Annual Report | 2005

SALVA
KINDLUSTUS

Annual Report

Business name:	Salva Kindlustuse AS
Registry code:	10284984
Address:	Pärnu mnt.16, 10141 Tallinn
Telephone:	6800 500
Fax:	6800 501
E-mail:	salva@salva.ee
Internet homepage:	www.salva.ee
Core activity:	non-life insurance
Beginning of financial year:	01.01.2005
End of financial year:	31.12.2005
Managing director:	Tiit Pahapill
Auditor:	KPMG Baltics AS

Contents

Management report

Salva Kindlustus in brief

Salva Kindlustuse AS operates in the Estonian non-life insurance market since 1993. Our portfolio includes all most common non-life insurance products.

In 2005 we collected EEK 313 million insurance premiums and our net profit was EEK 24 million.

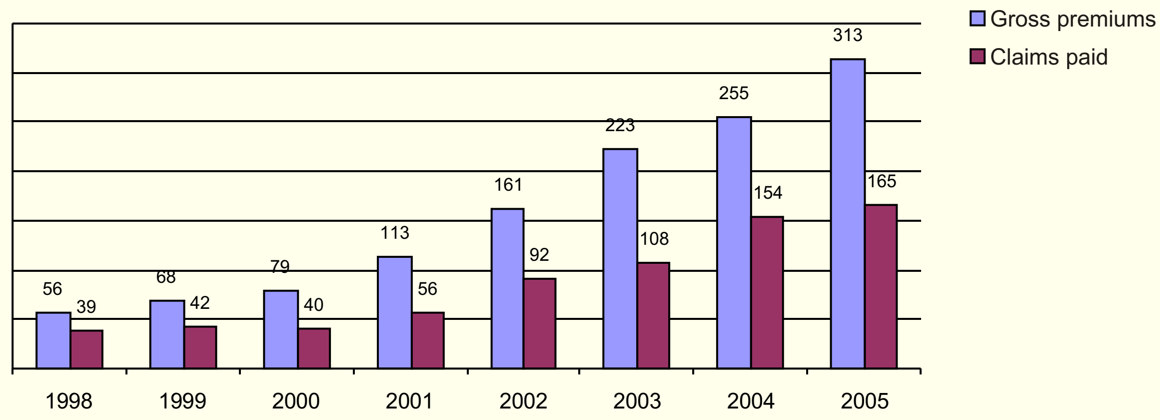
Salva Kindlustuse AS has its representative offices and points of sale across Estonia. Large amount of sales is organized through brokers and other agents.

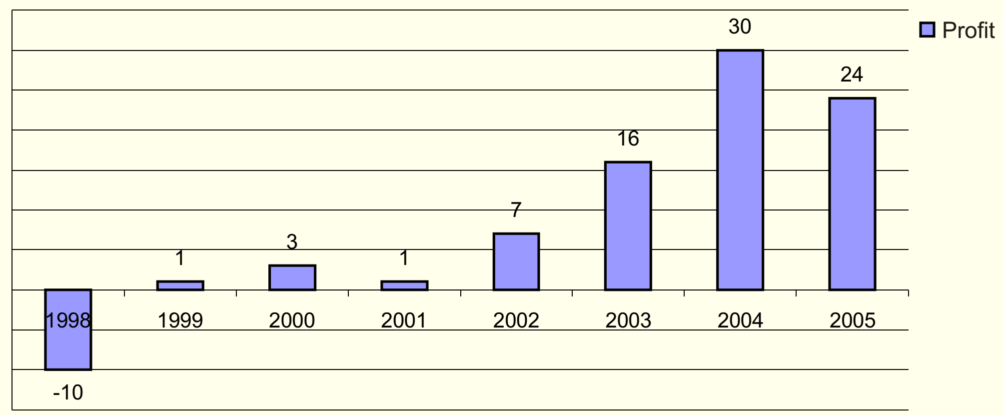
Salva Kindlustuse AS consolidation group includes:

