SALVA
KINDLUSTUS

ANNUAL REPORT 2003

Contents

Main Figures

	2003 mill. kroon	2002 mill. kroon	2001 mill. kroon	2000 mill. kroon	1999 mill. kroon	1998 mill. kroon
Gross premiums	223	161	113	79,4	68,3	55,9
Claims	107.8	91,7	55,8	39,6	42,3	39,3
Profit	15.6	7,1	0,5	2,9	0,7	-10,3
Full-time employees	126	111	96	88	78	71

Management Report

INTRODUCTION

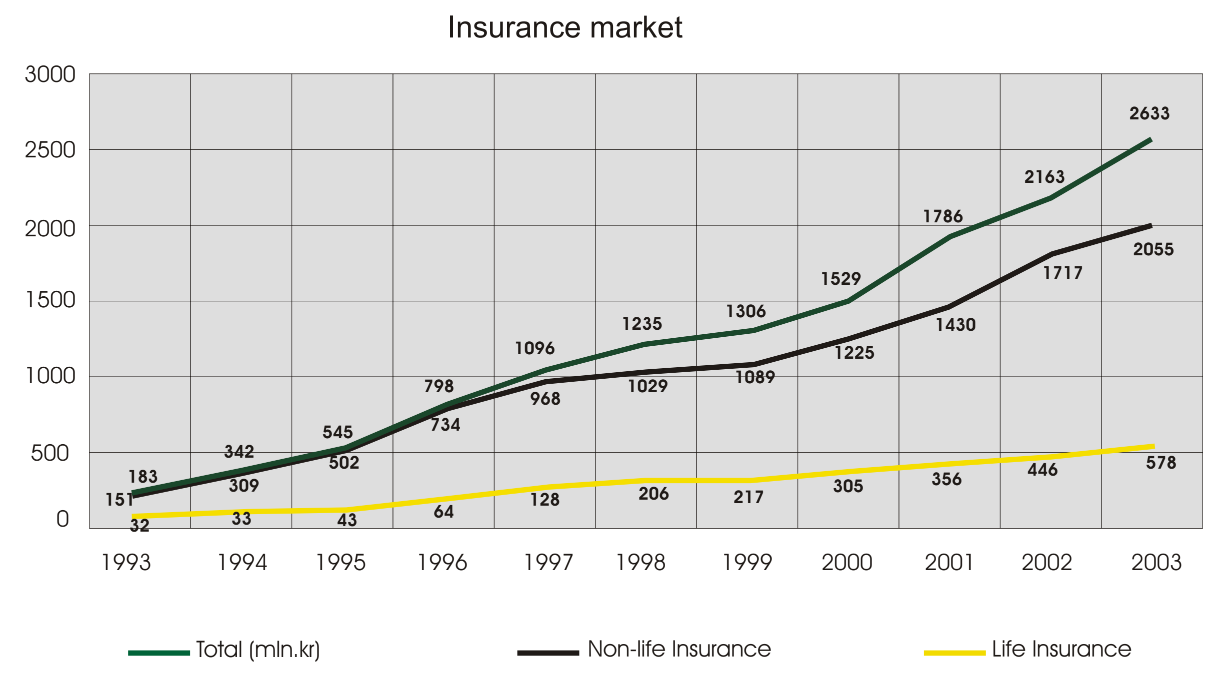
The past year was successful for Salva Kindlustus. Against the background of the entire insurance market our growth was commendable. We deem important balancing the risks, which accompany rapid growth, being a long-term partner for our customers, and maintain our flexibility and high professional level in the intense competition environment. We continue developing our products using information technology solutions, with a view of making their acquisition and management by our customers as convenient as possible.

ECONOMIC ENVIRONMENT

The lack of security with regards to the world economy of the last year is fading away, and the development trends of the latest period are clearly indicating its restoration, and reaching a new growth phase. From the world economy aspect it is possible to sense a powerful surge of the US economic growth, which leaves the member states of the European Union at a considerably less favourable position. In view of the above the annual indexes have been assuming a positive course. For Estonia the obviously most important date would be the coming 1 May, when Estonia becomes a member state of the European Union. The Estonian economy has already been firmly integrated in the European economic space. Estonia's actual accession to the European Union means that Estonia will become a part of the internal market of the European Union. After accession a number of financing facilities will become available, which – in case of their skilful use – will result in economic growth. The average interest rate of euro-based housing loans continued to be relatively low, and with this regards no apparent cooling-down could be anticipated. According to the data of the Bank of Estonia the average interest rate of long-term loans taken by private individuals was 5.5%, and that of businesses – 4.7%. True, the Bank of Estonia has recommended that more radical measures (elimination of self-financing subsidies and interest recalculation) be adopted, but in fear of the coming accession to the European Union and the amendments to the Value Added Tax Act transactions involving real estate – at least for the time being – have been demonstrating a powerful growth trend. The economic growth of the year 2003 is estimated to remain between 4.5 to 5.5%, which is caused by more slowly recovering external demand. According to various sources a 5.3 to 5.6% economic growth is anticipated for the year 2004.

OVERVIEW OF INSURANCE MARKET

Backed by the active economic environment the positive development of the insurance sector has been continuing as well. In 2003 the Estonian insurance companies collected altogether 2,633 million kroons worth of premiums. As compared to the year 2002 the volume of the premiums has increased by 21.7%. Non-life insurance premiums were collected in the amount of 2,055 million kroons, i.e. 20% more than in 2002. The respective life insurance indicators were 578 million kroons and 29.6%.



Management Report

The growth trend at the rate of 21 – 22%, displayed on the Figure, can be anticipated in the coming year as well. The respective indicator of the non-life insurance market is estimated at 22 – 21%. The proposed percentage figures will certainly be more modest, should the situation on the credit market change, i.e. if banks and leasing companies increase their interest rates or set more demanding conditions for loans.

The largest share of the insurance market represents various classes of insurance related to motor vehicles – mandatory traffic insurance (30.1% of the market), optional motor vehicle insurance (36.4% of the market). The share of property insurance is 22.4%, and the remaining classes of insurance amount to 11.1% of the non-life insurance market. As can be seen in the following table within the latest couple of years casco insurance has become the top class of insurance with regards to the volume of cumulative premiums. This demonstrates that the number of vehicles purchased with a loan or on lease has increased as well.

THE STRUCTURE OF THE PORTFOLIO OF THE ESTONIAN INSURANCE MARKET (2001 - 2003)

	2003	Share%	2002	Share %	2001	Share %
Motor TPL	618 316	30,1%	516 416	30,1%	458 064	32.0%
Personal accident	38 666	1.9%	37 008	2.2%	35 710	2.5%
Travel insurance	54 399	2.6%	47 171	2.7%	43 271	3.0%
Motor own damage (private)	184 999	9.0%	87 741	5.1%	68 348	4.8%
Motor own damage (corporate)	562 761	27,4%	511 794	29,8%	408 907	28,6%
Other motor	11 732	0,6%	8 652	0,5%	7 564	0,5%
Goods in transit	22 933	1,1%	20 256	1,2%	21 116	1,5%
Property (private)	205 299	10,0%	179 342	10,4%	152 361	10,7%
Property (corporate)	254 383	12,4%	216 519	12,6%	170 337	11,9%
Motor liability	24 528	1,2%	24 871	1,4%	21 935	1,5%
Civil liability insurance	53 962	2,6%	43 778	2,5%	29 760	2,1%
Pecuniary loss	22 688	1,1%	23 649	1,4%	12 793	0,9%
TOTAL	**2 054 666**	**100%**	**1 717 197**	**100%**	**1 430 166**	**100%**

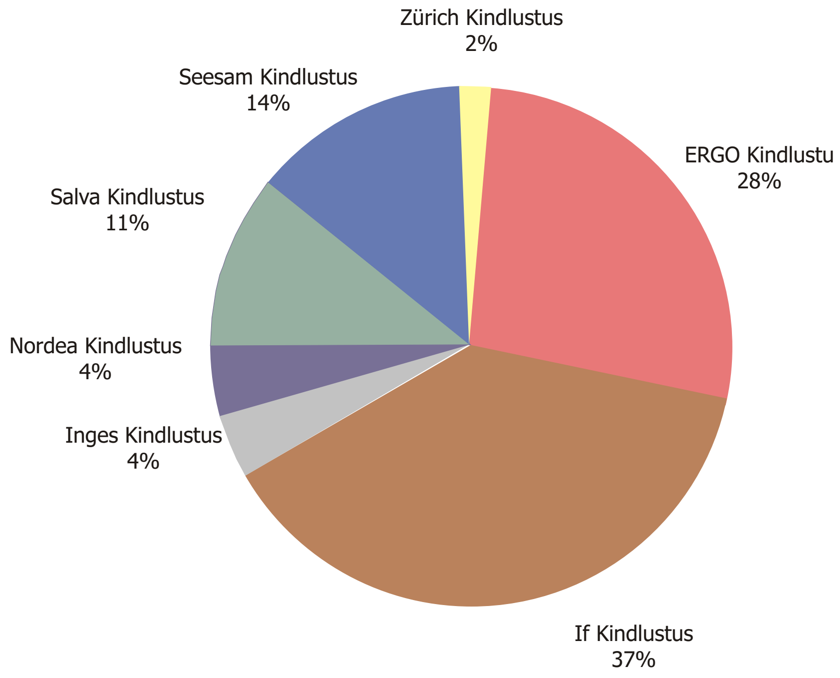
Products like traffic insurance, property insurance, optional motor vehicle insurance, accident insurance and travel insurance, which have been on the market for over ten years now, make up nearly 93 per cent of the entire market volume. No new products were launched on the market last year. Nevertheless, additional mandatory liability insurance classes could be introduced, this is based on the relevant legislation of the European Union.

