalents

In the statement of financial position and the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits with banks.
The statement of cash flows is prepared using the direct method.

4. Insurance contracts

Contracts under which the company 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 are classified as insurance contracts. The company issues short-term insurance contracts which mostly provide cover against damage to or loss of property, the liability of persons or short-term damage to health. All contracts issued by the company in 2010 and 2011 qualify as insurance contracts under IFRS 4.

4.1. Insurance premiums
Gross premiums written comprise premiums and premium instalments received and receivable that fall due in the reporting period. If the due date of a premium or the first premium instalment is later than the effective date of the insurance contract, premium income is recognised by reference to the effective date of the contract. At the Latvian and Lithuanian branches, the total amount of gross premiums receivable under an insurance contract is recognised as income when the contract is signed, regardless of whether some or all of the instalment payments fall due during the reporting period.
Where a contract does not enter into force, premium income and receivables from policyholders will be reduced by the amounts already recorded for the contract. In the case of cancellation, premium income is recognised until the date of expiry of the contract (the date as of which the contract is cancelled).

4.2. Claims
When a claim incurred from an insured event is settled, the payment is recognised in claims incurred in the statement of comprehensive income. Until the settlement decision is made, the estimated amount of claims incurred is reported in the provision for claims outstanding. Changes in the provision for claims outstanding are reported in the statement of comprehensive income. When a settlement decision has been made, the claim is reclassified from the provision for claims outstanding to Other insurance payables. See also note 2.2 for salvage and subrogation receivables, which are recognised as a reduction of claims incurred.

4.3. Insurance provisions

4.3.1. Provision for unearned premiums
The provision for unearned premiums is established for covering the costs of the insured events of effective contracts that have not occurred by the reporting date and for related contract management expenses. The unearned premiums provision is calculated in all lines of business under the 365-day *Pro Rata Temporis* method. An unearned premium provision of an individual policy represents the same percentage of the gross premium of the policy as the duration of the policy after the reporting date represents of the total duration of the policy.

4.3.2. Provision for claims outstanding, which consists of three parts
The provision for claims reported but not settled is set up to cover the final or estimated costs of claims that have been reported before the reporting date but are still being handled.

The provision for claims incurred but not reported (IBNR) is set up separately for each insurance class to indemnify claims that have been incurred before the reporting date but have not been reported to the insurance company. The methods of estimating IBNR depend on the insurance class. IBNR is calculated using statistical methods, taking into account the length of the notification period, the estimated amount of the claim, the loss ratio, premiums earned and other parameters.

The provision for indirect claims handling costs is designed to cover the indirect handling costs of claims reported but not settled and claims incurred but not reported before the reporting date.

The provision for claims outstanding is not discounted except for the portion relating to the annuities arising from the Motor Third Party Liability Insurance Act.
The provision for claims outstanding is not reduced by the value of probable salvage and subrogation recoveries, except for Lithuania where the provision for claims outstanding is reduced by the weighted average value of subrogation receivables that are expected to be recoverable in connection with claims that have not yet been fully settled.

4.3.3. Unexpired risk provision
Provision is made for unexpired risks where estimates indicate that the unearned premiums provision or the provision for claims outstanding is not sufficient for covering the claims incurred after the reporting date in respect of insurance contracts that entered into force before the reporting date and associated contract management expenses. Where the liability adequacy test indicates that the liabilities are inadequate, the unexpired risk provision is created without reducing deferred acquisition costs.

5. Reinsurance commissions

Reinsurance commissions are recognised based on the amounts fixed in the contracts made with reinsurers. Reinsurance commissions receivable are recognised in the statement of financial position when the contractual right to demand payment is established, i.e. when an insurance contract has been signed with the customer in conformity with the agreed terms and conditions and the related reinsurance premium has been recognised. Reinsurance commissions receivable are initially recognised at their fair value together with any directly attributable transaction costs and are measured thereafter at their amortised cost.

6. Receivables from reinsurance contracts

Reinsurers' share of an insurance provision (a receivable under a reinsurance contract) is calculated based on the proportion of the insured amount that exceeds risk retention. In the case of unearned premiums, a receivable from a reinsurance contract makes up the same proportion of the reinsurance premium as the unexpired portion of the reinsurance contract makes up of the total effective term of the reinsurance contract related to the insurance contract in question. If a claim in the provision for claims outstanding exceeds the company's retention level, the portion that exceeds the retention is recognised as a reinsurance receivable. Estimated reinsurance receivables are also recognised for unreported claims.

Receivables arising under reinsurance contracts that are related to insurance provisions are recorded in the statement of financial position in Reinsurance assets.
Any impairment losses are recognised in profit or loss.

7. Financial assets

Financial assets comprise cash and cash equivalents, deposits with credit institutions, receivables and investments in securities. Purchases and sales of financial assets are recognised at the trade date i.e. at the date the company commits itself (e.g. signs a contract) to purchase or sell a financial asset. Financial assets that are transferred are derecognised on the trade date.

Based on the purpose of their acquisition and management's intentions, all investments in securities have been classified as financial assets at fair value through profit or loss or available-for-sale financial assets.

7.1. Financial assets at fair value through profit or loss are financial assets held for trading (i.e. assets acquired principally for the purpose of selling or repurchasing in the near term, assets that are part of a portfolio of financial instruments that are managed together; or derivative instruments that are not hedging instruments) as well as other financial assets that are designated as at fair value through profit or loss upon initial recognition. Financial assets belonging to this category are initially recognised at fair value excluding the transaction costs. After initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss (in Investment income).

7.2. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised initially at fair value plus any transaction costs. After initial recognition, loans and receivables are measured at their amortised cost using the effective interest rate method. The method is used to calculate interest income on the items in subsequent periods. Any impairment losses are recognised in profit or loss.

7.3. Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified to any other category of financial assets.
After initial recognition available-for-sale financial assets are measured at fair value. Any changes in fair value are recognised in equity. If the fair value of equity instruments cannot be measured reliably, the instruments are measured at cost.

In the reporting period, the company had no financial assets that were classified as held-to-maturity investments.

8. Offsetting

A financial asset and a financial liability are offset only when there is a legally enforceable right to set off the recognised amounts, and there is an intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

9. Financial liabilities

All financial liabilities (trade payables, other short- and long-term financial liabilities, loans received, debt securities issued) are initially recognised at their fair values less the transaction costs and are subsequently measured at their amortised cost using the effective interest rate method. As a rule, the amortised cost of a short-term financial liability equals its nominal value. Therefore short-term financial liabilities are measured in the statement of financial position in the amount payable. Long-term financial liabilities are initially recognised at their fair value less the transactions costs and are subsequently measured at their amortised cost using the effective interest rate method.

10. Statutory capital reserve

The capital reserve has been created in accordance with the requirements of the Estonian Commercial Code. Each financial year, the company has to transfer at least one-twentieth of its net profit for the period to the capital reserve until the reserve reaches one-tenth of the company's share capital (the Insurance Activities Act that was effective until 31 December 2004 required transferring 10% of profit for the period to the capital reserve). The capital reserve may be used to cover losses or to increase share capital. It cannot be distributed to shareholders.
Transfers to capital reserve are made from the net profit reported in the annual financial statements that have been approved by the general meeting.

11. Foreign currency transactions

Transactions in foreign currencies have been recorded using the exchange rates of the European Central Bank quoted at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to euros at the official exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income as income and expenses respectively in the period in which they arise.

12. Intangible assets

An intangible asset is initially recognised at cost. The cost of an intangible asset comprises its purchase price and any directly attributable acquisition costs. After initial recognition, an intangible asset is carried at cost less any accumulated amortisation and impairment losses. Intangible assets are amortised using the straight-line method. Amortisation rates are determined by reference to the useful life of the asset. As a rule, useful lives extend from 3 to 5 years. Amortisation expense is recognised within administrative expenses.

Deferred acquisition costs (intangible insurance assets)
The costs of acquiring insurance contracts whose premiums will be collected in subsequent accounting periods are capitalised as deferred items and recognised in deferred acquisition costs. Only direct acquisition costs are capitalised. Direct acquisition costs that are accounted for on a contract-by-contract basis, such as brokerage fees and other intermediation charges, are capitalised on a contract-by-contract basis. The acquisition costs of motor third part liability insurance that are not accounted for on a contract-by-contract basis are capitalised based on the ratio of the provision for unearned premiums to gross premiums written. Acquisition costs are amortised on a straight-line basis over the term of the insurance contract. Acquisition costs that do not qualify for classification as direct acquisition costs are recognised as an expense in the period in which they are incurred.

13. Property and equipment

Items of property and equipment are tangible assets with a useful life of over one year. An item of property and equipment is initially recognised at its cost. The cost of an item of property and equipment comprises its purchase price (including customs duties and other non-recoverable taxes) and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Items of property and equipment are carried at cost less any accumulated depreciation and impairment losses.

Depreciation is charged using the straight-line method. Each class of property and equipment is assigned a depreciation rate that corresponds to its useful life.

Useful lives assigned to asset classes are as follows:

Buildings	50 years
Machines and equipment	5 years
Computers	3-4 years
Vehicles	5 years
Office equipment and fixtures	10 years
Furniture	10 years

Only the difference between the cost and residual value of an item of property and equipment is depreciated over its useful life. Depreciation rates, depreciation methods and the residual values assigned to assets are reviewed at each reporting date. When an asset's residual value increases above its carrying amount, depreciation is discontinued.

The company assesses the compliance of an asset's carrying amount with its recoverable amount on a regular basis (or whenever there is any indication that an asset may be impaired). If the recoverable amount of an asset (i.e. the higher of its fair value less costs to sell and its value in use) is less than its carrying amount, the carrying amount of the asset is written down to its recoverable amount.

14. Impairment of assets

Financial assets measured at amortised cost
The company assesses at each reporting date whether there is any indication that a financial asset or group of financial assets may be impaired. A financial asset or a group of financial assets is impaired and an impairment loss is recognised only if there is objective evidence of impairment as a result of one or more

events with an adverse effect that have occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective indications that a financial asset or a group of assets may be impaired include, for example:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default in settlement;
- it becoming probable that the debtor will enter bankruptcy;
- the disappearance of an active market for the financial asset because of financial difficulties; or
- information indicating that there is a significant decrease in the estimated future cash flows of the financial asset or group of financial assets although the decrease cannot yet be reliably measured.

If there is objective evidence that loans and receivables or held-to-maturity investments carried at amortised cost are impaired, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding any future impairment losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through an allowance account and the amount of the impairment loss is recognised in profit or loss.

If there is indication that an impairment loss recognised in prior periods may no longer exist or may have decreased and the indication can be objectively related to an event occurring after the impairment loss was recognised (such as an improvement in the debtor's credit rating), the originally recognised impairment loss is reversed. The reversal of an impairment loss is recognised in profit or loss.