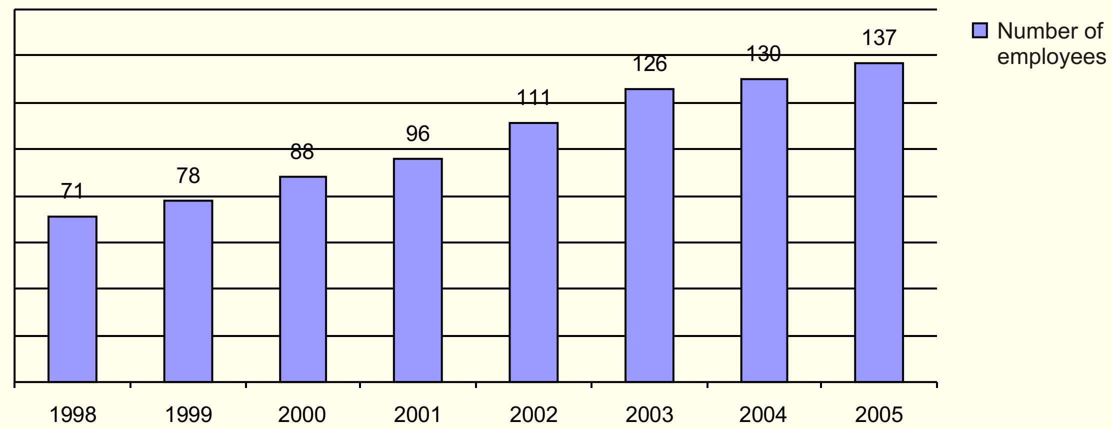
Salva Kindlustuse AS	
Salva Kahjukäsitluse OÜ	- participation of Salva Kindlustuse AS is 100%
Salva Arenduse OÜ	- participation of Salva Kindlustuse AS is 100%
Safiirex Invest OÜ	- participation of Salva Kahjukäsitluse OÜ is 100%

Management report

Main figures







Management report

Vision, mission and strategy

Vision

Our vision is to be a synonym of a good insurance company for the clients.

Mission

We are constantly developing non-life insurance company, which offers its customers and co-operation partners reliable insurance services. We have professionally experienced employees, correct administration and client-friendly attitude.

Values

Strong bilateral customer relations

Our services are conveniently accessible in all representative offices across Estonia, through web page or telephone. Every client is special for us; the contacts between our clients and us are always aimed at achieving mutually satisfying results. The trust of clients is our biggest value.

Motivating work environment

We offer our employees contemporary and innovative environment, in which along with creating the team-spirit necessary for achieving good results also everyone's personal needs are taken into account. We constantly expand our knowledge; we value learnedness and professional self-realization. We take into account every employee's contribution in achieving general objectives.

Good-quality and reliable services

The good quality of our insurance services is guaranteed by our long-term experiences, correct management style and ability to react swiftly. We pay special attention to the risk management and to constant improving of our services. We try to remain open and objective in all situations, we do not sacrifice quality for the sake of quantity. A client can rely on us.

Objectives for 2006

In 2006 we have to be ready to react to the changes in the market situation and growing competition.
In order to achieve this we have set the product development and making our claim adjustment process faster and more effective as our main priorities.

Management report

Address of the Chairman of the Management Board

The year 2005 was successful for the Estonian economy. Along with economic growth the insurance premiums of our clients increased by 23% and insurance benefits by 6%. However, compared to the last year, the profit was lower. It was caused primarily by the increase of the losses, which were connected with the floods that took place at the beginning of the year in the western part of Estonia and also by the increased loss of the motor vehicles insurance groups at the end of the year.

Development of the economy

According to the initial estimations the economic growth in 2005 was up to 9,5%. The economic growth forecast for 2006 according to different opinions is 8- 10%. Whereas in the euro-zone the average economic growth is 1,4% and forecasts for the next year are 1,8%.

The loan interest rates stay continuously on a low level. Although in November basic interest was increased by 0,5% the loan interests are still on the attractive level and since loans are still issued actively it influences also non-life insurance premiums.

Our development

We have tried to root more customer oriented thinking and internal efficiency. The restructuring of the client services went successfully. The client's satisfaction with quality and speed has increased. During the coming periods we plan to concentrate in our development on client service and claim adjustment efficiency.

We would be delighted to see that the clients' communication with the company would become more convenient and less time consuming. In order to achieve this, we have paid great attention to the IT solutions.

We hope, that the professional and obliging employees make us special in our clients' eyes. We have tried to give our contribution to the surrounding environment by supporting sport and culture.

Principles of management

Our management principles are based on common values and principles. The administration of risk management, internal audit and IT is organized centrally. Sales and insurance departments cooperate in product development. Representations led by the local executive fulfil their objectives.