In 2003 the rates were increased for optional motor vehicle insurance and housing insurance prices. The price increase will continue this year as well. Accession to the European Union that causes expansion of the traffic insurance cover will result in price increase in this class of insurance. The prices will also increase in the housing insurance sector; this is caused by the fact that rises in price of real estate, and the construction price index will result in the increase of restoration indemnities.

Management Report

Last year 7 non-life insurance companies and 5 life insurance companies were rendering insurance services in Estonia.

ESTONIAN NON-LIFE INSURANCE MARKET 2003



In March the Swiss Zurich Financial informed of winding up of its business in the Baltic States. On 1 April Zürich Kindlustuse Eesti AS suspended issuing of new policies. Effective contracts remained valid until the end of the insurance period.

FINANCIAL RESULTS AND OPERATIONS OF SALVA KINDLUSTUS IN 2003

Financial Results

The consolidated profit of Salva Kindlustuse AS was 15.6 million kroons. The consolidated sales of Salva Kindlustuse AS in 2003 constituted 222.9 million kroons, which is 39% higher than the figure of the same period of the previous year. The market share of the company reached 10.8% by the end of the year. At the end of the year 2002 the market share was 9.3%. The formation of the economic results of Salva Kindlustuse AS were influenced by:

- **The predicted level of the claims ratio.** The consolidated net claims ratio from reinsurance constituted 49.4%. The respective indicator of the previous period was 46%. The negative impact of the claims ratio derives primarily from the high claims ratio of 82% of traffic insurance, which – in turn – is influenced by the significantly higher reinsurance price, as compared to the previous year, and the insufficient rates. With regards to traffic insurance the green card rates have demonstrated subsidising of goods vehicle rates on the account of automobiles, and this has caused a certain unfairness in rates on the aggregate market.
- **Growth of the insurance premiums volume.** In 2003 this figure reached 222.9 million kroons, exceeding the figure for the same period of the last year 160.9 million kroons by 39%. At the same time the entire non-life insurance market increased by 20%.
- **Reduction of the expenses ratio.** By the end of 2003 the net reinsurance ratio of expenses to premiums constituted 30.2%. The respective figure of the same period of the last year was 34 %.

The improvement of efficiency has allowed to earn technical profit in the amount of 10.4 kroons this year, which exceeds the 4.2 million kroons earned during the same period of the last year 2.5 times. The consolidated value of the assets of the company increased to 112.7 million kroons (72.5 million kroons at the end of 2002).

Management Report

MAIN RATIOS

	2003	2002	2001	2000	1999	1998
Net loss ratio	49.4%	46.0%	55%	54%	58%	58%
Deferred costs/earned net premiums	30.2%	34.2%	46%	50%	48%	58%
Average return on equity	39.4%	31,0%	3.2%	21%	4%	-63%
Yield per stock	15.5	7.22	0.51	2.93	0.71	10.31
Inngrease in gross premiums	39%	42,45%	42%	16%	22%	-21%

SALES AND MARKETING

In 2003 the volume of cumulative premiums increased by 39 per cent that – in view of the 20% growth of the market – is an excellent result. Regionally the best results were demonstrated by the Tartu and Rakvere offices. Regionally the most extensive growth was achieved in the Ida-Viru county.

Within the year the market share of Salva Kindlustus grow from 9.3% to 10.8%. In February we launched an advertising campaign the objective of which was to increase the number of contracts with payment obligation, i.e. the YES contracts, in the traffic insurance portfolio. Within the campaign 10 tons of car fuel was raffled between all the customers concluding a YES contract. The promotional campaign can be considered successful in every way, by the end of 2003 the share of the contracts with payment obligation had reached 36%, and the enquiry conducted in the sales network demonstrated improvement of awareness of customers regarding Salva Kindlustus, as well as its products. On 11 February we organised in co-operation with Tamrex Ohutuskeskus, the Tallinn City Government, and the non-profit association MTÜ Ohutuskeskus a series of events Safety Day 112. The goal was to initiate a discussion in issues related to safety, involving institutions responsible for this sector – e.g. rescue service agencies and local governments.

In October we concluded a co-operation agreement with the Estonian Central Consumer Co-operative (ETK) under which we offer all owners of the discount card Säästukaart a possibility to buy casco, home, travel and accident insurance contracts at a 5% discount. The co-operation agreement provides Salva an opportunity to increase its customer base, and the right to distribute its promotional materials through all the points of sale of the Säästukaart partners. With regards to regional changes the most significant one was moving of the Pärnu office that took place in November. The new office facilities are located in the centre of the town, on the main street. This step was taken to be nearer to our customers, and to make ourselves more visible. By the end of 2003 Salva Kindlustus had altogether 9 offices and 9 points of sale in the largest cities of Estonia. This year we intend to increase the number of points of sale, placing them in major shopping centres. During the first half of the year we intend to expand our sales opportunities in Tallinn, Tartu and Pärnu.

INSURANCE AND RISK ASSESSMENT

No new optional insurance products were added to the portfolio of Salva Kindlustus during the last year. We have set the target to increase our market share by increasing the sale of the existing products. We try to find interesting, beneficial solutions and added value for our customers within the existing range of products.

Management Report

PREMIUMS COLLECTED BY SALVA KINDLUSTUS (2002 - 2003)

	collected premiums		share in total volume of premiums		
	2003	**2002**	**2003**	**2002**	**Change**
Motor TPL	97 839	72 400	43,9%	44.9%	-1%
Personal accident	2 335	1 991	1.0%	1.2%	0%
Travel insurance	8 418	7 542	3.8%	4.7%	-1%
Motor own damage (private)	7 465	5 891	3.3%	3.7	0%
Motor own damage (corporate)	71 426	46 961	32,0%	29,1%	3%
Other motor	4 814	1 698	2,2%	1,1%	1%
Goods in transit	713	1 493	0,3%	0,9%	-1%
Property (private)	11 619	9 036	5,2%	5,6%	0%
Property (corporate)	14 476	10 398	6,5%	6,5%	0%
Motor liability	375	534	0,2%	0,3%	0%
Civil liability insurance	1 288	1 067	0,6%	0,7%	0%
Pecuniary loss	2 195	2 164	1,0%	1,3%	0%
TOTAL	**222 963**	**161 715**	**100%**	**100%**	

As shown in the table the share of insurance classes related to motor vehicles has increased in our insurance portfolio. The growth of sales volumes has been achieved primarily as a result of efforts of our sales agents and through the promotional campaign organised in the traffic insurance sector.

Last year we amended the general terms and conditions of the optional motor vehicle insurance and private property insurance contracts. In the beginning of the year 2004 the travel insurance terms and conditions will undergo updating also.

Last year Salva Kindlustus continued pursuing conservative risk assessment and rates policies that permitted to maintain the claims ration at the estimated level , i.e. 49%.

Rates of optional motor vehicle insurance were increased for automobiles of 4 and more years of service. The rest of the prices remained the same, but differentiating of rates by makes and models was effected.

Regarding property insurance the risk assessment criteria became more stringent, and the wooden buildings' and fire insurance rates were increased.

With regards to loss events last year was quite successful for the entire non-life insurance market, and in the same manner for Salva as well. In the motor vehicle insurance sector the traditionally accident prone seasons are late autumns and early springs, when weather conditions change abruptly.

The most significant losses in the property insurance sector were caused by fires in private houses that fell into the first half of the year. The most extensive natural disaster took place in August in the Ida-Viru county, where one industrial enterprise suffered flood losses. With regards to travel insurance losses the last year turned out to be less favourable than the previous periods. The number of loss events caused by cancellation of trips has increased significantly,

Management Report

CLAIMS PAID (2002 - 2003)

	2003	2002
Motor TPL	35 691	33 513
Personal accident	1 376	1 629
Travel insurance	1 589	1 044
Motor own damage (private)	7 616	4 202
Motor own damage (corporate)	32 616	32 209
Other motor	384	328
Goods in transit	413	702
Property (private)	6 129	4 177
Property (corporate)	10 481	9 617
Motor liability	714	389
Civil liability insurance	1 893	459
Pecuniary loss	330	892
TOTAL	**99 232**	**89 161**

In 2004 Salva Kindlustus will be continuing its conservative reinsurance principles, by selecting Swiss Re Germany, Munich Re, Partner Re and Transatlantic Reinsurance Company for its partners.

INVESTMENT ACTIVITIES

The consolidated profit of Salva Kindlustuse AS in 2003 earned from investment activities constituted 2.14 million kroons, while being 1.76 million kroons during the same period of the previous year. The consolidated investment volume increased by 211% as compared to the figure on 31.12.2002. The rate of return of investments based on the annual result was 2.98%. In 2003 Salva Kahjukäsitluse OÜ acquired the 100% interest in the subsidiary undertaking Safiirex Invest OÜ. The main field of activities of the company is administration and management of real estate projects and investments. The first project involves purchasing of a land unit in the Viimsi rural municipality. The estimated duration of the project is up to two years, and the rate of return is estimated at 15 to 25% depending on the promptness of realisation of the investment.