Non-financial assets

An asset with an indefinite useful life is not depreciated or amortised. Instead, it is tested for impairment annually, by comparing its carrying amount to its recoverable amount. Tangible and intangible assets that are subject to depreciation or amortisation are reviewed for impairment whenever there is any indication that their carrying amount may not be recoverable. If there is such indication, the recoverable amount of an asset is estimated and compared to its carrying amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The recoverable amount is determined for an individual asset or the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets.

15. Corporate income tax

According to the effective Income Tax Act, in Estonia corporate income tax is not levied on profits earned. Therefore, no deferred tax assets or liabilities can arise. In place of profit earned, income tax is levied on dividends distributed from retained earnings. The amount of tax payable is calculated as 21/79 (in 2010 also: 21/79) of the amount distributed as the net dividend.
The income tax payable on the distribution of dividends is recognised as an expense of the period in which the dividends are declared, irrespective of the period for which the dividends are declared or the period in which the dividends are ultimately distributed. Because of the specific nature of the taxation system, companies registered in Estonia do not acquire deferred tax assets or incur deferred tax liabilities on temporary differences between the carrying amounts and tax bases of their assets and liabilities.
The maximum income tax liability that could arise on a dividend distribution is disclosed in note 21.
The profits earned in Latvia and Lithuania are subject to income tax. Before taxation, profit is adjusted for permanent and temporary differences as permitted by local tax laws.

Corporate income tax rates

	2011	2010
Lithuania	15%	15%
Latvia	15%	15%

At foreign branches, deferred tax is recognised using the liability method by which the deferred tax assets and liabilities arising from temporary differences between the carrying amounts and tax bases of assets and liabilities are recognised in the statement of financial position. In the consolidated financial statements, deferred tax liabilities are recognised in the consolidated statement of financial position.

16. Finance and operating leases

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee is recognised as a finance lease. Assets acquired with finance leases are carried at the lower of their fair value and the present value of the minimum lease payments less any accumulated depreciation and any impairment losses.

The company as a lessee
Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

The company as a lessor
Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

17. Other provisions and contingent liabilities

Provisions are made for liabilities of uncertain timing or amount. A provision is recognised in the statement of financial position when the company has a present obligation (legal or constructive) arising from a past event or the company's operating practice, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are recognised by reference to management's best estimates regarding the amount and timing of the expected outflows. A provision is recognised in the statement of financial position in the amount which, according to management's estimates, is necessary at the reporting date to settle the obligation or to transfer it to a third party. Where it is probable that an obligation underlying a provision should be settled later than 12 months after the reporting date, the provision is recognised at its discounted value (the present value of expected outflows), unless the effect of discounting is immaterial. Expenditures on provisions are recognised as an expense as incurred.

Promises, guarantees and other commitments whose realisation is uncertain or amount cannot be estimated sufficiently reliably but which may transform into obligations under certain circumstances are disclosed in the notes to the financial statements as contingent liabilities.

18. Vacation pay liability

Payables to employees include the accrued year-end vacation pay liabilities calculated in accordance with employment contracts and the requirements of the Estonian, Latvian and Lithuanian legislation. The vacation pay liability includes relevant social security tax and unemployment insurance contribution liabilities.

19. Liability adequacy test

At each reporting date, the company assesses whether its recognised insurance liabilities are adequate, using current estimates of future cash flows (net of deferred acquisition costs and assets acquired in business combinations) under its insurance contracts. The liability adequacy test is performed separately for each class of insurance by determining the adequacy of gross provisions, i.e. without considering the effect of reinsurance. The model applied relies on the loss ratio and expense ratio estimates for each class of insurance.

If that assessment shows that the carrying amount of insurance liabilities (less related deferred acquisition costs and related intangible assets) is inadequate in the light of the estimated future cash flows, the entire deficiency is recognised in profit or loss and a provision is recognised based on the test results (the unexpired risk provision).

Methods differ by country.

In Lithuania, the loss and expense ratios of the main insurance classes are forecast based on the data for the past four quarters. In insurance classes where the volume of premiums is insufficient, where results are volatile and where rate-setting has not changed significantly in recent years, loss ratios are forecast by taking into account the loss ratios of the past three years and by eliminating major losses.

In Latvia, loss and expense ratios are forecast based on annual statistics; similar insurance classes are viewed together.

In Estonia, the loss and expense ratios of the main insurance classes are forecast based on the data for the past four quarters; elimination of major losses is considered case by case. Smaller insurance classes are aggregated for the purpose of liability adequacy testing.

The principles of recognising the provision for unexpired risks are described in section 4.3.3. and the test results are described in note 17.

20. Revenue

20.1. Other income

Other income is recognised on an accrual basis when the underlying transaction has been performed.

20.2. Interest income

Interest income is recognised using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset.

20.3. Dividend income

Dividenditulu kajastatakse hetkel, mil tekib õigus nendele dividendidele ja kui tulu laekumine on tõenäoline.

20.4. Insurance premiums

Recognition of insurance premiums is described in section 4.1.

21. Operating expenses

The general principle for allocating costs to line items in the statement of comprehensive income is the following: costs that can be allocated directly are allocated directly. Costs that cannot be allocated directly are allocated in proportion to the number of the employees involved or the estimated working time of the employees involved.

21.1. Claims handling costs comprise expenses directly related to the handling and payment of claims as well as any administrative expenses that are indirectly related to claims handling. Indirect handling costs include claim handlers' salaries with associated taxes and other expenses charged in proportion to the estimated time spent on claims handling.

21.2. Acquisition costs - arise on the conclusion of insurance contracts and consist of:

- Direct costs such as commissions and expenses related to employees directly involved in the conclusion of contracts.
- Allocable costs such the costs of communication, advertising, printed matter, sales representatives' training, premises, office supplies, etc.
- Indirect costs such as administrative personnel's salaries, payroll taxes and other costs calculated in proportion to the estimated time spent on sales support.

21.3. Administrative expenses are related to the collection of premiums, portfolio management, the processing of bonuses and discounts and incoming and outgoing reinsurance. Administrative expenses

include personnel expenses and depreciation and amortisation expense to the extent those are not included in acquisition, claims handling or investment expenses.
Administrative expenses consist of:

- Direct costs such as costs directly related to the administrative personnel, their training expenses, etc.
- Allocable costs such as the costs incurred in connection with communication, premises, office supplies, etc.

21.4. Investment management expenses comprise the fees paid to Pohjola Asset Management Ltd under an asset management contract for the administration and management of the investment portfolio.

22. New International Financial Reporting Standards and the interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC)

The following new Standards and Interpretations are not yet effective for the year ended 31 December 2011 and have therefore not been applied in preparing these financial statements:

Amendments to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011; to be applied prospectively; earlier application is permitted). The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities, and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets. The amendments define "continuing involvement" for the purposes of applying the disclosure requirements. Because of the nature of the company's operations and the types of financial assets that it holds, the company does not expect the amendments to IFRS 7 to have a material impact on its consolidated financial statements.

IASB and IFRIC have published a number of other accounting pronouncements that are effective for periods beginning after 1 January 2011; however at the date these consolidated financial statements are authorised for issue those pronouncements had not yet been endorsed by the European Union. Therefore they are not discussed here.

Note 2. Use of significant accounting estimates and judgements

1. Calculation of provisions

A provision for claims incurred but not reported (IBNR) is set up separately for each insurance class to indemnify claims incurred but not reported to the company before the reporting date. The methods applied on the calculation of the IBNR provisions differ by insurance class.

The methods used to calculate the IBNR provisions include the chain-ladder method, the Bornhutter-Ferguson method as well as other statistical methods that take into account the estimated reporting pattern of claims.

In insurance classes where the available data do not allow using statistical methods, the IBNR provision is calculated as a percentage of the past four quarters' net earned premiums.

A provision for indirect claims handling costs is set up separately for each insurance class as a percentage of claims incurred but not settled and claims incurred but not reported. In Latvia and Lithuania the provision is calculated using the ratio of indirect claims handling costs to claims paid. In Estonia, it is calculated using the past calendar year's ratio of indirect claims handling costs to net earned premiums.

Measurement of claims reported but not settled
In vehicle-related insurance classes (motor third party liability insurance and voluntary motor insurance), a preliminary assessment is made on the inspection of the damaged vehicle - the amount of the loss is estimated and provided for. The vehicle is then sent to a repair shop where the damage and repair costs are specified. Based on the calculations made by the repair shop, the provision is adjusted. If the repair of a vehicle is impracticable due to financial reasons or the terms of the insurance contract (the insurance cover is the replacement cost of a new asset), the insured amount is provided for.

In the event of personal injury in motor third party liability (motor TPL) insurance, reported medical expenses are provided for. The estimated medical treatment expenses and the costs of temporary incapacity for work are provided for taking into account the severity of the injuries and the previous income of the injured person (filed by the medical establishment and the injured person). The provision for motor TPL pensions (compensation for permanent incapacity for work or compensation for the reduced income of the family members of the deceased) is established for the disbursement of the pension annuities. Motor TPL pensions are calculated using the motor TPL insurance database. Annuities have been calculated using the life tables prepared by Statistics Estonia for 2010. The provisions are discounted using a 0.75% discount rate.

In property insurance, the loss is initially estimated and later adjusted on the basis of expert opinions and preliminary calculations. In the case of contracts which provide for the deductible, the provision does not include the amount of the deductible.

In the event of theft, the insured amount is provided for immediately. In voluntary motor insurance, the loss incurred is reduced by the deductible, i.e. the provision does not include the deductible.
In travel insurance, a provision is established for the claim submitted or, in the case of larger losses, the estimated extent of the loss (indemnities for medical treatment expenses).

A specific feature of accident insurance is that a provision is made for potential disability or death benefits because the claim for the daily allowance is indemnified immediately.

2. Muud nõuded

Salvaged assets are acquired under voluntary motor insurance and property insurance contracts, when the company purchases an asset damaged in an insured event and realises it. The company realises salvaged assets through a business partner that arranges the sale of the asset by public auction. A salvaged vehicle is assigned an estimated sales price.
In the case of vehicles, the sales price is determined first based on the nature and extent of the damage and

thereafter based on the popularity of the brand and the model in the market.
A salvaged asset is measured on acquisition and at the reporting date at its estimated sales price. Salvaged assets are reported in other receivables in the statement of financial position and a as a reduction of claims incurred in the statement of comprehensive income.

Subrogation receivables comprise amounts collected from parties who have caused insured events, if so provided in the insurance terms and conditions for the class. In voluntary insurance this happens when the party causing the insured event is liable under civil proceedings, and in compulsory motor TPL in the cases provided for in the law. After the settlement of the claim, the company assesses whether it is reasonable to claim the expenses from the party that caused the insured event by reference to the probable outcome and cost-benefit ratio of the proceedings. The company may agree a payment schedule with the person who acknowledges a claim but is unable to settle in a lump sum. A claim that is not acknowledged or which the debtor does not respond to is reviewed to decide whether to bring an action in the court of law or to waive the claim.