Insurance business

In 2005 we grew faster than the market, the growth of which was 14%. In 2004 the growth of insurance premiums was 14 %, in 2005 the corresponding figure is 23 % or EEK 313 million. The reasons for quicker growth are the general economic growth, increase of an average salary and correspondingly increased domestic consumption. It was influenced by the activity of the

Management report

Address of the Chairman of the Management Board

banks on the loan markets and respective growth of the real estate market. Increasing part of the population had the possibility of taking housing loans for renovating an old or buying a new house and also for purchasing new vehicles. The increase of the construction volume has caused the increase of the construction risks insurance premiums and insuring the vehicles purchased with the help of EU subsidies.

We managed to grow faster that market and to fulfil our profit objectives.

Financial objectives

In 2005 we achieved most of our financial objectives. Planned sales growth was exceeded by 5%, 10% fell short of the profit plan and net loss grew to the 46%.

What will the year 2006 bring?

Also in 2006 our developments will be influenced on one hand by the rapid economic growth and the increase of clients' incomes and on the other hand by the increasing competition. We have to be ready for facing changes and continuously be able to provide good quality services for our customers.

I believe, that in 2006 and in the following years we will be able to continue to grow rapidly and be successful competitors in ever growing competition.

Tiit Pahapill
Chairman of the Management Board

Management report

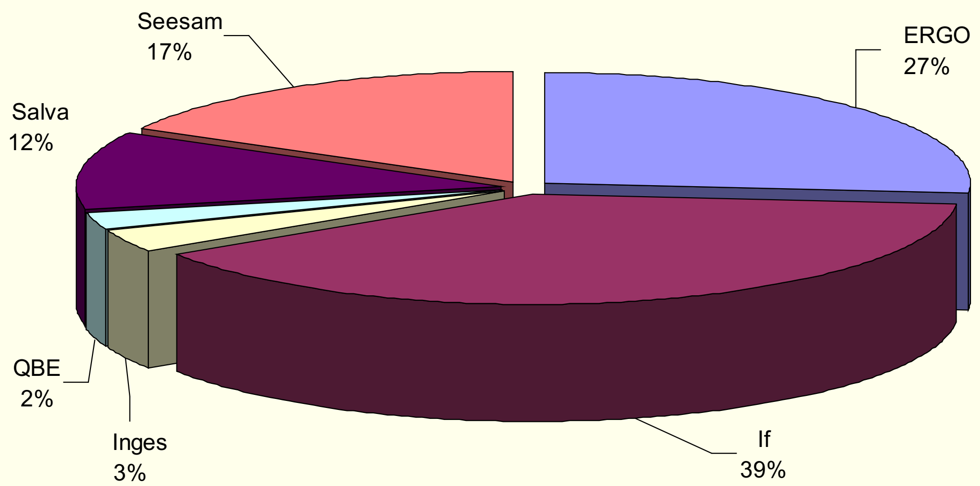
Summary of the economic performance

Overview

The premiums collected in 2005 by the companies in the Estonian insurance market totalled in EEK 3 962 million. Compared with the same period in 2004 the volume of premiums has grown 25%, primarily because of the growth of life insurance premiums. Non-life insurance premiums in 2005 constituted EEK 2 697 million, i.e. 14% more than during the same period in 2004 (2003 vs. 2004 the corresponding figure was 15%).

Insurances connected to the motor vehicles constitute the biggest part of the non-life insurance market obligatory traffic insurance (contribution 30%), optional traffic insurance (contribution 38%). Property insurance constitutes 22 % and total other insurance groups 12% from the non-life insurance market.

The same structure is documented in loss payments, the level of which in 2005 was 54%.



Participation of the non-life insurance companies in the collected premiums at the end of 2005

Present market division has been formed during the last years, but the situation may as well change if new competitors enter the insurance market. In the beginning of the present year Hansapank announced its entry to the non-life insurance market. In the following years it will surely influence the non-life insurance market essentially due to the fact, that Hansapank owns 50% of home loan and 60% of vehicle leasing market.

Financial performance

Significant financials

In thousands of EEK, except for ratios as at 31. December 2005 or for the stock	2005	2004	2003	2002
For accounting period				
Gross premiums	313 080	255 160	222 963	160 978
Gross premiums earned	287 352	254 602	201 364	147 131
Gross losses earned	181 587	133 687	120 196	106 373
Gross expenses	81 737	74 458	50 985	48 219
Net loss ratio	46%	37%	49%	34%
Net expense ratio	34%	32%	30%	45%
Net combined ratio	80%	69%	79%	79%
Payout ratio	48%	56%	45%	52%
At the end of the accounting period				
Total assets	348 610	252 840	232 921	186 092
Financial investments	136 894	89 125	63 254	22 373
Real estate investments	14 000	11 200	14 286	8 737
Investments' rate in assets	43%	40%	33%	17%
Profitability indicators				
Technical result	18 793	24 211	10 482	4 252
Investment result	7 933	4 822	4 988	2 353
Period's profit	23 983	30 141	21 289	7 742
Return on assets	29%	42%	61%	31%
Return on investments for the year	6%	4%	10%	11%
For stock				
Profit for one stock (kroons)	23,98	30,14	21,29	7,74