CONSOLIDATED STRUCTURE AND STAFF

The consolidated group of Salva Kindlustus includes:

Salva Kindlustuse AS	
Salva Kahjukäsitluse OÜ -	Share of Salva Kindlustuse AS 100%
Salva Arenduse OÜ	Share of Salva Kindlustuse AS 100%
Safiirex Invest OÜ	Share of Salva Kahjukäsitluse OÜ 100%

At the end of the year 2003 the number of the regular staff of the consolidated group of Salva Kindlustuse AS was 126.

Management Report

TARGETS FOR YEAR 2004

For the coming year we estimate the growth of insurance premium volume at the rate of 22 to 23%. We shall continue the current conservative risk assessment and rates policy, that would permit to maintain the claims ratio at the level of the latest years.

Preparatory actions aimed at coping with changes caused to the insurance market by accession to the European Union occupy a major position. Both improvement of the intra-company processes, as well as notification of customers are being carried out.

Of all the insurance products the domestic traffic insurance sector will be undergoing the most significant changes after 1 May. Extension of the insurance cover, and elimination of the hitherto existing legislatively regulated rates and subsidised rates will place this product in a completely new market situation. It is possible that new businesses rendering insurance services will enter the market, and various discount campaigns will be launched aimed at addressing specific clientele groups.

In product development it is intended to update travel insurance and accident insurance terms and conditions. Development of various information technology facilities aimed at making conclusion of insurance contracts and their after sales management as flexible and convenient for customers as possible, will continue in 2004. Work targeted at development of the central sales and data management system of Salva – SIMS – as well as the customer module MinuSalva will continue.

Tiit Pahapill	Chairman of Management Board
Irja Elias	Member of Management Board
Urmas Kivirüüt	Member of Management Board
Andres Lõhmus	Member of Management Board

FINANCIAL REPORT 2003

Balance Sheet

ASSETS

	NOTES	Consolidated 31.12. 2003	Consolidated 31.12.2002	Parent Company 31.12.2003	Parent Company 31.12.2002
1. Cash and bank	NOTE 2	**6 358 468**	**10 669 563**	**6 189 075**	**10 380 440**
2. Receivables		**15 372 274**	**14 628 670**	**15 391 001**	**14 641 230**
2.1. Direct insurance	NOTE 3	9 365 387	9 674 068	9 365 387	9 674 068
Incl. 2.1.1. Policyholders		1 909 644	1 552 033	1 909 644	1 552 033
2.1.2. Intermediaries		7 455 743	8 122 035	7 455 743	8 122 035
2.2. Reinsurance		6 006 887	4 954 602	6 006 887	4 954 602
2.3. Other receivables	NOTE 9	0	0	18 727	12 560
3. Accrued income and prepaid expenses		**9 457 462**	**6 968 541**	**8 969 754**	**6 433 000**
3.1. Accrued income		606 623	514 343	360 521	203 832
3.2. Deferred acquisition cost		8 033 285	5 699 041	8 033 285	5 699 041
3.3. Other prepaid expenses		817 553	755 157	575 948	530 127
4. Investments		**65 655 667**	**31 110 161**	**82 799 399**	**39 728 136**
4.1. Land and buildings	NOTE 4	8 590 511	8 736 764	8 590 511	8 736 764
4.2. Affiliated Companies	NOTE 8,9	0	0	17 143 732	8 617 975
incl. 4.2.1. Stock and securities		0	0	16 968 732	8 167 975
4.2.2. Bonds and loans		0	0	175 000	450 000
4.3. Other financial investments		57 065 156	22 373 397	57 065 156	22 373 397
incl. 4.3.1. Stock and securities	NOTE 5	44 952 115	15 739 797	44 952 115	15 739 797
4.3.2. Mortgages	NOTE 6	0	590 000	0	590 000
4.3.4. Other loans	NOTE 6	2 113 041	1 727 018	2 113 041	1 727 018
4.3.5. Deposits in credit institutions	NOTE 7	10 000 000	4 316 582	10 000 000	4 316 582
5. Stocks	NOTE 10	**6 188 697**	**0**	**0**	**0**
6. Intangible Fixed Assets	NOTE 11	**628 516**	**134 463**	**628 516**	**134 463**
7. Tangible Fixed Assets	NOTE 12	**9 055 664**	**9 604 034**	**6 009 348**	**6 101 690**
T O T A L ASSESTS		**112 716 747**	**73 115 432**	**119 987 093**	**77 418 959**

LIABILITIES

	NOTES	Consolidated 31.12. 2003	Consolidated 31.12.2002	Parent Company 31.12.2003	Parent Company 31.12.2002
8. Liabilities		**16 952 019**	**9 455 242**	**25 249 753**	**14 550 325**
8.1. Direct insurance	NOTE 13	4 336 711	4 999 675	4 336 711	4 999 675
8.1.1. Policyholders		3 108 424	3 332 598	3 108 424	3 332 598
8.1.2. Intermediaries		1 073 458	1 249 323	1 073 458	1 249 323
8.1.3. Other		154 829	417 754	154 829	417 754
8.2. Reinsurance	NOTE 19	12 615 308	4 455 567	12 615 308	4 455 567
8.3. Other	NOTE 9	0	0	8 297 734	5 095 083
9. Accrued expenses and prepaid revenue		**15 635 576**	**12 542 276**	**14 608 188**	**11 669 215**
9.1. Accrued expenses	NOTE 15	5 231 741	4 704 011	4 231 004	3 856 001
9.2. Reinsurer's share in deferred acquisition costs		10 377 184	7 813 214	10 377 184	7 813 214
9.3. Other prepaid revenue	NOTE 15	26 651	25 051	0	0
10. Technical provisions		**40 751 095**	**27 333 857**	**40 751 095**	**27 333 857**
10.1. Unearned premiums	NOTE 16	20 159 241	13 907 908	20 159 241	13 907 908
10.1.1. Gross amount		68 910 409	47 311 855	68 910 409	47 311 855
10.1.2. Reinsured		48 751 168	33 403 947	48 751 168	33 403 947
10.2. Claims outstanding	NOTE 16	20 591 854	13 425 949	20 591 854	13 425 949
10.2.1. Gross amount		86 409 671	65 665 116	86 409 671	65 665 116
Incl. provisions for pensions		4 250 841	5 144 568	4 250 841	5 144 568
10.2.2. Other technical provisions		65 817 817	47 566 124	65 817 817	52 239 167
Incl. provisions for pensions		3 310 029	4 673 043	3 310 029	4 673 043
11. Equity		**39 378 058**	**23 784 057**	**39 378 057**	**23 865 562**
11.1. Stock capital		10 000 000	10 000 000	10 000 000	10 000 000
11.2. General reserve		2 657 791	1 934 578	2 633 791	1 910 578
11.3. Other reserves		1 008 085	1 008 085	1 008 085	1 008 085
11.4. Retained earnings		10 118 181	3 099 610	10 223 686	3 123 610
11.5. Profit for the financial yea		15 594 001	7 741 784	15 597 483	7 823 289
T O T A L LIABILITIES AND EQUITY		**112 716 747**	**73 115 432**	**119 987 093**	**77 418 959**

Income Statement

Technical Account

	Notes	Consolidated 2003	Consolidated 2002	Parent Company 2003	Parent Company 2002
1. Earned premiums net of reinsurance		**60 472 077**	**50 609 335**	**60 681 467**	**50 806148**
1.1. Gross premiums		222 967 864	160 978 266	223 172 254	161 175 079
1.2. Reinsurance premiums		156 239 454	110 288 445	156 239 454	110 288 445
1.3. Change in unearned premiums	NOTE 16	-21 598 554	-13 847 249	-21 598 554	-13 847 249
1.4. Reinsurer's share of change in unearned premiums	NOTE 16	15 347 221	13 766 763	15 347 221	13 766 763
2. Other technical income net from reinsurance			**2 356**		**2 356**
3. Claims incurred net of reinsurance		**29 865 170**	**23 319 045**	**38 440 170**	**28 827 312**
3.1. Claims paid		99 447 615	84 781 174	108 026 432	91 746 775
incl. 3.1.1. Damages paid		93 261 779	79 598 014	93 261 779	79 598 014
3.1.2. Claim handling expenses		10 979 427	9 520 263	17 899 681	15 267 630
3.1.3. Salvage and subrogation Collected		-4 789 774	-4 337 103	-3 135 028	-3 118 869
3.2. Reinsurer's share in claims		76 752 167	62 304 364	76 752 167	62 304 364
3.3. Change in claims outstanding	NOTE 16	-20 744 555	-21 591 967	-20 744 555	-20 134 633
3.4. Reinsurance share of change in claims outstanding	NOTE 16	13 578 650	20 749 732	13 578 650	20 749 732
4.Net operating expenses		**18 263 104**	**17 248 383**	**17 130 204**	**16 057 476**
4.1. Acquisition costs		37 037 705	29 415 980	37 037 705	29 415 980
4.2. Change in acquisition costs		2 334 244	1 642 660	2 334 244	1 642 660
4.3. Administrative expenses		13 892 456	12 049 251	12 759 556	10 858 344
4.4. Reinsurance commissions and profit participation		32 896 783	25 334 555	32 896 783	25 334 555
4.5. Change in prepaid reinsurance commission fees		-2 563 970	-2 760 367	-2 563 970	-2 760 367
5. Other technical income net of reinsurance		**1 861 618**	**5 791 886**	**1 861 618**	**5 791 886**
6. TECHNICAL RESULT		**10 482 185**	**4 252 377**	**3 249 475**	**131 830**