A subrogation receivable is recognised on acquisition and at the reporting date as a receivable in the statement of financial position and a reduction of claims incurred in the statement of comprehensive income. The amount of a subrogation receivable is estimated based on the probability of its collection, the company's historical experience with similar items, the nature of the insurance class, and the information available on the creditworthiness of the person that caused the insured event.

Estimates used in recognising profit participation receivables from reinsurance contracts
Profit participation applies to pro-rata reinsurance contracts only. Profit participation receivables from reinsurance contracts are calculated pursuant to the provisions of reinsurance contracts, using the information available at the reporting date.
Profit participation is generally calculated at the end of the financial year. The amounts are adjusted at the end of each subsequent financial year or whenever significant information becomes available.

Note 3. Risk management

Risk management principles

The purpose of risk management is to manage and evaluate the risks faced by the company so as to ensure its stable, reliable and profitable operation.

The insurance business is based on risk selection and risk management. In fact, the greatest risks are related to the selection of insurance risks, pricing, selection of the reinsurance programme and adequacy of insurance provisions.
Besides managing insurance risks, an insurance company has to manage the risks related to the financial instruments acquired for covering its insurance provisions and its operational risks

Insurance risk management

On entering into an insurance contract, the policyholder transfers the insurance risk to the insurer. An insurance risk arising from a non-life insurance contract consists of two elements: the occurrence of one or more insured events and the extent of the event whereby both elements are random. Insurance terms and conditions specify only the indemnification of a loss resulting from an uncertain event.
Assuming that loss events are not related, theoretically relative expenses on claims paid should decrease in the case of a larger insurance portfolio. In reality, that assumption does not apply with 100% certainty and the so-called residual risk always exists, which may result from a change in the operating environment, the economic cycle, or changes in compulsory insurance products induced by the needs of the society.

The main risks in the insurance business arise from the selection and assessment of risks, pricing, acquisition of appropriate reinsurance cover and adequacy of liabilities arising from insurance contracts. A separate risk is a catastrophe risk that may realise by means of natural forces or human activity. In that case, separate small risks accumulate into one.

The most likely catastrophe scenarios include:

- Storm and flooding caused by a storm
- Torrential rain and flooding caused by rain
- Shipwreck or plane accident
- Pandemic (would influence Seesam through travel insurance).

The most important “tools” for insurance risk management are risk selection, rate-setting, reinsurance, deductibles, portfolio analysis, monitoring portfolio dynamics, and the scope of covers provided.

To limit risk retention Seesam has concluded reinsurance contracts.
Seesam’s reinsurance contracts are of the excess of loss type and purchased through the parent company. There are both risk-based and catastrophe reinsurance contracts. All risks beyond the retention limit (400,000 euros) are reinsured. An exception is travel insurance, where proportional (quota share) reinsurance type is used and the reinsurer’s share is four per cent of every risk.
The reinsurance programme ensures the company’s solvency in the event of any loss, irrespective of size. The parent company’s reinsurers are mostly companies whose rating is at least A according to Standard & Poor’s.

Seesam has also fronting type insurance contracts under which Seesam has reinsured the risks in full and does not bear any risk.

The scope of insurance cover is determined by the text of insurance terms and conditions and the additional text of the policies. All insurance terms and conditions and important provisions in policies are approved by the management board prior to implementation.

The company has developed methods for analysing the portfolio and monitoring portfolio dynamics, which vary according to the nature of the class of business.
Important risk management tools include underwriting guidelines and class-specific product guidelines. Both

documents provide principles for risk selection and pricing and set forth limits. In addition, insurance risks are managed through signature rights. The higher the level of an employee's competency, the more varied and greater the right to sign insurance documents. Signature rights are established by regulations issued by the insurance director.

Types of insurance contracts

Fixed-term insurance contracts

A fixed-term insurance contract is entered into for a fixed period that is recorded on the policy. On the expiry of the term, the contract expires (performance of obligations arising from the contract may continue). The term of a fixed-term insurance contract is generally one year. As an exception, for example in the case of contracts relating to specific projects, the term may be shorter or longer than one year. Seesam issues fixed-term contracts in all classes of business.

Revolving contracts

A revolving contract is entered into for a fixed period that is recorded on the policy. On the expiry of the term, the contract will automatically renew for another period of the same duration, unless one of the parties terminates the contract by the agreed procedure. In 2011 Seesam did not actively acquire new revolving contracts. At the moment, revolving contracts are entered into only in Estonia.

Insurance contracts by insurance class

Motor third party liability insurance

Motor TPL insurance is a compulsory class whose terms and conditions and indemnification rules are prescribed by the motor third party liability insurance law and other legislation. Indemnity limits are provided in the law and are similar across the Baltics: 0.5 million euros for property damage and 2.5 million euros for personal injury. The limits apply per insured event.

However, much larger indemnities are possible because in some Green Card countries there is no maximum indemnity limit for personal injury and in the event of an insured event local legislation and insured amounts will apply.

The rates of motor TPL insurance are determined using the bonus malus system that adjusts premiums according to claims history – when no claims have occurred, premiums decline and when claims have occurred, premiums increase.

Motor TPL indemnities include mostly property damage indemnities. However, long-term benefits, such as pensions and benefits for permanent incapacity for work that are paid out over decades are also possible.

Accident insurance

Accident insurance covers, above all, the risk of death or permanent incapacity for work caused by an accident. In addition, it is possible to purchase cover for unearned income during a reasonable treatment period (daily allowances) or cover for a temporary injury (one-off indemnity). Risks are managed mainly by rate-setting and consistent product development that considers both the customers' needs and Seesam's aims. As a rule, accident insurance benefits are small and death claims from this class of business are rare. However, the occurrence of accidents resulting in permanent disability claims and the amounts of relevant benefits are increasing.

Health insurance

Seesam offers health insurance to companies and their employees. The insured amount of medical treatment costs is limited per person. The average insured amount ranges from 1,775 to 7,300 euros. Most claims are related to outpatient treatment where benefits are small. In-patient treatment claims are larger and the contracts specify the maximum benefit rates. Seesam offers health insurance only in Latvia.

Travel insurance

Travel insurance covers the medical treatment expenses incurred on a trip, provided the expenses were incurred due to an illness that began or an accident that occurred during the trip. It is also possible to insure baggage and to acquire cover against the cancellation, interruption and delay of a trip. The main risk assessment factors include the destination (as a rule the largest medical treatment claims result from trips to the United States but in 2011 the largest claims were related to trips to Europe), duration, period and purpose of the trip. Typical losses are small and indemnified in a lump sum.

Voluntary motor insurance (comprehensive auto insurance)

Voluntary motor insurance provides cover against vehicle damage, destruction or theft. In this class of business, the quality of the portfolio is significantly influenced by the vehicle owners' tendency to be or not to be involved in accidents. Therefore, voluntary motor insurance rates are determined using the bonus malus system, which reduces the premium when no insured events have occurred and increases the premium when insured events occur frequently. Larger losses arise on the complete ruin or theft of a vehicle. The most frequent claims result from traffic accidents and glass breakage.

Home insurance

Home insurance covers losses incurred through damage to a building or apartment in private use as well as household property. It is also possible to purchase cover against the costs of renting temporary abode in connection with a loss event and liability insurance. The most important risk assessment factors are the type, supporting structure, age and security of the building. In 2011, a major proportion of home insurance claims was related to pipe leakage, fire, and water damage resulting from water breaking into the building (e.g. in spring when the snow melts).

Property insurance, business interruption insurance and construction risks insurance

The main risks covered by property insurance include fire, pipe leakage, an explosion, burglary and robbery, storm, and, in the case of manufacturing companies, equipment failure. In property insurance, the main factors, which are considered in assessing risks and determining insurance premiums and contract terms and restrictions, are the field of activity; the structure, location and fire load of the buildings; the nature of the processes (in manufacturing); the safety measures applied, etc.

Business interruption insurance covers the loss in operating profit and the fixed costs incurred that arise on the realisation of any risk covered by a company's property insurance. In this insurance class, it is particularly important to assess the reliability of the customer and the transparency of the customer's financial statements.

Larger losses arise mostly from natural disasters or the realisation of the risk of fire, which in turn results in business interruption indemnities. The loss is particularly large if the entire insured property (buildings and structures with associated movable property) is destroyed and business interruption indemnities have to be provided until the facilities have been restored for operation. It is also important to monitor accumulation of risks – for example if an area is exposed to various risks that have been insured under different contracts but are otherwise not related (for example, in the course of a single event a number of different insurance losses may be simultaneously incurred).

Liability insurance

Liability insurance covers property damage and personal injuries caused by the policyholder to third parties. On the assessment and selection of liability insurance risks, it is particularly important to examine the customer's field of activity, skills and experience in the field of activity. The company has a list of activities for which liability insurance is not provided. To date, serious personal injuries have occurred infrequently. The growth in liability insurance claims is mainly attributable to incidents of water damage at buildings managed by apartment associations and roof leakage and basement flooding caused by the condition of the buildings.

The indemnification process is generally long, as the substantiation of claims (creation of liability) is a long-term process under effective legislation. To date, most indemnities have been paid in a lump sum. However, long-term indemnities such as pension and permanent incapacity for work benefits are also possible.

Guarantee insurance

Guarantee insurance is offered only to partner travel agencies in Lithuania. In 2011, six guarantee insurance claims were received. Indemnities totalled 275,139 euros.

Goods in transit insurance

Goods in transit insurance covers the damage caused to goods and other property during their transport, loading, unloading and interim storage. In this class of business, the main risk factors are the nature of the goods and the route and means of transport. Losses occur relatively seldom, and their nature varies. Generally, claims are relatively small.

Small boat insurance

Small boat insurance indemnifies the losses incurred in connection with the damage, destruction or loss of an insured small boat. Small boat insurance is always provided together with small boat liability insurance where the insured amount is 190,000 euros. The insured amounts for small boats rarely exceed 150,000 euros. Seesam offers small boat insurance only in Estonia.

In our opinion Seesam's insurance portfolio is sufficiently diversified both in terms of risks insured and classes of business. Therefore, there are no significant concentrations of risks.

Major losses in 2005 - 2011

Number of settled losses of 95,000 – 320,000 euros (gross)

	Motor TPL insurance	Liability insurance	Travel and accident insurance	Property insurance	Goods in transit insurance	Business interruption insurance
2005	1	1		7		1
2006				3	1	
2007	1			3		
2008	1			4		
2009	1			1		
2010			1	6		
2011				3		1

In 2011, losses of 95,000 – 320,000 euros were settled on four occasions. One claim resulted from a business interruption loss incurred by an Estonian production company, two claims resulted from fire losses and one claim resulted from corporate property damage in Latvia that was caused by the weight of snow.