Figures explained:

Gross preimums earned	gross premiums written + change in provision for unearned premiums
Gross claims incurred	claims incurred + change in provision for claims outstanding
Gross losses	claim adjustment costs +aquisition costs+change in deferred aquisition costs +administrative costs
Net loss ratio	(claims incurred, net of reinsurance + change in other technical provisions, net of reinsurance/(premiums earned)
Net expense ratio	(net operating expenses+other technical expenses net of reinsurance)/(premiums earned net of reinsurance+other technical income net of reinsurance)
Net combined ratio	Net loss ratio +net expense ratio
Payout ratio	claims incurred/gross premiums written
Return on equity (ROE)	profit/average equity of the period
Return on investments (ROI)	investment result/ average investments of the period

Management report

Financial performance

The consolidated profit of the Salva Kindlustuse AS in 2005 was EEK 24 millions.

Gross consolidated premiums constituted EEK 313 millions. In comparison with the last year the growth constituted 23%. The market share of the company at the end of the period was 12%.

Although our profit was lower than forecasted, we are glad that we collected more insurance premiums than we initially hoped.

onsolidated loss for the year, net from reinsurance was 46%. The corresponding figure for the same period last year was 37%.

By the end of 2005 the ratio of expenses to premiums, net from reinsurance constituted 34%. The corresponding figure for the last year was 32%.
The technical profit of the year was EEK 18,9 millions. The figure for the last year was EEK 24,2 millions.

The storms in western part of Estonia in January 2005 were accompanied by essential storm and flood losses. The number of loss cases for the Salva Kindlustuse AS was 144, total EEK 9,4 millions. In connection to the January storm losses the insurance companies had total 2 075 claims, total EEK 184 millions. Moreover the loss of insurances connected to the motor vehicles influenced technical results negatively in the last quarter of the year. Since in the insurance group of bigger volume, such as traffic and optional car insurance, the reinsurance commission proceeds from calculating the commissions with varying schedule stipulated in the insurance contracts and depend on final loss ratio, the reinsurance commissions decreased due to the growth of the respective provision.

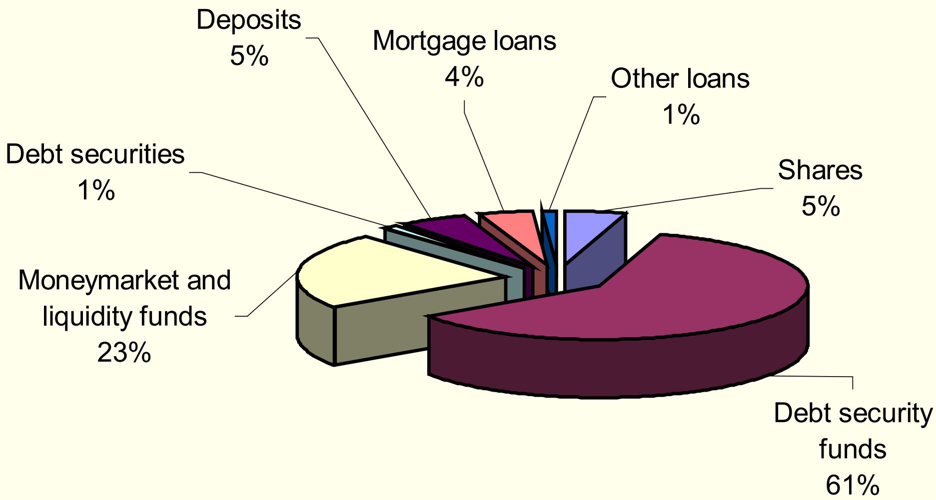
The result was also influenced by the growth of the volume of the insurance premiums and corresponding increase of the premiums of the reinsurance provisions.

Consolidated value of the company's assets grew to EEK 348 millions (at the end of the 2004 it constituted EEK 253 millions).