Non-technical Account

	Notes	Consolidated 2003	Consolidated 2002	Parent Company 2003	Parent Company 2002
7. Technical result		**10 482 185**	**4 252 377**	**3 249 475**	**131 830**
8. Investment income		**3 475 055**	**3 678 172**	**10 804 815**	**7 433 103**
8.1. Affiliates and associates	NOTE 8,9			8 685 745	5 264 322
8.2. Land and buildings		1 392 988	1 572 581		12 689
8.3. Other investments		448 429	724 352	485 432	774 853
8.4. Change in value of investments		1 237 503	767 265	1 237 503	776 265
8.5. Realised capital gains	NOTE 5	396 135	613 974	396 135	613 974
9. Investment expenses		**1 334 568**	**1 325 450**	**1 173 150**	**1 178 072**
9.1. Operating investment expenses		890 460	785 672	644 054	625 357
9.2. From affiliates and associates	LISA 8,9			84 988	12 937
9.3. Change in value of investments		444 108	539 749	444 108	539 749
9.4. Realised capital losses			29		29
10. Other income		**5 451 987**	**3 741 933**	**4 722 202**	**3 340 905**
11. Other expenses		**2 480 658**	**2 605 248**	**2 090 847**	**1 904 477**
12. NET PROFIT (-LOSS) FOR THE FINANCIAL YEAR		**15 594 001**	**7 741 784**	**15 512 495**	**7 823 289**

Technical Account of Motor TPL

	2003	2002
Earned premiums net of reinsurance		
1.1. Gross premiums	97 932 404	72 399 792
1.2. Reinsurance premiums	74 033 806	54 982 929
1.3. Change in unearned premiums	-10 194 904	-7 977 523
1.4. Reinsurer's share on change in unearned premiums	7 646 179	9 391 309
1. Total	**21 349 873**	**18 830 649**
Claims incurred net of reinsurance		
2.1. Claims paid	55 600 662	45 174 690
incl. 2.1.1. Damages paid	48 215 243	39 445 523
2.1.2. Claims handling expense	9 066 409	6 878 471
2.1.3. Salvage and subrogation collected	-1 680 990	-1 149 304
2.2. Reinsurer's share in claims	42 661 870	31 249 323
2.3. Change in claims outstanding	-13 104 798	-16 722 384
Incl. provisions for pensions	893 727	-3 754 821
2.4. Reinsurer's share of change in claims outstanding	8 507 506	18 666 682
Incl. provisions for pensions	-1 363 014	3 582 358
2. Total	**17 536 084**	**11 981 069**
Net operating expenses		
3.1. Acquisition costs	12 678 867	7 542 011
3.2. Change in acquisition costs	1 097 982	663 689
3.3. Administrative expenses	4 380 950	2 759 211
3.4. Reinsurance commissions and profit participation	11 321 433	9 482 530
3.5. Change in prepaid reinsurance commission fees	-883 414	-1 365 419
3. Total	**5 523 816**	**1 520 422**
4. Other technical income net of reinsurance	**1 861 618**	**5 791 886**
incl. Transfers to ETIF	1 861 618	5 791 886
5. TECHNICAL RESULT	**-3 571 645**	**-462 728**

Change in Equity

CONSOLIDATED	Stock capital		General reserve		Other reserve		Retained earnings		Profit for financial year	
	31.12.03	31.12.02	31.12.03	31.12.02	31.12.03	31.12.02	31.12.03	31.12.02	31.12.03	31.12.02
Beginning of the year	**10 000 000**	**10 000 000**	**1 9324 578**	**1 882 965**	**1 008 085**	**1 008 085**	**3 099 610**	**2 635 093**	**0**	**0**
Profit/loss from previous finacial year							7 150 624	516 130		
Change in general reserve			723 213	51 613			-723 213	-51 613		
The effect of the change of accounting methods							591 160			
Profit/loss for financial year									15 594 001	7 741 784
End of the year	**10 000 000**	**10 000 000**	**2 657 791**	**1 934 578**	**1 008 085**	**1 008 085**	**10 118 181**	**3 099 610**	**15 594 001**	**7 741 784**
PARENT COMPANY										
Beginning of the year	**10 000 000**	**10 000 000**	**1 910 578**	**1 858 965**	**1 008 085**	**1 008 085**	**3 123 610**	**2 659 093**	**0**	**0**
Profit/loss from previous finacial year							7 232 129	516 130		
Change in general reserve			723 213	51 613			-723 213	-51 613		
The effect of the change of accounting methods							591 160			
Profit/loss for financial year									15 512 496	7 823 289
End of the year	**10 000 000**	**10 000 000**	**2 633 791**	**1 910 578**	**1 008 085**	**1 008 085**	**10 223 686**	**3 123 610**	**15 512 496**	**7 823 289**

Stock capital as of 31.12.2003

Stock capital	10 000 000 kroons
Number of stocks	1 000 000
Nominal value per stock	10 kroons

The general reserve includes the mandatory legal reserve of Salva kindlustuse AS of 2 633 791 kroons pursuant to § 38 (1) of the Repiblic of Estonia Insurance Activities Act, the reserve capital of Salva Arenduse OÜ of 4 000 kroons pursuant to § 160 (2) of the Commercial Code, and the reserve capital of Salva Kahjukäsitluse OÜ 20 000 kroons pursuant to § 160 (2) of the Commercial Code.

In the group accounts, the retained earnings have been decreased by the reserve capital of the subsidiary.

Other reserve created on account of net profit, which is used to cover potential losses.

The new Accounting Act is effective since 1 January 2003. The revaluation caused by changes in the accounting methods increased the retained profit of the previous years by 591,160 kroons.

Cash Flow Statement

Income +, expenditures -	Consolidated		Parent Company	
	2003	2002	2003	2002
1 Insurance operations	**47 421 033**	**13 644 329**	**28 854 100**	**-168 519**
1.1. Premiums collected	225 843 916	163 066 164	226 027 031	163 232 323
1.2. Premiums returned upon cancellations and terminations	- 3 201 670	-1 832 981	- 3 201 670	-1 832 981
1.3. Claims paid	- 88 789 380	-75 990 410	- 90 493 913	-75 990 410
1.4. Claim handling expenses	-285 271	634 381	-14 642 060	-10 629 648
1.5. Amounts transferred to ETIF	- 2 124 543	-5 705 647	-2 124 543	-5 705 647
1.6. Amounts transferred to reinsurers	-56 622 066	-48 402 314	-56 622 066	-48 402 314
1.7. Amounts collected from reinsurers	15 258 255	18 770 524	15 258 255	18 770 524
1.8. Premiums collected from co-insurers (incl. commission).	36 842	186 961	36 842	186 961
1.9. Operating expenses	-42 695 050	-37 082 349	-45 383 776	-39 797 327
2 Investment operations	**-39 702 572**	**-3 889 907**	**-34 673 340**	**-3 055 441**
2.1. Amounts collected from investments	2 391 290	1 722 662	-110 390	-76 535
Incl.2.1.1. Real estate investments	2 543 635	1 872 846		16 392
2.1.2. Stocks and variable yield securities	24 096	26 071	24 096	26 071
2.1.3. Bonds and fixed yield securities		51 694		51 694
2.1.4. Mortgage loans	75 867	149 745	75 867	149 745
2.1.5. Deposits	69 227	37 067	69 227	37 067
2.1.6. Other loan	204 665	91 737	246 620	148 994
2.1.7. Other tangible fixed assets		96 372		96 372
2.1.8. Investment expenses	-526 200	-602 870	-526 200	-602 870
2.2. Amounts collected from maturity, cancellation and (re)sales of investments	13 044 143	66 960 867	12 877 363	67 316 661
Incl.2.2.1. Stocks and variable yield securities	3 337 482	48 058 092	3 337 482	48 058 092
2.2.2. Bonds and fixed yield securities	2 000 000		2 000 000	
2.2.3. Mortgage loans	1 385 000	2 499 734	1 385 000	2 499 734
2.2.4. Deposits	6 477 351	12 403 124	6 477 351	12 403 124
2.2.5. Other loan	1 329 530	1 429 044	1 604 530	2 355 711
2.2.6. Other tangible fixed assets	514 780	570 873	73 000	
2.3. Investments	-55 138 005	-72 573 436	-47 240 313	-70 295 567
Incl. 2.3.1. Affiliates			-200 000	
2.3.2. Stocks and variable yield securities -30 916 162	-50 722 350	-30 916 162	-50 722 350	
2.3.2. Mortgage loans	-795 000	-3 089 734	-795 000	-3 089 734
2.3.3. Deposits	-12 160 769	-14 844 457	-12 160 769	-14 844 457
2.3.4. Other loan	-1 953 937	-1 652 359	-1 953 937	-1 639 026
2.3.5. Other tangible fixed assets	-9 312 137	-2 264 536	-1 414 445	
3. Financing and other operations	**-12 029 556**	**-9 540 250**	**1 627 875**	**3 218 574**
3.1. Other income	20 872 981	18 479 151	21 236 395	18 456 228
3.2. Other costs	-30 145 896	-28 019 401	-19 002 691	-15 237 654
3.3. Other expenses	-2 756 641		-605 829	
4. Total change in cash	**-4 311 095**	**214 172**	**-4 191 365**	**-5 386**
5. Change in cash and bank	**-4 311 095**	**214 172**	**-4 191 365**	**-5 386**

Comments to Financial Statements

NOTE 1. Accounting Methods and Assessment Bases Used in Preparing Annual Accounts

Bases for Preparing the Accounts

The annual accounts have been prepared in accordance with the good accounting practices adopted in Estonia, which is based on the internationally recognised accounting principles, the main requirements of which are laid down in the Accounting Act of the Republic of Estonia, and the relevant regulations issued by the Government of the Republic and the Minister of Finance.