Number of settled losses exceeding 320,000 euros (gross)

	Motor TPL insurance	Liability insurance	Travel and accident insurance	Property insurance	Goods in transit insurance	Business interruption insurance
2005	1					
2006						
2007						
2008						
2009				1		
2010				1		
2011				2		1

In 2011, all settled losses that exceeded 320,000 euros were caused by fire. In Estonia, a production building along with plant and equipment was damaged by fire. In addition, the contract included business interruption cover on the basis of which 100,000 euros was settled in 2011. The contract was of a fronting type.
In Lithuania, there was a fire at a restaurant in the Trakai area. In addition to property insurance, the company had purchased business interruption insurance. The losses settled under the two contracts exceeded 3 million euros.

Besides the above, in 2011 the company registered 12 claims of 95 000 to 320 000 euros. In Estonia four claims were related to flooding or erosion caused by extraordinary precipitation, three claims were caused by fire, one claim resulted from damage caused to the quay by a berthing ship, and one claim resulted from the weight of snow that caused the structure of a building to collapse. In Lithuania, the company registered three claims during the period June to December 2011: one claim was related to business interruption at a manufacturing company, one resulted from a fire at a private house, and one was related to property insurance.
Two registered claims exceeded 320,000 euros. Both were related to damage caused to the quay by berthing ships.
31 people are entitled to personal injury pensions under motor TPL contracts. The pension provisions of seven injured parties fall between 95,000 and 320,000 euros. At the end of 2011, relevant pension provisions totalled 1.7 million euros.

Sensitivity analysis

The following sensitivity analysis characterises the effect of a change in any of the main insurance risks on the company's result of operations, solvency margin and combined ratio. Important risk parameters include a change in the size of the insurance portfolio, a change in claims and a change in administrative expenses. The impact was determined for one parameter at a time assuming that all other conditions remain constant.

Risk parameter	Amount in 2011 (m€)	Change in risk parameter	Impact on net result/solvency margin (m€)	Impact on the combined ratio
Net insurance portfolio	37.2	growth 1%	0.4	1.0%
Net claims	27.2	growth 1%	-0.3	-0.7%
Major loss	0.4	1 additional claim	-0.4	-1.1%
Administrative expenses	11.9	growth 5%	-0.6	-1.6%

Claims development – gross (in thousands of euros)

The table below provides a historical overview of the incurrence and settlement of claims and the adequacy of provisions established. The claims development table allows comparing the estimates of claims outstanding included in the financial statements with prior period losses. Claims are presented by the year of incurrence. The table contains cumulative claims estimates (claims paid, including subrogation and salvage recoveries, and the provisions for claims outstanding, including the IBNR provision). The table does not contain information on actual claims handling costs and the provision for indirect claims handling costs.
Management believes that the provisions for claims outstanding as at the end of 2011 are adequate. However, as provisions are created on the basis of estimates and relevant factors change over time, the final amounts may differ from current estimates.

Year of incurrence	2007	2008	2009	2010	2011
At end of year of incurrence	24,868	21,605	19,658	20,247	32,980
One year later	21,657	19,471	18,449	19,778	
Two years later	21,183	18,933	18,234		
Three years later	20,983	18,733			
Four years later	21,248				
Cumulative claims until 31 December 2011	20,229	18,471	17,527	17,889	19,890
Provision for claims incurred (including IBNR) at 31 December 2011	1,018	262	707	1,889	13,090

The claims incurred in 2011 include the claims incurred by Seesam's branches during the period 1 June 2011 - 31 December 2011. At 31 December 2011, the provision for claims incurred before 2007 (including IBNR) amounted to 1,060 thousand euros.

Financial risk management

Both insurance activities and investing activities involve financial risk, which may manifest itself in:

- Market risk – the risk that the fair value or future cash flows of a financial instrument risk will fluctuate due to changes in market prices; market risk consist of three types of risk: interest rate risk, currency risk and other price risk.
- Credit risk – the risk that one party to a financial instrument will cause the other party to incur a financial loss by failing to discharge its contractual obligations
- Liquidity risk – the risk that the company will encounter difficulty in meeting the obligations associated with its financial liabilities

In the insurance business, the realisation of a risk manifests itself in the impairment of assets representing cover for insurance provisions or the settlement difficulties of a transaction partner (e.g. a reinsurance partner). In investing activities, the main risks related to financial assets are interest rate risk, which manifests itself in a lower than expected yield of investments, and price risk, which results from a decrease in the value of investments.

After the merger of the Estonian, Latvian and Lithuanian insurance companies, the financial instrument portfolios as well as the insurance provisions of the three entities were combined. The management of Seesam's investment portfolio has been entrusted to Pohjola Asset Management Ltd that pays special attention to dispersing financial risks, investment liquidity and counterparty risk. Every year the investment policy and investment plan are reviewed and adjusted based on the existing economic situation. The investment plan determines the structure of investments, expected yields, the limits for credit, interest rate and currency risks, and the limits for different ratings.

According to the parent company's business strategy, funds are invested in fixed and floating rate debt securities and equities as well as real estate in Finland and other countries with the purpose of generating a good return in the long term.

The company's exposure to financial risks results from financial assets, financial liabilities, reinsurance receivables and insurance contract liabilities.

The main financial risks are interest rate risk, currency risk, credit risk and liquidity risk.

To mitigate potential financial risks, investments are spread between different financial instruments. Investments are made considering the provisions of the Investment Activities Act and the company's annual investment plan, which is aimed at generating sufficient income, mitigating risks and covering insurance provisions.

Market risk

Market risk arises from changes in interest rates, foreign exchange rates and the prices of financial assets.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company's financial instruments that are exposed to interest rate risk include fixed and floating rate debt securities and units in debt securities and interest rate funds.

Most of the company's investments have been made in debt securities. In 2011, the weighted average duration of securities exposed to interest rate risk was 1.78 years and their weighted average yield to maturity was 1.94% (2010: 1.96 years and 2.77%).

Distribution of debt securities by interest rate as at 31 December 2011

Fixed income debt securities	Cost	Fair value
Interest rate 0-2.50%	3,449,812	3,527,017
Interest rate 2.51% -3.50%	12,173,866	12,268,983
Interest rate 3.51% -4.50%	18,528,316	18,818,436

Interest rate 4.51 % -5.50 %	6,341,877	6,326,636
Interest rate 5.51 % -6.50 %	2,097,971	2,095,480
Interest rate 6.51 % -7.50 %	269,658	242,373
Interest rate 7.51 % -8.50 %	259,240	212,318
Total	**43,120,740**	**43,491,243**
Floating rate debt securities	**492,500**	**499,149**
Total debt securities	**43,613,240**	**43,990,392**

Distribution of debt securities by interest rate as at 31 December 2010

	Cost	Fair value
Fixed income debt securities		
Interest rate 0-2.50 %	997,425	999,111
Interest rate 2.51 % -3.50 %	2,672,572	2,720,980
Interest rate 3.51 % -4.50 %	15,934,829	16,184,150
Interest rate 4.51 % -5.50 %	6,072,736	6,305,540
Interest rate 5.51 % -6.50 %	3,695,229	3,761,869
Interest rate 6.51 % -7.50 %	269,658	252,173
Interest rate 7.51 % -8.50 %	701,360	673,325
Total	**30,343,809**	**30,897,148**
Floating rate debt securities	**492,500**	**496,689**
Total debt securities	**30,836,309**	**31,393,837**

The following analysis of the sensitivity of investments to changes in interest rates has been performed using modified duration. Modified duration is the measure of the sensitivity of the price of a security to a change in market interest rates, i.e. return. Mathematically, this is expressed as a percentage change in the price of a security resulting from a 1% change in yield.

	Market value 31 Dec 2011	Risk parameter	Change	Effect on market value 31 Dec 2011
Interest rate risk	48,345,866	Change in interest rates	1.0 %	895,536

The sensitivity analysis has been performed based on debt securities at fair value through profit or loss of 43,990,392 euros and units in debt securities and interest rate funds of 4,355,474 euros (included in Equities and fund units at fair value through profit or loss in the statement of financial position). Units in equity funds of 3,611,622 euros have been excluded from the sensitivity analysis – the funds earn income on changes in the prices of the shares included in the portfolio and the dividends paid on those shares. Thus, they are not exposed to interest rate risk.

In 2010 the effect on market value was 759,988 euros. The increase in risk results from growth in the debt securities portfolio.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at the end of 2011, 100% of investments in financial instruments were denominated in euros. Financial assets denominated in currencies other than the euro accounted for only 5.7% of all financial assets.

99.9% of receivables from policyholders and insurance brokers are settled in euros, Latvian lats or Lithuanian litas. Since the exchange rates of the Latvian and Lithuanian currencies against the euro are fixed, financial assets are not exposed to any significant currency risk and the currency risk may be considered very low.

Carrying amounts of financial assets and liabilities by currency as at 31 December 2011

	EUR	USD	LVL	LTL	GBP	Total
Debt securities	43,990,392	0	0	0	0	43,990,392
Equities	35,000	0	0	0	0	35,000
Fund units	7,967,096	0	0	0	0	7,967,096
Cash and cash equivalents	2,604,935	2,506	802,100	91,833	0	3,501,374
Other receivables	681,272	0	0	16,411	0	697,683
Receivables from reinsurers	405	18	0	0	1,066	1,489
Receivables from policyholders and insurance brokers	1,171,919	3,247	1,022,858	1,444,097	0	3,642,121
Total	**56,451,019**	**5,771**	**1,824,958**	**1,552,341**	**1,066**	**59,835,155**
Financial liabilities	1,148,039	1,720	780,831	370,434	23,109	2,324,133
Net exposure	55,302,980	4,051	1,044,127	1,181,907	-22,043	57,511,022

Carrying amounts of financial assets by currency as at 31 December 2010

	EEK	EUR	Total
Debt securities	0	31,393,837	31,393,837
Equities	35,000	0	35,000
Fund units	0	11,353,363	11,353,363
Cash and cash equivalents	505,553	332,521	838,074
Other receivables	618,327	0	618,327
Receivables from reinsurers	53,148	0	53,148
Receivables from policyholders and insurance brokers	622,661	0	622,661
Total	**1,834,689**	**43,079,721**	**44,914,410**
Financial liabilities	341, 569	113, 476	455, 045
Net exposure	1,493,120	42,966,245	44, 459 ,365

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or

factors affecting all similar financial instruments traded in the market.
The company is exposed to other price risk through investments in equity and debt instruments. If at 31 December 2011 the value of debt securities and fund units had increased/decreased by 10%, the company's result of operations and available solvency margin would have increased/decreased by 5,104,354 euros (2010: 4,204,523 euros).

The following table provides an overview of debt securities by their geographical area. Changes in the economies of different geographical areas may affect the fair values of financial instruments from those geographical areas.

As at 31 December	2011	2010
Belgium	1,968,149	383,287
Spain	0	554,498
Netherlands	4,664,662	397,213
Ireland	396,110	592,429
Italy	1,751,843	0
Greece	0	4,275,497
Lithuania	486,644	0
Norway	499,149	496,689
France	4,775,137	82,142
Sweden	2,835,079	2,269,154
Germany	8,220,579	4,098,732
Finland	12,781,948	13,669,362
Great Britain	2,964,121	2,671,198
Denmark	1,541,236	781,065
USA	1,105,735	1,122,571
Total	**43,990,392**	**31,393,837**

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge its obligations.
The company's credit risk exposures are related to policyholders' and intermediaries' solvency, arrangement of reinsurance and investment management. The terms of effectiveness of insurance cover are set out in the company's general contract terms and conditions. The contracts signed with insurance intermediaries set out settlement terms and adherence to those terms is checked systematically.
Reinsurance contracts have mostly been signed with the parent company whose credit rating according to Standard & Poor's is AA-. The credit rating of other reinsurance providers is at least A (as an exception the credit rating of Ingosstrakh is BBB-).

The following table outlines receivables that are exposed to credit risk

As at 31 December	2011	2010
Receivables from policyholders and insurance brokers	**3,642,121**	**622,661**
- Not past due	2,575,793	314,380
- Past due	1,066,328	308,281

Receivables from reinsurers	**1,489**	**53,148**
- Not past due	1,489	53,148
- Past due	0	0

Receivables have not been written down because none of them is more than 60 days past due.

Credit risk is mitigated by selecting reliable institutions for holding the deposits and securities and dispersing financial investments between counterparties (different issuers, countries, rating categories, maturity dates). The minimum credit rating for investments in the fixed income debt securities portfolio is BB-. Investments in debt securities whose rating is below BBB- but at least BB- may account, at most, to 10% of the total market value of the debt securities portfolio. As at 31 December 2011, the company's portfolio did not include any such debt securities.
In addition, the company monitors the average credit rating of the debt securities portfolio. This indicator has to be at least A-.
In 2011, the proportion of investments in government bonds grew by 9.1 percentage points (2011: 59.2% and 2010: 50.1%). In the case of government bonds counterparty insolvency is rather unlikely.

In 2011, 89.2% of the company's investments in fixed income securities had a credit rating of at least A- (according to Standard & Poor's). In 2010 the proportion was 76.0%.

Distribution of fixed and floating yield investments by credit rating (carrying amounts)

As at 31 December	2011	%	2010	%
AAA	22,905,705	52.1%	11,447,177	36.5%
AA+	1,782,118	4.0%	1,554,526	5.0%
AA	2,365,928	5.4%	212,331	0.7%
AA-	1,671,278	3.8%	2,552,861	8.1%
A+	2,531,617	5.7%	1,144,574	3.7%
A	4,036,277	9.2%	3,154,372	10.0%
A-	3,947,753	9.0%	3,767,017	12.0%
BBB+	1,491,302	3.4%	825,979	2.6%
BBB	3,258,414	7.4%	2,013,360	6.4%
BBB-	0	0.0%	446,143	1.4%
BB+	0	0.0%	4,275,497	13.6%
Total	**43,990,392**	**100%**	**31,393,837**	**100%**

Liquidity risk

Realisation of the liquidity risk may lead to a situation where financial assets need to be sold at a price significantly below their market value. The primary purpose of liquidity risk management is to ensure the company's ability to meet its obligations under insurance contracts and its commitments arising from insurance activities on a timely basis. Liquidity risk, which may halt insurance activities and satisfaction of obligations arising from insurance contracts, is mitigated by investing in short-term deposits (including overnight deposits), various funds (equity, debt securities and interest rate funds), debt securities and highly liquid listed equities.

Distribution of financial assets by remaining maturity as at 31 December 2011

Remaining maturity	0-1 years	1-3 years	3-5 years
Equities and fund units at fair value through profit or loss	7,967,096	0	0
Debt securities at fair value through profit or loss	10,910,142	28,405,478	4,674,772
Available-for-sale financial assets	35,000	0	0
Other receivables	697,683	0	0
Receivables from reinsurers	1,489	0	0
Receivables from policyholders and insurance brokers	3,642,121	0	0
Cash and cash equivalents	3,501,374	0	0
Total	**26,754,905**	**28,405,478**	**4,674,772**

Distribution of financial assets by remaining maturity as at 31 December 2010

Remaining maturity	0-1 years	1-3 years	3-5 years
Equities and fund units at fair value through profit or loss	11,353,363	0	0
Debt securities at fair value through profit or loss	7,961,992	16,236,175	7,195,670
Available-for-sale financial assets	35,000	0	0
Other receivables	618,327	0	0
Receivables from reinsurers	53,148	0	0
Receivables from policyholders and insurance brokers	622,661	0	0
Cash and cash equivalents	838,074	0	0
Total	**21,482,565**	**16,236,175**	**7,195,670**

Distribution of financial liabilities by remaining maturity as at 31 December 2011

Remaining maturity	0-1 years	1-3 years
Payables to reinsurers	237,343	0
Payables to policyholders	92,431	0
Payables to insurance brokers	801,289	0
Payables to suppliers and other payables	1,170,637	22,433
Total	**2,301,700**	**22,433**

Distribution of financial liabilities by remaining maturity as at 31 December 2010

Remaining maturity	0-1 years	1-3 years
Payables to reinsurers	113,476	0
Payables to policyholders	14,778	0
Payables to insurance brokers	56,813	0
Payables to suppliers and other payables	240,776	29,202
Total	**425,843**	**29,202**

Future settlement obligations arising from the provision for claims outstanding have been estimated as follows:

Remaining maturity	0-1 years	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Provision for claims outstanding at 31 Dec 2011	15,677,403	5,933,437	2,301,214	625,144	315,312	1,228,814

The estimates are based on recent years' claims settlement statistics. Most of the claims are settled and the provision is used in the first year. Motor TPL insurance pensions are paid out as annuities. Approximately half of the pensions that have been provided for will be paid out after more than 10 years.

Remaining maturity	0-1 years	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Provision for claims outstanding at 31 Dec 2010	5,224,524	1,825,666	2,421,923	209,775	265,494	960,993

Operational risk management

Business operations involve operational risks that may directly or indirectly influence the result of the company's operations. Operational risks usually arise from inefficient internal processes, inability to cope with unexpected external factors or pressure for change.

Management of operational risks is the responsibility of the managers of relevant areas. Risks that are important for the company as a whole and their potential impacts are assessed on a regular basis. Seesam's operations comply with all applicable laws and regulations.

Seesam's business operations are significantly dependent on information technology and IT systems. Partly, IT solutions have been outsourced. Seesam pays particular attention to the security of its databases and makes every effort to prevent risks that may arise from viruses or failures in the operation of its information systems.

In order to mitigate business continuity risks, Seesam has adopted a Business Continuity Plan (BCP) developed in partnership with the parent company's risk management specialists. In planning its business continuity activities, Seesam has considered the three main threats faced by contemporary companies: something might happen to the premises where we serve the customers or do our work, something serious might happen to our staff, or there might be an extensive failure in our IT systems. According to the plan, when a threat occurs we will form a crisis committee that will be responsible for instigating the planned activities and disseminating information about the situation. Business continuity risks are tested according to a BCP testing plan and the BCP is reviewed and updated as and when necessary.

Capital management

Capital adequacy is of vital importance to an insurer. The solvency margin is directly related to an insurance company's risk bearing capacity which describes the ratio of the company's available solvency margin to significant items in the statement of financial position and the statement of comprehensive income.
The ratios of the available solvency margin to claims incurred and premiums earned characterise the company's ability to cope with various insurance risks. The ratio of the available solvency margin to insurance provisions describes the company's ability to cope with errors made in the estimation of provisions

	2011 (m€)	Risk bearing capacity (%)	2010 (m€)	Risk bearing capacity (%)
Available solvency margin	24.5	-	30.6	-
Claims incurred	29.0	84%	18.5	165%
Premiums earned (net of reinsurance)	37.0	66%	26.4	116%
Insurance provisions (net of reinsurance)	39.1	63%	18.9	162%
Investment portfolio	52.3	47%	42.8	71%

Requirements to insurance companies' solvency are set out in the Insurance Activities Act. Under Section 71 Subsection 3 of the Insurance Activities Act, the company's absolute minimum capital requirement is 3.5 million euros. At 31 December 2011 the company's required minimum solvency margin (calculated in accordance with the above Act) was 8.2 million euros while the available solvency margin was 24.5 million euros. Thus, the minimum solvency margin requirement is satisfied 2.98-fold.

	2011	2010
Available solvency margin	24,527,302	30,556,044
Required minimum solvency margin	8,239,616	6,302,345
Absolute minimum capital requirement	3,500,000	3,500,000
Solvency surplus	16,287,686	24,253,699
Minimum share capital	3,000,000	3,000,000

Note 4. Premiums

	Gross premiums written 2011	Gross premiums written 2010	Ceded to reinsurers 2011	Ceded to reinsurers 2010
Voluntary motor insurance	13,801,742	12,548,135	-71,022	-60,300
Motor TPL insurance	7,455,510	7,031,979	-228,455	-365,983
Property and construction risks insurance	4,589,969	3,435,649	-1,171,776	-995,948
Home insurance	5,371,601	3,924,609	-214,972	-107,550
Short-term health insurance*	3,934,757	1,723,171	-75,659	-56,890
Liability insurance	1,506,064	718,697	-342,120	-215,143
Business interruption insurance	309,810	232,318	-188,474	-168,332
Goods in transit insurance	124,283	89,905	-53,987	-58,006
Small boat insurance	48,336	47,450	-3,000	-3,350
Guarantee insurance	9,525	0	-4,646	0
Total gross premiums written	**37,151,597**	**29,751,913**	**-2,354,111**	**-2,031,502**
Change in the provision for unearned premiums**	2,248,697	-1,275,751	-176,850	-10,615
Total net earned premiums	**39,400,294**	**28,476,162**	**-2,530,961**	**-2,042,117**

* Short-term health insurance comprises travel, accident and health insurance.
** For further information, please refer to note 17.