The annual accounts are prepared in Estonian kroons, rounded to full kroons.

Changes of Accounting Principles and Manner of Presentation of Information

Pursuant to the Accounting Act and the standards of the Accounting Standards Board (RTJ) amendments were laid down for assessment of financial investments, presentation of financial assets and real estate investments on report lines. As at 31.12.2002 the balance sheet reflects investments in securities in the total amount of 22,970,204 kroons. This also reflects investments in money market funds in the amount of 7,821,567 kroons. Pursuant to the RTJ 2 “Presentation of financial statements in annual accounts”, Note 5 “Explanation of on-balance-sheet items” investments in money market funds are included in the “Cash at bank and in hand” section. Thus the balance sheet items as at 31.12.2002 are adjusted as follows:

Cash at bank and in hand	+7 821 567
Shares and other interest	–7 821 567

By implementing RTJ 3 “Financial Instruments” the on-balance-sheet values of financial investments reflected in fair value were reassessed. Investments in bond and interest funds were revaluated in the amount of 591,160 kroons. Thus the balance sheet items as at 31.12.2002 were adjusted as follows:

Shares and other interest	+591 160
Profit of the current year	+591 160

By reason of implementing of RTJ 6 “Investment Properties” the real property shown on the balance sheet of the parent undertaking was classified as investment in real estate and tangible fixed assets. Thus the balance sheet items as at 31.12.2002 were adjusted as follows:

Land and buildings	- 5 824 509
Tangible fixed assets	+ 5 824 509

Intangible fixed assets reflected as tangible fixed assets were reclassified (sales software). Thus the balance sheet items as at 31.12.2002 were adjusted as follows:

Tangible fixed assets	-334 463
Intangible fixed assets	+334 463

Pursuant to the Regulation of the Minister of Finance No. 55, adopted on 28.03.2003 “Procedure of preparing and lodging of annual accounts, interim accounts and consolidated accounts of insurers” the insurance pension allocations laid down by the Motor Third Party Liability Insurance Act shall be shown in the outstanding claim section. Thus the method of presentation of traffic insurance pension allocations on the balance sheet as at 31.12.2002 were adjusted as follows:

Other technical provisions, total sum	-5 144 568
Provision for outstanding claims, total sum	5 144 568
Other technical provisions, reinsurance amount	-4 673 043
Provision for outstanding claims, reinsurance amount	4 673 043

Comments to Financial Statements

Consolidation Principles

Consolidated financial reports include all financial data of subsidiary undertakings controlled by the parent undertaking. Subsidiary undertakings are deemed controlled by the parent undertaking if more than a half of the votes in the subsidiary undertaking is held by the parent undertaking, if the parent undertaking is capable of controlling the operating and financial policy of the subsidiary undertaking, or if the parent undertaking has the right to appoint or remove the majority of the supervisory board members. In preparing of a consolidated report all financial reports of the subsidiaries of the group are consolidated line by line, and the intra-group income, claims and liabilities, as well as unrealised profit and loss are eliminated. The financial reports of the parent undertaking itself reflect investments in the subsidiary undertaking according to the equity method, whereby the investment is initially recorded at cost and the carrying value adjusted thereafter to show the investor's pro rata share of the post-acquisition net assets of the investee, taking into consideration the impact of the intercorporate transactions of the undertakings of the group on the formation of the result.

Financial Assets and Liabilities Denominated in Foreign Currency

Foreign currency transactions are recorded in the books according to the exchange rate of the Bank of Estonia on the date of transaction. Assets and liabilities denominated in foreign currency have been revaluated into Estonian kroons based on the foreign currency exchange rates of the Bank of Estonia officially effective on the balance sheet date. Revenue and expenses from foreign currency transactions are recorded in the non-technical part of the income statement. Non-monetary financial assets and liabilities denominated in foreign currency are recorded pursuant to the fair value method.

Cash and Cash Equivalents

Cash and cash equivalents means cash in the register, the balances of call deposits on bank and short-term bank deposits. Cash flow is shown in the report according to the direct method.

Financial Investments

All financial assets and liabilities are recorded in books at their acquisition value on the value date. Short term and long term investments in shares and other equity instruments the fair value of which can be reliably assessed, is shown on the balance sheet using the fair value method. Profits/ losses arising from change of value are recorded in the non-technical part of the income statement of the reporting period. If no active trade takes places with shares and other equity instruments, or if there are no alternative methods available for reliable assessment of their values, they shall be reflected at their adjusted acquisition cost. If the hedged value of an investment is fallen below its balance-sheet value, it is discounted. Discounts are reflected as cost in the non-technical part of the income statement.

Claims

Claims mean outstanding arrears of policyholders, agents and others at the end of the reporting period. The balance sheet reflects the claims in their adjusted acquisition cost, i..e. less uncollectable and non-recoverable claims. At assessment of claims every claims is analysed separately. Uncollectable claims are written off.

Liabilities

Liabilities mean amounts owed to policyholders, agents, reinsurers and others at the end of the period. Financial liabilities are reflected on the balance sheet at their adjusted acquisition cost that is generally equal to their nominal value.

Acquisition Costs and Reinsurance Acquisition Costs

Acquisition costs, which are related to premiums to be transferred to the next reporting period are capitalised as prepaid cost. The calculation of the capitalised acquisition costs are based on gross premiums and expenses by categories. The share of capitalised acquisition costs constitute the same percentage of the direct acquisition costs as the share of the total sum of the prepaid premiums' provisions constitute of the total sum of the gross premiums. The share of capitalised acquisition costs of reinsurance constitute the same percentage of the commission fees based on reinsurance contracts as the share of the total sum of the prepaid premiums' provision constitutes of the total sum of the gross premiums. The calculation is based on the insurance premiums and the commission fees based on the reinsurance contracts by categories.

Comments to Financial Statements

Real Estate Investments

In view of entry into force of the new standard of the Accounting Standards Board entitled “Financial Investments” on 01.01.2003 the building hitherto reflected as real estate investment was re-classified as a real estate investment and a tangible fixed assets. Real estate investments are recorded in books at their acquisition cost that consists of the purchasing price and the expenses directly related to acquisition. The balance sheet shows the real property on the balance sheet of the parent undertaking on two lines – the part of the real property used by the parent undertaking itself is shown as a tangible fixed asset, and the leased part of the property – as an real estate investment. Real estate investment is reflected according to the acquisition cost model. Cumulative depreciation is calculated upon the same conditions as that of the tangible assets. Improvements are capitalised to the acquisition cost of a real estate investment only in the event that they increase the value of the real estate investment as compared to the initially assessed value of the object. Any expenses that are made to restore the initial value of the object are recorded as expenses of the reporting period. Pursuant to the expert assessment commissioned the cost of land is separated from the cost of the registered immovable. Land is not depreciated.

Tangible Fixed Assets

Upon reflecting tangible fixed assets on the balance sheet the cumulative depreciation and revaluation arising from the reduction of the value of the property are subtracted from its acquisition cost. Pursuant to the principle of materiality such property objects the acquisition cost of which exceeds 10 000 kroons, and whose useful life exceeds one year is shown as fixed assets. Depreciation is calculated on the acquisition cost using the linear method, on the basis of estimated economically useful life of the property. Average useful life of the property by balance-sheet categories are:

Buildings	25 years
Inventory	3.33 years
Computer hardware	3.33 years

Assets acquired on financial lease terms 2-4 years having regards to the length of the lease term and the down payment amount.

If such improvements have been made to any tangible fixed asset, which increase the object’s ability to participate subsequently in generating economic benefit, then such expenses shall be added to the acquisition cost of the object. Other expenses that sooner preserve the fixed asset’s ability to generate economic benefit are recorded as costs of the reporting period.

Intangible Fixed Assets

Licenses and other contractual rights the acquisition of which has involved expenses, including purchased computer software, is recorded as intangible fixed assets on the balance sheet. Intangible fixed assets are reflected on the balance sheet according to their acquisition, cost which has been reduced by cumulative depreciation. Contractual rights and computer software is depreciated in 5 years.

Stocks

Stocks are accounted at their acquisition costs, that include purchasing costs and other direct cost that are necessary to bring the stocks to their existing state. The FIFO method is used to reflect stocks in costs, and to calculate the book value of stocks. On the balance sheet stocks are assessed on the basis of whichever is lower – either their acquisition cost of their net realisation cost. In assessing the stocks at their realisation cost any costs arising from discounts shall be reflected in the income statement of the discount period.

Accounting of Lease

Division of lease agreements into operating lease and financial lease agreements is based on the actual economic contents of the transaction. Financial lease means a lease relationship in the case of which all major risks and rewards related to the ownership of the property shall transfer to the lessee. Any other lease agreements are regarded as operating lease.

Company as Lessor

Assets leased out upon the terms of financial lease are reflected on the balance sheet as a claim the value of which equals the sum of net investments made in the financial lease. The rental charges received are divided into basic payments of the principal of the capital lease claims, and financial income. Financial income is reflected during the lease period. Assets leased out upon the terms of operating lease are reflected on the balance sheet conventionally, in the same way any other assets are reflected on the balance sheet of the company. Operating lease payments are reflected during the lease period linearly as revenue.

Company as Lessee

Assets leased upon the terms of financial lease are reflected on the balance sheet as an asset and a liability in the fair value of the leased asset. The rental charges payable are divided into financial expense and reduction of the liability. Financial expenses are recorded during the lease period. Payments of operating lease charges are reflected during the lease period linearly as expense.