2011	Latvia	Lithuania	Estonia	Total
Gross premiums written	6,464,201	6,011,704	24,675,692	37,151,597
Ceded to reinsurers	-592,336	-117,019	-1,644,756	-2,354,111

Note 5. Investment income, net

2011	Investment yield	Unrealised gains / losses on changes in value	Gains / losses on realisation	Total
Financial assets at fair value through profit or loss				
- Equities	0	0	0	0
- Fund units	80,115	-830,200	99,114	-650,971
- Debt securities	1,428,604	-218,668	-309,749	900,187
Deposits	13,870	-8,663	0	5,207
Other	61	0	0	61
Total	**1,522,650**	**-1,057,531**	**-210,635**	**254,484**

2010	Investment yield	Unrealised gains / losses on changes in value	Gains / losses on realisation	Total
Financial assets at fair value through profit or loss				
- Equities	0	0	981,196	981,196
- Fund units	311,226	213,171	-29,022	495,375
- Debt securities	1,040,843	-236,234	37,748	842,357
Deposits	4,490	0	0	4,490
Total	**1,356,559**	**-23,063**	**989,922**	**2,323,418**

Note 6. Other operating income

2010	Investment yield	Unrealised gains / losses on changes in value
Financial assets at fair value through profit or loss		
- Equities	0	0
- Fund units	311,226	213,171
- Debt securities	1,040,843	-236,234

Note 7. Claims and claims handling costs

	From insurance contracts 2011	From insurance contracts 2010	Reinsurers' share 2011	Reinsurers' share 2010
Voluntary motor insurance	11,586,223	9,221,083	-22	23,360
Motor TPL insurance	6,896,571	4,386,147	90,569	57,577
Property and construction risks insurance	2,124,702	1,826,263	580,729	440,357
Home insurance	2,661,094	1,869,885	-65	1,542
Short-term health insurance*	2,110,859	1,416,118	20,904	34,091
Business interruption insurance	264,466	107,535	-63,465	14,860
Liability insurance	267,610	303,531	193,345	43,887
Goods in transit insurance	75,984	82,356	0	0
Small boat insurance	52,486	70,587	0	0
Total claims and handling costs paid	**26,039,995**	**19,283,505**	**821,995**	**615,674**
Change in the provision for claims outstanding	2,877,484	-751,115	1,031,400	-1,878,073
Total claims and handling costs incurred	**28,917,479**	**18,532,390**	**1,853,395**	**-1,262,399**

* Short-term health insurance comprises travel, accident and health insurance.

In the statement of comprehensive income, the line item Claims and claims handling costs incurred includes the change in the provision for claims outstanding (see note 17) as well as claims handling costs of 1,384,513 euros (2010: 1,283,621 euros). The amount of claims paid does not match the amount of Claims and claims handling costs paid in the statement of cash flows because the amount presented in the table above includes also indirectly allocable costs.

Claims handling costs

	2011	2010
Salaries	1,005,644	559,900
Other operating expenses	126,907	654,951
Change in the value of property and equipment and intangible assets	116,019	68,197
Services purchased	135,944	573
Total	**1,384,513**	**1,283,621**

Note 8. Operating expenses

Operating expenses are divided into administrative expenses and acquisition costs as follows:

	2011	2010
Staff costs	**4,316,468**	**2,529,640**
Acquisition costs	2,240,302	1,120,517
Administrative expenses	2,076,166	1,409,123
Commissions to brokers	**3,768,564**	**2,973,310**
Acquisition costs	3,768,564	2,973,310
Change in the value of property and equipment and intangible assets	**299,590**	**193,826**
Acquisition costs	153,280	77,838
Administrative expenses	146,310	115,988
Rentals and utilities costs paid	**523,696**	**264,179**
Acquisition costs	252,220	128,525
Administrative expenses	271,476	135,654
Other operating expenses	**2,854,481**	**892,682**
Acquisition costs	708,395	67,524
Administrative expenses	2,146,086	825,158
Total	**11,762,799**	**6,853,637**
Change in deferred acquisition costs	39,819	-211,332
Acquisition costs	**7,162,580**	**4,156,382**
Administrative expenses	**4,640,038**	**2,485,923**
Investment management expenses	116,177	85,520
Total operating expenses	**11,918,795**	**6,727,825**

The composition of claims handling costs is presented in note 7.
In 2011 the average number of staff was 349 (2010: 155).

Note 9. Reinsurance result

	2011	2010
Premiums ceded to reinsurers (note 4)	-2,354,111	-2,031,502
Reinsurers’ share of change in provision for unearned premiums (note 4)	-176,850	-10,615
Reinsurers’ share of commissions paid (note 6)	70,688	52,190
Reinsurers’ share of claims paid (note 7)	821,995	615,674
Reinsurers’ share of change in provision for claims outstanding (note 7)	1,031,400	-1,878,073
Reinsurers’ share of acquisition costs (note 6)	-1,160	-203
Foreign exchange differences on reinsurance (administrative expenses)	-103	50
Net result	-608,141	-3,252,479

Note 10. Property and equipment

	Buildings	Vehicles	IT hardware	Office equipment	Other items	Pre-payments	Total
Cost at 31 December 2009	4,184,553	422,559	1,201,436	225,244	397,012	0	**6,430,804**
Additions	7,490	44,996	55,903	30,066	21,860	0	**160,315**
Disposals	0	0	-536	-1,278	0	0	**-1,814**
Cost at 31 December 2010	4,192,043	467,556	1,256,803	254,033	418,871	0	**6,589,306**
Additions	22,980	0	123,954	9,790	17,818	0	**174,542**
Acquisitions through business combinations	0	111,342	81,966	1,277	108,324	20,642	**323,551**
Disposals	0	-107,161	-94,690	-852	-78,980	0	**-281,683**
Cost at 31 December 2011	4,215,023	471,737	1,368,033	264,248	466,033	20,642	**6,785,074**
Accumulated depreciation at 31 December 2009	-163,780	-288,082	-1,148,356	-129,396	-231,682	0	**-1,961,295**
Depreciation for the year	-83,742	-50,196	-37,024	-33,792	-23,678	0	**-228,432**
Disposals	0	0	58	478	0	0	**536**
Accumulated depreciation at 31 December 2010	-247,522	-338,278	-1,185,322	-162,709	-255,360	0	**-2,189,190**
Depreciation for the year	-84,133	-73,774	-51,694	-34,882	-40,251	0	**-284,734**
Disposals	0	107,038	66,283	744	71,082	0	**245,147**
Accumulated depreciation at 31 December 2011	-331,655	-305,014	-1,170,733	-196,847	-224,529	0	**-2,228,777**
Carrying amount at 31 December 2010	**3,944,521**	**129,278**	**71,481**	**91,324**	**163,511**	**0**	**4,400,115**
Carrying amount at 31 December 2011	**3,883,368**	**166,723**	**197,300**	**67,401**	**241,504**	**20,642**	**4,576,938**

Note 11. Intangible assets

Intangible assets

	Software
Cost at 31 December 2009	327,633
Accumulated amortisation at 31 December 2009	-262,229
Carrying amount at 31 December 2009	**65,404**
Additions	102,819
Amortisation for the year	-33,132
Cost at 31 December 2010	430,452
Accumulated amortisation at 31 December 2010	-295,361
Carrying amount at 31 December 2010	**135,091**
Acquisitions through business combinations	712,959
Additions	202,486
Amortisation for the year	-329,171
Cost at 31 December 2011	1,345,897
Accumulated amortisation at 31 December 2011	-624,532
Carrying amount at 31 December 2011	**721,365**

Intangible insurance assets (deferred acquisition costs)

Carrying amount at 31 December 2009	**805,925**
Change	211,331
Carrying amount at 31 December 2010	**1,017,256**
Change	**869,537**
Carrying amount at 31 December 2011	**1,886,793**

At 31 December 2011, other intangible assets and intangible insurance assets (deferred acquisition costs) totalled 2,608,158 euros (2010: 1,152,348 euros).

Note 12. Investments in financial instruments

The company's investments in debt instruments, equities and fund units are classified as financial assets at fair value through profit or loss. Available-for-sale financial assets include an EGCC D-share, which is measured at cost. Fixed and floating rate debt instruments include government bonds and debt securities issued by companies and financial institutions.

The fair value of investments in financial instruments is determined using the active market prices quoted in the Bloomberg trading system. The fair value of unlisted financial instruments is determined using generally accepted valuation techniques. If a security does not have a listed market price, a price range is derived based on its end-of-the-month price using the swap curve.

Under the three-level fair value hierarchy provided in IFRS 7, at 31 December 2011 all of the company's financial instruments that are measured at fair value fell into the Level 1 category.
The three-level fair value hierarchy provided in IFRS 7:

- financial instruments whose fair value is determined by reference to quoted prices in active markets for identical instruments;
- financial instruments whose fair value is determined by reference to directly observable market inputs;
- financial instruments whose fair value is determined by reference to inputs that are not based on observable market data.

As at 31 December 2011	Level 1	Level 2	Total
Debt securities at fair value through profit or loss	43,990,392	0	43,990,392
Equities and fund units at fair value through profit or loss	7,967,096	0	7,967,096
Total	**51,957,488**	**0**	**51,957,488**

As at 31 December 2010	Level 1	Level 2	Total
Debt securities at fair value through profit or loss	30,394,726	999,111	31,393,837
Equities and fund units at fair value through profit or loss	11,353,363	0	11,353,363
Total	**41,748,089**	**999,111**	**42,747,200**

EGCC D-share

As at 31 December	2011	2010
Available-for-sale financial asset	35,000	35,000
Ownership interest	0.29	0.29

As at 31 December	2011	2010
Fixed income securities		
Government bonds	26,026,552	15,722,673
Debt securities issued by financial institutions	8,361,262	4,930,827
Debt securities issued by companies	9,103,429	10,243,648
Total	**43,491,243**	**30,897,148**

Floating rate securities		
Debt securities issued by companies	499,149	496,689
Total	**499,149**	**496,689**
Total debt securities	**43,990,392**	**31,393,837**

Note 13. Fair values of financial assets and liabilities

	Carrying amount	Fair value	Carrying amount	Fair value
As at 31 December	2011	2011	2010	2010
Debt securities at fair value through profit or loss (note 12)	43,990,392	43,990,392	31,393,837	31,393,837
Equities and fund units at fair value through profit or loss (note 12)	7,967,096	7,967,096	11,353,363	11,353,363
Available-for-sale financial assets (note 12)	35,000	-*	35,000	-*
Receivables from policyholders and insurance brokers and other receivables (note 15)	4,341,293	4,341,293	1,294,136	1,294,136
Cash and cash equivalents (note 14)	3,501,374	3,501,374	838,074	838,074
Total financial assets	**59,835,155**	**59,800,155**	**44,914,410**	**44,879,410**
Payables to reinsurers (note 15)	237,343	237,343	113,476	113,476
Payables to policyholders (note 18)	92,431	92,431	14,778	14,778
Payables to insurance brokers (note 18)	801,289	801,289	56,813	56,813
Payables to suppliers and other payables (note 19)	1,193,070	1,193,070	269,978	269,978
Total financial liabilities	**2,324,133**	**2,324,133**	**455,045**	**455,045**

* The fair value of the share in EGCC has not been determined because it cannot be measured reliably. For further information, please refer to note 3.

Note 14. Cash and cash equivalents

As at 31 December	2011	2010
Cash on hand	30,362	207
Demand deposits	3,471,012	837,867
Total	**3,501,374**	**838,074**

Cash and cash equivalents by currency

As at 31 December	2011	2010
EUR	2,604,935	332,521
USD	2,506	0
LVL	802,100	0
LTL	91,833	0
EEK	0	503,553
Total	**3,501,374**	**836,074**

In 2011, the interest rates of overnight deposits ranged from 0.1% to 0.35%. The interest rates of term deposits ranged from 2% to 4%.