Provisions and Contingent Liabilities

The company forms provisions with regards to those liabilities the timing of realisation or sum of which are not certain. The amount and timing of realisation of provisions is determined on the basis of the assessment of the management or experts in the respective field. Any provisions are recorded in the event when before the balance date a legal or operations-related liability has arisen for the company, realisation of the provision in the form of expenditure of resources is likely (above 50%), and the amount of the provision can be reliably determined. Expenses accompanying realisation of a provision are assessed as at the balance-sheet date, and the amount of the provision is re-assessed on every balance-sheet date. In the event that it is likely that the provision is realised in more than one year it is recorded at the discounted current value. Upon discounting the interest rate applicable to similar liability on the market shall constitute the basis of discounting. Such liabilities the likelihood of realisation of which is less than 50%, or whose amount cannot be reliably determined, shall be classified as contingent liabilities. Contingent liabilities are accounted as off-balance sheet items.

Provisions for prepaid premiums

Provisions for prepaid premiums are formed by prepaid premium provisions under individual contracts, and it is calculated on the basis of gross premiums separately for every insurance contract and additional contract in according to the Pro Rata Temporis method.

The share of reinsurance in the provisions for prepaid premiums constitutes the same percentage of the provisions of prepaid premiums that the proportional reinsurance premiums constitute of the gross premiums.

Provisions for outstanding claims

Provisions for outstanding claims consists of

- adjusted, but unpaid losses
- known and recorded, but unadjusted losses (RBNS)
- losses that have occurred but are not notified of (IBNR)

The provisions for insurance pensions set forth by the Traffic Insurance Act (a pension granted to compensate capacity to work or a family pension granted to members of the family of the deceased) is also shown here. Provisions for outstanding claims also include the loss adjustment expenses, and they are calculated on a loss-by-loss basis. The share of reinsurance of the provisions for outstanding claims covers that part of the outstanding claims that represents the reinsurer's liability.

Estonian Traffic Insurance Foundation Membership Fees

Starting from 1 January 2003 the insurance companies, being the members of the Foundation, shall pay 1.9% of the traffic insurance premiums collected to the Foundation as the membership fee. The previous membership fee rate was 8%.

Revenues

The non-life insurance technical report reflects the results of the insurance activities. Gross premiums represent the premiums or premium instalments received or receivable under insurance contracts, the term or effective date of which falls into the reporting period. The share of premiums paid or payable to the reinsurer under the reinsurance agreement constitute the reinsurance premiums. Revenues received from investments represent rental income calculated on land and buildings, retained profit of subsidiaries calculated by the equity method. Moreover, the interest revenue and financial income earned during the reporting period are also shown here. Other non-technical revenue represent commission fees received for intermediation of insurance contracts of other insurers, unrealised profit from currency translations according to the exchange rate of the Bank of Estonia as at the balance sheet date, interest revenues earned from call deposits, money market funds, and profit generated from currency exchange, and other revenues that are not considered in calculation of the technical result.

Comments to Financial Statements

Operating expenses

Expenses related to insurance activities are divided into administrative, acquisition and loss adjustment expenses. Upon consolidation the expenses of subsidiaries have an impact on loss adjustment and investment expenses. Administrative expenses mean expenses that are related to collection of premiums, portfolio management and reinsurance. Administrative expenses are divided between the classes of insurance using to the same proportion as the acquisition expenses of the particular class of insurance constitute of the aggregate amount of acquisition expenses. Based on their nature acquisition expenses are divided into direct and indirect acquisition expenses. Direct acquisition expenses mean expenses that are variable by their nature, and derive from the conclusion of insurance contracts, incl. commission fees to agents, expenses related to drafting, printing of insurance documents, transport and communications expenses. Indirect acquisition expenses mean expenses that are constant by their nature, incl. unvarying payroll expenses of the sales department and insurance departments, advertising costs, business travel costs, changes of the fixed asset value and other expenses to the extent that they do not fall into the category of administrative expenses, claim (loss) adjustment expenses or investment expenses. Investment expenses represent payroll expenses, income generated from rented or leased (income earning) assets, and related to investment activities, and other expenses deriving from investment activities. Other non-technical expenses represent other expenses that are borne in the best interest of the undertaking as a whole. Such expenses are fees and compensations paid to auditors, experts, legal and tax consultants, expenses on maintaining the insurance supervisory agencies, and membership fees to the Estonian Insurance Association, etc. Furthermore, this section represents unrealised loss of foreign currency translations according to the exchange rate of the Bank of Estonia as at the date of the balance sheet, losses suffered through sale of fixed assets, fines, late payments interest, and other expenses.

Taxation

Corporate Income Tax

Pursuant to the currently effective Income Tax Act from 1 January 2000 dividends at the rate of 26/47 of the net dividend paid is subject to taxation instead of profits earned by companies. In accordance with particular features of the taxation concept the notion tax base of assets and liabilities does not have an economic content, and there can be no deferred tax liabilities or assets. Pursuant to the standards of the Accounting Standards Board, which entered in force on 1 January 2003 the corporate income tax calculated on dividends during the subsequent periods shall be reflected as income tax expense in the income statement pertaining to the period of declaration of dividends. The maximum possible income tax amount that could result from payment of dividends is shown in Note 19. Other taxation rates pursuant to the currently effective taxation laws are:

Individual income tax	26% of the taxable disbursements
Social tax	33% of disbursements to the employees and fringe benefits
Value added tax	18% of the taxable value of goods sold and services rendered
Land tax	0.5-2.0% of the taxable value of land per year
Unemployment insurance tax	0.5% of disbursements to the employees and 1% of taxable disbursements

Transactions with Related Parties

Related parties mean subsidiaries, their management, members of the management board and supervisory board of the parent undertaking, shareholders and employees of the companies of the group.

Reserve capital

Pursuant to § 38 (1) of the an insurance company must form a reserve capital from net profit specified in the approved annual accounts. At least 10 per cent of net profit shown in the approved annual accounts shall be entered in the reserve capital by the insurance company until the reserve capital reaches the maximum amount of share capital indicated in the articles of association of the insurer, i.e. 40 million kroons.

Post Balance Sheet Date Events

The annual accounts reflect the material circumstances having a bearing on the assessment of assets and liabilities that became known between the balance sheet date being 31 December 2003, and the date of preparing the annual accounts being 26.03.2004, but that are related to the transactions that took place during the reporting period or any preceding periods. Post balance sheet date events that are not taken into consideration at assessment of assets and liabilities, but that have a material bearing on the results of the subsequent financial year, have been disclosed in the notes of the annual report.

Comments to Financial Statements

Note 2.
Cash and Bank

	Consolidated 31.12.03	Consolidated 31.12.02	Parent Company 31.12.03	Parent Company 31.12.03
Cash	2 027 507	1 642 661	2 027 507	1 642 661
Call deposits in banks	688 766	1 205 335	519 373	916 212
Shares of money market funds	3 642 195	7 821 567	3 642 195	7 821 567
TOTAL	**6 358 468**	**10 669 563**	**6 189 075**	**10 380 440**

In 2002 the shares of money market funds were reflected among investments. In 2003 interest revenue earned from money market funds in the amount of 226 071 kroons, and from call deposit in the amount of 28 045 kroons, and these amounts have been reflected in the non-technical report in the other revenues' section.

Note 3.
Claims from direct insurance activities

As of 31.12.2003, the receivables of Salva Kindlustuse AS from direct insurance activities amount to 9 365 387 kroons.
Change in uncollectible receivables discount:

	Consolidated 31.12.03	Consolidated 31.12.02	Parent Company 31.12.03	Parent Company 31.12.03
Uncollectible receivables at the beginning of the period	353 336	55 980	53 421	55 980
Claims received during the reporting year, which had been declared uncollectible	25 935	14 012	25 935	14 012
Claims declared uncollectible during the reporting year	297 586	321 593	75 781	121 593
Claims declared irrecoverable during the reporting year	304 036	10 225	104 036	10 22
Uncollectible receivables by the end of the period	**320 951**	**353 336**	**99 146**	**153 336**

Note 4.
Real Estate investments

Salva Kindlustuse AS owns a registered immovable in Tallinn at Pärnu mnt. 16, 40 % of which is used by the company itself, and 60 % of which is leased out. Pursuant to the standard RTJ 6 "Investment Properties" issued by the Accounting Standards Board, which entered in force on 1 January 2003 the share of the property being used by the company was qualified as tangible fixed property, and the share of the property being leased out – as real estate investment. Starting from 1 January 2003 we separated the value of the parcel of land from the total value of the real property, that – in accordance with the expert evaluation made by ERI Valduse AS – constitutes 1 703 000 kroons.

GROSS CARRYING AMOUNT	Building	Land	Used by the Company itself (tangible fixed assets)*
Beginning of year	**20 015 162**		
Re-classification			
incl. land	- 1 703 000	1 021 800	681 200
incl. building	-7 324 865		7 324 865
Adjusted gross carrying amount	**10 987 297**		**8 006 065**
Acquisition	297 855		198 571
End of year	**11 285 152**	**1 021 800**	**8 204 636**

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	Building	Land	Used by the Company itself (tangible fixed assets)*
ACCUMULATED DEPTION			
Beginning of year	**- 5 453 889**		**0**
Re-classification	2 181 556		- 2 181 556
Adjusted gross carrying amount	**-3 272 333**		**- 2 181 556**
Book depreciation	-444 108		-296 072
End of year	**-3 716 441**		**- 2 477 628**
Residual value			
Beginning of year	14 561 273	0	0
Adjusted at the beginning of the year	7 714 964	1 021 800	5 824 509
End of year	**7 568 711**	**1 021 800**	**5 727 008**

* Incorporated in the report: Note 12 “Tangible fixed assets “

In 2003 the aggregate amount of consolidated investment revenue from land and buildings was 1 392 988 kroons. The aggregate investment expenses in 2003 amounted to 890 460 kroons.

Note 5.
Shares and other interest

The shares and securities on the balance sheet as at 31.12.2003 are regarded as short-term investments. The standard RTJ 3 of the Accounting Standards Board was first applied on 1 January 2003, and thus the book value of financial instruments reflected in fair value were revaluated. The effect of the change amounts to 591 160 kroons, by which sum the book value of the shares at the beginning of the period was increased. At the same time reflecting of money market funds on the balance sheet was changed, and they are subsequently reflected in the section of cash and money at bank. The effect of the change amounts to 7 821 567 kroons, by which sum the book value of the shares at the beginning of the period was reduced.

	Fair value		**Adjusted acquisition cost**	
	shares	investment funds' units	investment funds' units	total
Book value 31.12.2002	730 600	13 668 031	750 006	15 148 636
Revaluated book value 01.01.2003	730 600	14 259 191	750 006	15 739 797
Purchased during the period		30 916 161	0	30 916 161
Sold during the period		2 941 347		2 941 347
Profit from change of investment value	319 075	918 428	0	1237 503
Book value 31.12.2003	1 049 675	43 152 433	750 006	44 952 114
Market price	1 049 675	43 152 433	1 338 854	45 540 962
Realised profit	0	396 136		396 136

Salva Kindlustuse AS holds 545 shares of ASA Kindlustus, which are recorded at zero value by reason of bankruptcy of ASA Kindlustus. Moreover, the shares of SIA Kraijbanka and the shares of ERGO Kindlustuse AS are also recorded at zero value. The bonds of LHV Arbitrage in the amount of 750 006 kroons are reflected on the balance sheet at adjusted acquisition cost, as no active trade is carried out with these securities, and their fair value cannot be reliably determined. Pursuant to the issue conditions of the said bonds they are similar to fund units, and their interest is reflected in their price.

Note 6.
Loans

	Consolidated 31.12.2003	Consolidated 31.12.2002	Parent Company 31.12.2003	Parent Company 31.12.2002
Loans to Affiliates	0	0	175 000	450 000
Mortgage loans			**175 000**	**450 000**
Redemption between up to 3 months and 1 year	0	390 000	0	390 000
Redemption between up to 1 month and 5 years	0	200 000	0	200 000
TOTAL	**0**	**590 000**	**0**	**590 000**
Other loans				
Loans with redemption up to 3 months	600 000	335 777	600 000	335 777
Loans with redemption from 3 months up to 1 year	738 450	450 607	738 450	450 607
Loans with redemption from 1 year to 3 years	774 591	940 634	774 591	940 634
KOKKU	**2 113 041**	**1 727 018**	**2 113 041**	**1 727 018**
Interest revenue				
Mortgage loans	183 633	180 200	220 636	179 116
Other loans	70 498	173 171	70 498	173 171
TOTAL	**254 131**	**353 371**	**291 134**	**352 287**

Note 7.
Deposits in Credit Institutions

Ühispank	5 000 000	Term 13.05.2004, interest 3,1%
Ühispank	5 000 000	Term 11.02.2004, interest 2,4%

The income on deposit interest earned in the year 2003 1170 202 kroon and in 2002 171 735 kroons.

Note 8.
Subsidiaries

	Salva Kahjukäsitluse OÜ	**Salva Arenduse OÜ**
Area of activity	Claim handling, rent and repair of vehicles	Property management, advertising and consultation services
Founded	Septembris 1997	April 1998
Shareholding %	100	100
Number of shares	1	1
Equity capital EEK	40 000	41 000
Acquisition EEK	40 000	210 000
Result of previous periods equity	8 127 975	-10 000
Profit/loss in 2003 by the equity method	8 685 745	-84 988
Balance sheet value	16 853 720	115 012
Equity 31.12.2003		
Share capital	40 000	41 000
Paid over par value	0	199 000
General reserve	20 000	4 000
Retained earnings	8 107 975	- 125 505
Profit (loss) for the financial year	8 685 745	-3 482
Total equity	16 853 720	115 013

In 2003 the parent undertaking increased the share capital of its subsidiary Salva Arenduse OÜ by 1000 kroons with the issue premium of 199 000 kroons.

Safiirex Invest OÜ, which was established as a 100% subsidiary of Salva Kahjukäsitlus, with the share capital of 40 000 kroons, started its business at the end of November, and ended the year with a loss of 214 kroons. The private limited company started its activities with a real estate project in the Viimsi rural municipality on the land unit “Allika 2”. The intended duration of the project is up to two years, and the rate of return is estimated at 15 – 25%, depending on the duration of the sale process. The financial accounts show reflect investment in land and work performed as stocks.

Comments to Financial Statements

Note 9.
Transactions with Group Companies

Transactions with group companies

Salva Arenduse OÜ supplies administration and lease services to the consolidable group companies. It administers the property of Salva Kindlustuse AS at Pärnu mnt.16, Tallinn and other leaseable premises, which the parent company requires for its primary activity. The principal activities of Salva Kahjukäsitluse OÜ are handling of insurance claims according to the effective cooperation agreements, organisation of preservation and resale of compensated property and remains, and rent of vehicles. The articles of association of Salva Kahjukäsitluse OÜ were amended in 2003 by adding real estate management and development, and purchasing and sale of real property as fields of activity of the company. The company has taken over and will be taken over the management of the real property located at Pärnuy mnt. 16 owned by Salva Kindlustuse AS. The principal activities of Safiirex Invest OÜ are real estate management and development and it was founded for short/time projects.

Transactions with other related parties

Companies named OÜ Amonest and OÜ Vidremo Invest, which are related to a management board member, supply investment and investment management services.

Accounts receivable

The balance sheet of Salva Kindlustuse AS reports receivables from the subsidiary company named Salva Arenduse OÜ in the total sum of 193 727 kroons, which divides a follows:

Short-term loan	175 000 krooni	(10% Interest on loan balancet)
Outstanding interest	6 390 krooni	
Accounts payable for services	12 337 kroon	

I
Oma töötajatele antud laenude jääk moodustas 31.12.2003 seisuga 1 002 067 krooni.

Liabilities

The balance sheet of Salva Kindlustuse AS reports liabilities from the subsidiary company named Salva Arenduse OÜ in the total sum of 8 297 734 kroons, which divides a follows:

Fees paid for claim handling	8 052 839 krooni
Services for maintaining and selling compensated property	158 687 krooni
Other receivables	86 208 krooni

Services purchased

Salva Kahjukäsitluse OÜ	**17 492 515**
Incl. claim handling	14 927 462
Income from maintaing and selling compensated property	1 654 746
Rent income	357 842
Sold goods	619 220
Salva Arenduse OÜ	**1 139 310**
Incl. Use of inventory	1 035 474
Arbitrated costs of electricity and phone	103 836
Amonest OÜ teenused	**230 275**
Vidremo Invest OÜ teenused	**249 990**

* The acquisition cost of the property transferred to the parent undertaking under an operating lease term is 1 478 186, and the cumulative depreciation amounts to 254 604 kroons.

Services sold

Salva Kahjukäsitluse OÜ	**213 165**
Incl. insurance services	198 012
Other services	15 153
Salva Arenduse OÜ	**45 537**
Incl. interest	37 003
Other services	8 534

Salva Kahjukäsitluse OÜ purchased 254 484 kroons worth of services from Salva Arendus.
Safiirex Investi laenukohustus Salva Kahjukäsitluse OÜ ees on 6 275 830 krooni.
The said amounts have been eliminated upon the preparation of the consolidated report.

Comments to Financial Statements

Note 10.
Stocks

Land purchased by Safiirex Invest OÜ for the purpose of reselling, and the related expenses for the aggregate value of 6 188 697 kroons have been shown as stocks.

Note 11.
Intangible Fixed Assets

	Consolidated 2003	Consolidated 2002	Parent Company 2003	Parent Company 2002
Gross carrying amount				
Beginning of year	**0**	**0**	**0**	**0**
Re-classification(Note 12)	286 500	90 000	286 500	90 000
Acquisition	554 325	196 500	554 325	196 500
End of year	**840 825**	**286 500**	**840 825**	**286 500**
Accumulated depreciation				
Beginning of year	**0**	**0**	**0**	**0**
Re-classification(Note 12)	-152 037	-66 750	-152 037	-66 750
Accumulated depreciation	-60 272	-85 287	-60 272	-85 287
End of year	-212 309	-152 037	-212 309	-152 037
Residual value				
End of year	**628 516**	**134 463**	**628 516**	**134 463**

Note 12.
Tangible Fixed Assets

	Consolidated 2003	Consolidated 2002	Parent Company 2003	Parent Company 2002
Gross carrying amount				
Beginning of year	18 561 556	10 417 190	10 892 398	3 019 600
Reclassifications (Note 4)	0	7 993 665	0	7 993 665
Reclassifications (Note 11)	0	-90 000	0	-90 000
Beginning of yearafter adjustment	18 561 556	18 320 855	10 892 398	10 923 265
Purchased tangible fixed assets	2 019 630	2 078 919	432 666	121 284
Sold tangible fixed assets	-2 043 202	-887 178	-73 000	0
Written off tangible fixed assets	-1 027 573	-951 040	-615 957	-152 151
End of year	17 510 411	18 561 556	10 636 107	10 892 398
Accumulated depreciation				
Beginning of year	-8 957 522	-6 640 752	-4 790 708	- 2 744 834
Reclassifications (Note 4)	0	- 1 861 767	0	-1 861 767
Reclassifications (Note 11)	0	66 750	0	66 750
Beginning of yearafter adjustment	-8 957 522	-8 435 769	-4 790 708	-4 539 851
Book depreciation	-2 159 413	-2 155 738	-508 583	-403 008
Book depreciation from sold tangible fixed assets	1 743 619	682 945	56 575	0
Book depreciation from written off tangible fixed assets	918 569	951 040	615 957	152 151
End of year	- 8 454 747	-8 957 522	-4 626 759	-4 790 708
Residual value				
Beginning of year	9 604 034	9 885 086	6 101 690	6 383 414
End of year	9 055 664	6 604 034	6 009 348	6 101 690

The loss made from the sale was 18 706 krooni kroons and profit was 611 268 kroons. No tangible assets were purchased or sold within the group. Reclassification is shown in Notes 4 and 11.