Note 15. Receivables

Other receivables

As at 31 December	2011	2010
Filed subrogation claims*	542,058	448,586
Salvaged assets	67,349	57,158
Miscellaneous receivables	88,276	112,583
Prepaid expenses	232,148	0
Total	**929,831**	**618,327**

* Filed subrogation claims comprise claims of 2,702,136 euros less an impairment loss of 2,160,078 euros (2010: claims of 2,233,951 euros less an impairment loss of 1,785,365 euros).

Reinsurance assets

As at 31 December	2011	2010
Reinsurers' share of the provision for unearned premiums	254,511	59,833
Reinsurers' share of the provision for claims outstanding	3,628,531	461,146
Total	**3,883,042**	**520,979**

Receivables and payables from reinsurance contracts by reinsurer

As at 31 December 2011	Receivable	Payable	Net receivable	Net payable
Pohjola Insurance Ltd	6,142	91,215	0	85,073
Swiss Re	0	2,468	0	2,468
MAI	0	1,251	0	1,251
RSA	2,143	7,246	0	5,103
AXA	0	68,755	0	68,755
Chubb	5,656	19,439	0	13,783
Ingosstrakh	4,394	8,098	0	3,704
Munich Re	405	0	405	0
IF P & C	6,897	35,414	0	28,517
Chartis	6,693	28,736	1,066	23,109
Partner Re	312	1,041	0	729
Codan	220	3,638	0	3,418
Converium	181	953	0	772
World Evans Group	117	778	0	661
AIU North America	332	314	18	0
Total	**33,492**	**269,346**	**1,489**	**237,343**

As at 31 December 2010	Receivable	Payable	Net receivable	Net payable
Pohjola Insurance Ltd	2,119	96,366	0	94,247
Swiss Re	1,172	2,182	0	1,010
MAI	51,821	362	51,459	0
RSA	1,504	5,803	0	4,299
AXA	0	1,100	0	1,100
Chubb	0	5,552	0	5,552
Ingosstrakh	5,645	9,064	0	3,419
Munich Re	0	3,849	0	3,849
AIG	1,689	0	1,689	0
Total	**63,950**	**124,278**	**53,148**	**113,476**

Receivables from and payables to a reinsurer are presented in the statement of financial position in the net amount, in accordance with the terms and conditions of the reinsurance contracts. All receivables fall due within the next 12 months.

Other insurance payables (see note 18) include reinsurers' share of acquisition costs of 25,101 euros (2010: 9,143 euros).

Receivables from policyholders and insurance brokers

As at 31 December	2011	2010
Receivables from policyholders and insurance brokers	3,642,121	622,661
Total	**3,642,121**	**622,611**

All receivables fall due within the next 12 months. During the reporting period, receivables of 3,463 euros were considered doubtful and recognised as an expense (2010: 192 euros).

Note 16. Equity

As at 31 December	2011	2010
Share capital	3,000,000	3,000,000
Number of shares	469,398	469,398
Par value of a share (in euros)	no par value	6.39

According to the articles of association, the company's minimum and maximum authorised share capital amount to 3,000,000 euros and 12,000,000 euros respectively. Until 29 April 2011 the pare value of the shares was 6.39 euros. After that the company adopted registered shares without par value. All shares are of the same class and carry equal rights.

The company's sole shareholder is Pohjola Insurance Ltd that holds 100% of the company's voting power. The company has issued ordinary shares of one class. The shares provide the holder with all the rights listed in the Estonian Commercial Code: the right to attend the general meeting, to participate in the distribution of profits and the distribution of residual assets on the dissolution of the company, to obtain from the management board information about the company's operation (at the general meeting), etc.

Reserves comprise the mandatory capital reserve (see note 1.10). At 31 December 2011, the capital reserve stood at 1,009,886 euros (2010: 1,009,886 euros).

Note 17. Insurance provisions (insurance contract liabilities)

As at 31 December	2011	2010
Provision for unearned premiums	16,346,422	8,485,066
Provision for claims outstanding		
Provision for claims incurred and reported	20,574,653	8,636,096
Provision for claims incurred but not reported (IBNR)	4,469,512	1,782,866
Provision for indirect claims handling costs	1,037,159	489,413
Total provision for claims outstanding	**26,081,324**	**10,908,375**
Unexpired risk provision	590,747	30,303
Total insurance provisions	**43,018,493**	**19,423,744**
Reinsurers' share of provision for unearned premiums	254,511	59,833
Reinsurers' share of provision for claims outstanding	3,628,531	461,145
Total reinsurance assets	3,883,042	520,979
Insurance provisions net of reinsurance	**39,135,451**	**18,902,766**

Provision for claims outstanding

As at 31 December	2011	2010
Provision for claims incurred and reported	20,574,653	8,636,096
Provision for claims incurred but not reported (IBNR)	4,469,512	1,782,866
Provision for indirect claims handling costs	1,037,159	489,413
Total provision for claims outstanding	**26,081,324**	**10,908,375**
Reinsurers' share of provision for claims incurred and reported	3,580,130	447,178
Reinsurers' share of provision for claims incurred but not reported	48,401	13,967
Reinsurers' share of provision for claims outstanding	**3,628,531**	**461,145**
Provision for claims outstanding net of reinsurance	**22,452,793**	**10,447,230**

Liability adequacy test
The company has assessed the adequacy of its insurance provisions using a liability adequacy test. The test indicated that in voluntary motor insurance and in motor third party liability insurance the estimated future cash flows under the contracts exceeded the carrying amount of relevant insurance liabilities. The difference of 590,747 euros (2010: 30,303 euros) has been recognised within the unexpired risk provision. In other classes of insurance the test indicated that insurance liabilities were adequate in light of the estimated future cash flows.

Unexpired risk provision

Insurance class	As at 31 December 2011	As at 31 December 2010
Voluntary motor insurance	126,602	0
Motor third party liability insurance	464,145	0
Travel insurance	0	30,303
Total	**590,747**	**30,303**

Changes in the provision for claims outstanding

2011	Liabilities from insurance contracts	Receivables from reinsurance contracts	Net
At 1 January	**10,908,375**	**461,146**	**10,447,229**
Claims incurred	32,979,853	1,782,264	**31,197,589**
Claims paid	-25,963,957	-821,995	**-25,141,962**
Change in prior periods' provision	-4,138,413	71,130	**-4,209,543**
Acquired through business combinations	12,295,466	2,135,986	**10,159,480**
At 31 December	**26,081,324**	**3,628,531**	**22,452,793**

Changes in the provision for unearned premiums

2011	Liabilities from insurance contracts	Receivables from reinsurance contracts	Net
At 1 January	**8,485,066**	**59,833**	**8,425,233**
Premiums written	37,151,597	2,354,111	**34,797,486**
Premiums earned	-39,499,736	-2,530,961	**-36,968,775**
Acquired through business combinations	10,209,495	371,528	**9,837,967**
At 31 December	**16,346,422**	**254,511**	**16,091,911**

Changes in the provision for unearned premiums

2010	Liabilities from insurance contracts	Receivables from reinsurance contracts	Net
At 1 January	**7,209,315**	**70,448**	**7,138,867**
Premiums written	29,751,913	2,031,502	27,720,411
Premiums earned	-28,476,162	-2,042,117	-26,434,045
At 31 December	**8,485,066**	**59,833**	**8,425,233**

In the statement of comprehensive income, the line item Changes in the provision for unearned premiums includes also the change in the unexpired risk provision

Note 18. Other insurance payables

As at 31 December	2011	2010
Prepayments from policyholders	637,453	171,462
Approved indemnities payable to policyholders	92,431	14,778
Payables to insurance brokers	801,289	56,813
Reinsurers' share of acquisition costs	25,101	9,143
Other insurance payables	**1,556,274**	**252,196**

Note 19. Other liabilities

As at 31 December	2011	2010
Other payables	234,615	46,836
Vacation pay liabilities	339,212	118,702
Payables to suppliers	588,710	67,020
Finance lease payables	30,533	37,420
Total payables to suppliers and other payables	**1,193,070**	**269,978**
Income tax payable	62,796	54,440
Social security tax payable	107,058	106,870
Deferred income tax liability	33,133	0
Total tax liabilities	**202,987**	**161,310**
Other provisions	18,905	76,012
Total	**1,414,962**	**507,300**

Other provisions of 18,905 euros comprise an estimated provision for bonuses payable for the results of the financial year.

Note 20. Operating and finance leases

The company as a lessee
Operating leases

In 2011 the company made contractual operating lease payments for office premises.

	2011	2010
Operating lease rentals paid	314, 100	300, 146

All operating leases on premises can be cancelled by giving one year's notice.
Operating lease rentals payable in the next financial year amount to 332,946 euros.

The company as a lessor

Operating leases

The company is a lessor under one operating lease that can be cancelled by giving 6 months' notice.

	2011	2010
Operating lease rentals received	30, 359	30, 210

The company as a lessee

Finance leases

In 2011 the company paid 6,246 euros in finance lease rentals for a vehicle. At 31 December 2011, the company's finance lease liability amounted to 30,532 euros and the carrying amount of the leased asset was 33,737 euros. The interest rate of the lease is floating – the base rate is 3 month Euribor plus a margin of 0.5%.

Future rentals under the above lease are payable as follows:

	Lease payments in euros
Payable within 1 year	8,099
Payable between 1 and 5 years	22,433

Note 21. Contingent liabilities

Litigations

The claims filed against Seesam Insurance AS in connection with insurance activities have been recorded in insurance databases and are recognised in the statement of financial position.

Note 22. Income tax

Income tax income/expense	2011	2010
Income tax expense	0	0
Change in deferred income tax	95	0
Total income tax income/expense	**95**	**0**

Recognised deferred tax liabilities		
As at 31 December	2011	2010
Deductible temporary differences on		
Property and equipment	79,978	0
Other liabilities (vacation pay liabilities to employees)	-46,845	0
Total recognised deferred tax liabilities	**33,133**	**0**

Unrecognised deferred tax assets		
As at 31 December	2011	2010
Tax losses	348,462	0
Deductible temporary differences	20,932	0
Total unrecognised deferred tax assets	**369,394**	**0**

The tax losses from the operation of the Lithuanian branch have not been recognised in the consolidated statement of financial position as a deferred tax asset because according to management's estimates they cannot be utilised in the foreseeable future.

Reconciliation of accounting profit and income tax income/expense		
As at 31 December	2011	2010
Consolidated profit before tax	-1,566,090	2,386,059
The parent company's domestic tax rate 0%	-	-
Effect of tax rates in foreign jurisdictions	122,606	0
Effect of exempt income and taxable expenses	-62,413	0
Utilisation of unrealised tax losses carried forward	-60,193	0
Change in unrecognised deferred tax assets	0	0
Change in recognised deferred tax assets	-95	0
Effect of income tax of previous years	0	0
Income tax income/expense for the year	**-95**	**0**

At 31 December 2011, the company's unrestricted equity amounted to 21,238,781 (2010: 25,382,279) euros. Dividend distributions to shareholders are subject to income tax calculated as 21/79 of the amount distributed as the net dividend (until 31 December 2010: 21/79). Thus, the maximum amount that could be distributed as a dividend as at the reporting date is 16,778,637 euros and the distribution would result in an income tax liability of 4,460,144 euros.

Note 23. Business combinations

In May 2011, Seesam purchased from its parent company 100% of the shares in Seesam Lietuva UADB and Seesam Latvia AAS (the agreements on the purchase and sale were signed on 10 May 2011 and 11 May 2011 respectively).

Assets and liabilities of the combined entities as at 31 May 2011:

Assets and liabilities (euros)	Seesam Latvia	Seesam Lithuania
Cash and cash equivalents	2,812,628	456,336
Investments in financial instruments	17,607,747	11,325,095
Other assets	3,130,846	3,097,165
Total assets	**23,551,221**	**14,878,596**
Insurance provisions	11,388,845	9,126,485
Other liabilities	2,330,221	1,326,501
Equity	9,832,155	4,425,610
Total liabilities and equity	**23,551,221**	**14,878,596**

Seesam paid for the shares a total of 18,134,239 euros. The subsidiaries' net assets were measured as at 31 May 2011.

The following table provides an overview of the impact of the business combinations on the financial statements of Seesam Insurance AS (the acquirer):

	Amount in euros
Acquisition cost of 100% interest in Seesam Lietuva UADB	5,000,239
Net assets of Seesam Lietuva UADB as at 31 May 2011	4,425,610
Acquisition cost of 100% interest in Seesam Latvia AAS	13,134,000
Net assets of Seesam Latvia AAS as at 31 May 2011	9,832,155
Effect on the equity of Seesam Insurance AS	**-3,876,474**

Since the transactions constituted business combinations between entities under common control, the difference between the purchase price and the carrying amount of the net assets acquired was recognised in equity, within share premium and retained earnings.
The cash and cash equivalents included in the current assets of the acquired entities were recorded in the statement of cash flows in cash flows from investing activities as a reduction of *Acquisitions of subsidiaries.*

Cash and cash equivalents acq uired	Amount in euros
Seesam Lietuva UADB	456,335
Seesam Latvia AAS	2,812,628
Total	**3,268,963**

Note 24. Transactions with related parties

Related parties include:

- the shareholder (Pohjola Insurance Ltd)
- other group companies (Pohjola Bank plc, Pohjola Finance Eesti AS, Pohjola Asset Management Ltd)
- members of the management and supervisory boards
- close family members of and companies related to the above

The company has reinsurance contracts with its parent Pohjola Insurance Ltd.

	Accrued reinsurance premiums		Commissions and indemnities received	
	2011	2010	2011	2010
Pohjola Insurance Ltd	2,067,647	1,481,228	880,880	53,704

The company has an investment management contract with Pohjola Asset Management Ltd.

	Services purchased	
	2011	2010
Pohjola Asset Management Ltd	116,177	85,520

Receivables and payables as at 31 December 2011

	Pohjola Insurance Ltd
Reinsurance receivables	6,142
Other receivables	14,244
Total receivables	**20,386**
Reinsurance payables	91,215
Other payables	20,288
Total payables	**111,503**

Receivables and payables as at 31 December 2010

	Pohjola Insurance Ltd
Reinsurance receivables	2,119
Total receivables	**2,119**
Reinsurance payables	96,366
Other payables	7,753
Total payables	**104,119**

The company purchases leasing services from Pohjola Finance Eesti AS. In 2011, services purchased totalled 23,191 euros (2010: 18,198 euros).
In 2011, the remuneration of the members of the management board amounted to 91,805 euros (2010: 92,747 euros).
In line with its remuneration policy, the company pays performance and termination benefits only in cash, not in the form of shares, share options or similar rights. The supervisory board and management board

may decide not to assign performance benefits and, in some cases, to reduce performance benefits that have already been assigned.
According to their service contracts, members of the management board are entitled to termination benefits equal to their six-fold monthly board member remuneration if the company terminates their contract or the board member terminates the contract because Seesam has breached the contract.
Members of the supervisory board were not remunerated in 2011 or 2010.

Note 25. Parent company's separate primary financial statements

PARENT COMPANY'S SEPARATE STATEMENT OF COMPREHENSIVE INCOME		
	2011	2010
Gross premiums written	26,345,361	29,751,913
Written premiums ceded to reinsurers	-1,793,518	-2,031,502
Change in the provision for unearned premiums	2,009,859	-1,275,751
Reinsurers' share of change in the provision for unearned premiums	34,250	-10,615
Net earned premiums	**26,595,952**	**26,434,045**
Investment income, net	932,692	2,323,418
Other operating income	151,899	151,210
Net income	**27,680,543**	**28,908,673**
Claims and claims handling costs incurred	-22,930,256	-18,532,390
Reinsurers' share of claims and claims handling costs incurred	1,851,595	-1,262,399
Net claims and claims handling costs incurred	**-21,078,661**	**-19,794,789**
Acquisition costs	-4,771,153	-4,156,383
Administrative expenses	-3,297,993	-2,485,923
Investment management expenses	-90,010	-85,520
Total operating expenses	**-8,159,156**	**-6,727,825**
PROFIT/LOSS BEFORE INCOME TAX	**-1,557,274**	**2,386,059**
INCOME TAX EXPENSE	**-8,721**	**0**
NET PROFIT/LOSS FOR THE YEAR	**-1,565,995**	**2,386,059**
TOTAL COMPREHENSIVE INCOME/EXPENSE FOR THE YEAR	**-1,565,995**	**2,386,059**

PARENT COMPANY'S SEPARATE STATEMENT OF FINANCIAL POSITION		
As at 31 December	**2011**	**2010**
ASSETS		
Property and equipment	4,576,938	4,400,115
Intangible assets	721,365	135,091
Intangible insurance assets	1,886,793	1,017,256
Investments in financial instruments		
Equities and fund units at fair value through profit or loss	7,967,096	11,353,363
Debt securities at fair value through profit or loss	43,990,392	31,393,837
Available-for-sale financial assets	35,000	35,000
Total investments in financial instruments	**51,992,488**	**42,782,200**
Other receivables	929,831	618,327
Prepaid taxes	340,298	0
Reinsurance assets	3,883,042	520,979
Receivables from reinsurers	1,489	53,148
Receivables from policyholders and insurance brokers	3,642,121	622,661
Cash and cash equivalents	3,501,374	838,074
TOTAL ASSETS	**71,475,739**	**50,987,852**
LIABILITIES AND EQUITY		
Equity		
Share capital	3,000,000	3,000,000
Share premium	0	1,298,971
Statutory capital reserve	1,009,886	1,009,886
Retained earnings (prior years)	22,804,776	22,996,220
Profit/loss for the year	-1,565,995	2,386,059
Total equity	**25,248,667**	**30,691,136**
Liabilities		
Insurance contract liabilities	43,018,493	19,423,744
Payables to reinsurers	237,343	113,476
Other insurance payables	1,556,274	252,196
Payables to suppliers and other payables	1,193,070	269,978
Other provisions	18,905	76,012

Taxes payable	202,987	161,310
Total liabilities	**46,227,072**	**20,296,716**
TOTAL LIABILITIES AND EQUITY	**71,475,739**	**50,987,852**

PARENT COMPANY'S SEPARATE STATEMENT OF CASH FLOWS		
	2011	**2010**
CASH FLOWS FROM OPERATING ACTIVITIES		
Insurance premiums received	24,761,597	27,633,117
Reinsurance premiums paid	-1,051,389	-1,453,770
Claims and claims handling costs paid	-18,901,066	-17,903,464
Paid in operating expenses	-6,954,311	-5,686,973
Interest received	1,365,854	1,260,455
Net acquisitions and divestments of equity instruments	6,483,014	1,916,091
Cash flows from debt instruments and deposits	12,051,660	-6,945,302
Investment management expenses paid	-91,613	-85,520
Net cash from/used in operating activities	17,663,746	-1,265,366
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments in subsidiaries	-14,865,276	0
Acquisition of property and equipment and intangible assets	-131,373	-181,184
Net cash used in investing activities	-14,996,649	-181,184
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of finance lease liabilities including initial down payments	-3,797	-8,805
Net cash used in financing activities	-3,797	-8,805
NET CASH INFLOW/OUTFLOW	2,663,300	-1,455,355
Cash and cash equivalents at beginning of year	838,074	2,293,429
Cash and cash equivalents at end of year	3,501,374	838,074
INCREASE /DECREASE IN CASH AND CASH EQUIVALENTS	2,663,300	-1,455,355

PARENT COMPANY'S SEPARATE STATEMENT OF CHANGES IN EQUITY					
	Share capital	Share premium	Statutory capital reserve	Retained earnings	Total
At 31 December 2009	3,000,000	1,298,971	1,009,886	22,996,221	28,305,078
Profit for the year	-	-	-	2,386,059	2,386,059
At 31 December 2010	3,000,000	1,298,971	1,009,886	25,382,280	30,691,137
Changes from business combinations	-	-1,298,971	-	-2,577,503	-3,876,474
Loss for the year	-	-	-	-1,565,995	-1,565,995
At 31 December 2011	3,000,000	0	1,009,886	21,238,781	25,248,667

Signatures to annual report 2011

The annual report of Seesam Insurance AS, which was approved by the general meeting with a resolution adopted on 23rd april 2012, is signed on 15th march 2012 by:

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Chairman of the Management Board
Ivo Kuldmäe

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Member of the Management Board
Andri Püvi

____
Member of the Management Board
Brigita Elona Blavaščiūnienė

____
Member of the Management Board
Martin Sandberg

____
Member of the Management Board
Aigars Freimanis

KPMG Baltics OÜ
Narva mnt 5
Tallinn 10117
Estonia

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INDEPENDENT AUDITOR'S REPORT

To the shareholder of Seesam Insurance AS

We have audited the accompanying financial statements of Seesam Insurance AS, which comprise the statement of financial position as at 31 December 2011, and the statements of comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 11 to 58.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation 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 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 Seesam Insurance AS as of 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 16 March 2012

KPMG Baltics OÜ
Licence no 17
Narva mnt 5, Tallinn

Taivo Epner
Authorized Public Accountant, No 167

Profit allocation proposal

The management board of Seesam Insurance AS has approved the loss for 2011 of 1,565,995 euros.
The management board proposes that the loss for 2011 be covered with retained earnings.

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Chairman of the Management Board
Ivo Kuldmäe

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Member of the Management Board
Andri Püvi

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Member of the Management Board
Brigita Elona Blavaščiūnienė

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Member of the Management Board
Martin Sandberg

____
Member of the Management Board
Aigars Freimanis

List of business activities

Activities during the period 1 January – 31 December 2011	Revenue
Non-life insurance (65121)	37,151,597
Total	**37,151,597**

Activities planned for the period 1 January – 31 December 2012
Non-life insurance (65121)

Seesam