Tangible assets (in residual value) grouped as fallows:

	Consolidated	Parent Company
Land	681 200	681 200
Real estate by own use	5 045 808	5 045 808
Motor vehicle	2 647 110	0
Office equipment	262 180	199 176
Other equipment	419 366	83 164

Note 13.
Liabilities from Direct Insurance Activities

	31.12.2003	31.12.2002
Prepayments by policyholders	3 108 424	3 332 598
Payables to brokers incl. other brokers	471 156	465 553
Payables to ETIF for cross border policies	602 302	783 770
TOTAL payables to brokers	1 073 458	1 249 323
Payables to ETIF regarding of membership fee	154 829	417 754
TOTAL liabilities from direct insurance activities	**4 336 711**	**4 999 675**

Note 14.
Capital Lease and Operating Lease

14.1 Capital Lease

	2003	2002
Balance of liability at the beginning period	0	1 387 006
Gross carrying amount	0	1 943 812
Acquired tangible assets	0	0
Book depreciation	0	162 282
Book interest expences	0	68 301
Total principal and redemtion payments	0	1 387 006
Balance of liability at the end of period	0	0
Average interest rate	0	10,97%

14.2 Operating Lease

Assets taken on operating lease

Consolidated car lease expenses in 2003 were 73 674 kroons and rent for premises 1 309 462 kroons.

Assets given on operating lease

Lease income is 24 852 koons. Cost of assets taken on operating lease is 182 077 kroons and accumulated depreciation is 136 557.

Rental income from premisis is 1 208 942 kroons,

Note 15.
Accrued Expenses and Unearned Income

	Consolidated 31.12.2003	Consolidated 31.12.2002	Parent Company 31.12.2003	Parent Company 31.12.2002
Payables to employees	2 869 896	2 648 680	2 675 881	2 493 468
Taxes payable	1 463 150	1 364 320	1 071 959	1 080 546
Supplier payables	898 695	691 011	483 164	281 987
TOTAL	**5 231 741**	**4 704 011**	**4 231 004**	**3 856 001**
Other unearned income	26 651	25 051	0	0

Note 16.
Technical Provisions

PROVISION FOR PREPAID PREMIUMS	Beginning of year Total	Beginning of year Reinsurance Share	End of year Total	End of year Reinsurance share	Change Total	Change Reinsurance share
1 MTPL	21 988 431	16 491 323	32 183 335	24 137 502	10 194 904	7 646 179
2 Short-term healt insurance	1 904 833	826 867	1 609 033	672 440	-295 800	-154 427
3 Land vehicle insurance	13 345 666	10 009 249	22 292 209	15 604 546	8 946 543	5 595 297
4 Railway rolling stock, aircraft and ship insurance	600 216	525 010	832 278	735 077	232 062	210 067
5 Goods in transportation insurance	11 350	9 761	96 884	81 865	85 534	72 104
6 Property insur. (phys. persons)	3 896 927	2 021 471	4 720 770	2 422 665	823 839	401 194
7 Property insur. (legal persons)	3 983 927	2 834 127	5 516 582	4 372 047	1 532 655	1 537 920
8 Motor vehicle liability insurance	66 965	42 848	48 318	39 473	-18 647	-3 375
9 Liability insurance of air- or watercraft owner	16 169		42 135	24 345	25 966	24 345
10 Civil liability insurance	289 155	229 610	312 154	248 428	22 999	18 818
11 Material loss insurance	1 208 212	413 681	1 256 711	412 780	48 499	-901
TOTAL	**47 311 855**	**33 403 947**	**68 910 409**	**48 751 168**	**21 598 554**	**15 347 221**
PROVISION FOR PREPAID PREMIUMS						
1 MTPL	51 862 179	42 881 462	64 966 977	51 388 968	13 104 798	8 507 506
2 Short-term healt insurance	948 902	337 807	778 087	248 821	-170 815	-88 986
3 Land vehicle insurance	8 475 302	5 932 712	17 640 853	12 348 597	9 165 551	6 415 885
4 Railway rolling stock, aircraft and ship insurance	20 000				-20 000	
5 Property insur. (phys. persons)	684 714	342 357	303 394	146 362	-381 320	-195 995
6 Property insur. (legal persons)	2 857 321	2 091 471	1 866 474	1 001 961	-990 847	-1 089 510
7 Civil liability insurance	816 698	653 358	853 886	683 108	37 188	29 750
TOTAL	**65 665 116**	**52 239 167**	**86 409 671**	**65 817 817**	**20 744 555**	**13 578 650**

Traffic insurance pension allocations that in 2002 were reflected on the balance sheets as Other technical reserve, have now been reflected on the balance sheets as Provisions for outstanding claims

Npte 17.
Non-life Insurance Yield by 3 Major Class of Insurance

	MTPL		Land vehicle insurance		Fire, natural disaster and other property insurance	
	2003	2002	2003	2002	2003	2002
Premiums, gross	97 932 404	72 399 792	79 024 430	52 852 418	26 085 348	19 433 857
Earned premiums, gross	87 737 500	64 422 269	70 077 887	51 369 046	23 728 854	16 591 140
Damage claims, gross	-55 600 662	-45 174 690	-38 750 221	-38 750 221	-8 794 397	-7 588 316
Occurred damage claims, gross	-68 705 460	-61 897 074	-47 915 772	-34 741 110	-7 422 230	-9 874 446
Operaint expenses, gross	-15 961 835	-9 637 533	-15 458 072	-9 581 038	-7 979 811	-7 170 133
incl. commission fees	-6 961 189	-5 600 878	-8 124 926	-4 962 552	-3 379 616	-2 213 504
Outward reinsurance yield	-4 780 232	12 441 496	-3 205 700	-473 007	-5 765 143	-217 606
Membership fee of the Traffic Insurance Foundation	-1 861 618	-5 791 886				
Technical yield	-3 571 645	-462 728	3 498 343	6 573 891	2 561 670	-671 045

The gross amount of premiums earned reflects the changes of provisions for prepaid premiums. The gross amount of loss claims occurred reflects the changes of provisions for outstanding claims. Commission fees include expenses borne in relations with conclusion, renewal of contracts, and with collection and management of premiums.

Note 18.
Off Balance Sheet Claims

Recourse Claims	2003	2002
Beginning of years	6 413 161	2 132 610
Recourse claims evolved during the financial year	2 813 361	5 836 808
Collected during the financial year	1 329 393	618 181
Written-off during the financial year	45 399	938 076
End of financial year	7 851 730	6 413 161

Auditor's Report

To Shareholders of Salva Kindlustuse AS

We have audited the unconsolidated annual accounts of Salva Kindlustuse AS (hereinafter 'the parent undertaking') for the financial year that ended on 31 December 2003, and the consolidated annual accounts of the consolidation group of Salva Kindlustuse AS (hereinafter 'the group') for the financial year that ended on 31 December 2003. The said accounts, which have been presented together in order to reflect the financial standing, economic performance, and cash flow both of the parent undertaking as well as the group, have been provided on pages 12 to 36, and the management board of the parent undertaking bears responsibility for their accuracy. Our task has to provide an opinion based on the audit results to the unconsolidated annual accounts of the parent undertaking and the consolidated annual accounts of the group.

We carried out the audit in accordance with the auditing rules of the Republic of Estonia. The said rules require that audit be planned and performed in a manner that would allow deciding with sufficient certainty that the annual account does not contain material errors and discrepancies. During the audit we have selectively verified evidence that the indicators shown in the annual accounts are based on. Our audit also encompassed the accounting principles used for preparing the annual accounts, and the critical analysis of the assessment of the management regarding the accounts, as well as the position regarding the way of presentation of the annual accounts as a whole. We believe that our audit provides a sufficient basis for expressing our opinion.

Parent Undertaking
It is our position that the above stated unconsolidated annual accounts, in its essential parts, reflect the financial standing of the parent undertaking as at 31.12.2003 and the economic performance and cash flows of the period then ended accurately and fairly, in accordance with the Accounting Act of the Republic of Estonia.

Concern
It is our position that the above stated consolidated annual accounts, in its essential parts, reflect the financial standing of the group as at 31.12.2003 and the economic performance and cash flows of the period then ended accurately and fairly, in accordance with the Accounting Act of the Republic of Estonia.

In Tallinn, on 26 March 2004

KPMG Estonia

Taivo Epner	Ene Makus
Authorised auditor	Authorised auditor