As a result of positive cash flow of the insurance business the volume of assets has grown in one year to 53%, reaching EEK 150 millions. The consolidated profit of Salva Kindlustuse AS from investments in 2005 was EEK 7,9 millions, the figure for the same period last year was EEK 4,8 millions. Productivity of consolidated investments on the annual basis was 6,4%, including productivity of the real estate investments 19,9% and the productivity of other investments 4,8%.

Financial performance

Structure of the financial investments as at 31. December 2005



Financial objectives for 2006

In 2006 we have to be ready to react to the changes in the market situation and increasing competition.
We aim at keeping the consolidated net expense ratio at 37% and net loss ratio at 37%.

Personnel

At the end of 2005 the number of employees of the company was 137.

In 2005 the labour cost including salary based taxes was EEK 32,2 millions. The corresponding figure for the same period last year was EEK 28,1 millions. The labour cost for management board members was EEK 3,9 millions and for the advisory board EEK 319 thousands. There are no benefits foreseen for the members of the management and advisory board in case of leaving the position.

Consolidated financial statements

Declaration by the Management Board and signatures to the annual report of 2005.

The management board acknowledges its responsibility for the preparation of the annual financial statements of Salva Kindlustuse AS consolidation group and confirms that:

- The accounting principles applied in the preparation of the annual accounts comply with International Accounting Standards;

- The annual financial statements give a true and fair view of financial position of Salva Kindlustuse AS and the group's financial performance and its cash flows;

- All significant events that occurred until the date on which the financial statements were authorized for issue (10. March 2006), have been properly recognized and disclosed;

- Salva Kindlustuse AS companies belonging to the concern are going concerns except for Salva Arenduse OÜ, the liquidation decision of which was adopted on 14. October 2005.

Tiit Pahapill	Chairman of the Management Board..................................	10.03.2006
Irja Elias	Member of the Management Board..................................	10.03.2006
Urmas Kivirüüt	Member of the Management Board..................................	10.03.2006
Andres Lõhmus	Member of the Management Board..................................	10.03.2006

Consolidated financial statements

Consolidated Income Statement

EEK	Notes	2 005	2 004
Gross premiums	**24**	313 079 603	255 160 405
Reinsurance premiums		-208 178 870	-177 363 376
Change in unearned premiums	**23**	-25 727 338	-558 497
Reinsurer´s share of change in unearned premiums	**23**	14 423 799	-96 340
Earned premiums net of reinsurance		**93 597 194**	**77 142 192**
Service fees and commissions	**7**	40 006 239	39 438 283
Financial income	**8**	7 932 505	4 821 511
Other commercial income	**9**	9 422 825	4 403 253
Total income		**150 958 763**	**125 805 239**
Claims	**10**	-150 319 797	-142 412 120
Reinsurer´s share in claims		114 392 581	114 110 092
Change in claims outstanding	**23**	-31 266 962	8 724 830
Reinsurance share of change in claims outstanding	**23**	23 853 114	-8 848 430
Claims incurred net of reinsurance		**-43 341 064**	**-28 425 628**
Acquisition costs	**11**	-54 148 685	-47 267 719
Administrative expenses	**11**	-27 852 673	-19 970 421
Total operating expenses		**-82 001 358**	**-67 238 140**
Income tax		-1 633 255	0
Result for the financial year		**23 983 086**	**30 141 471**

Consolidated financial statements

Consolidated Balance Sheet

ASSETS			
EEK	Notes	31.12.2005	31.12.2004
Cash and cash equivalents		**6 235 956**	**4 483 473**
Receivables		**24 458 933**	**13 487 757**
Direct insurance	**12**	19 935 369	10 870 757
Reinsurance		4 523 565	2 617 000
Accrued income and prepaid expenses		**156 211 951**	**115 240 324**
Reinsurer´s share in technical provisions	**23**	143 901 128	105 624 215
Accrued income		270 579	409 523
Deferred acquisition cost		10 932 144	8 263 372
Other prepaid expenses		1 108 100	943 214
Investments		**150 893 881**	**98 622 847**
Real estate investments	**13**	14 000 000	11 200 000
Financial investments	**14**	136 893 881	87 422 847
Stocks	**16**	**0**	**8 441 716**
Intangible Fixed Assets	**17**	**10 108 912**	**10 929 171**
Tangible Fixed Assets	**18**	**1 498 119**	**1 635 089**
T O T A L ASSETS		**349 407 752**	**252 840 377**

LIABILITIES	Notes	**31.12.2005**	**31.12.2004**
Liabilities		**35 860 137**	**17 361 933**
Direct insurance	**19**	8 450 291	5 529 187
Reinsurance	**20**	27 409 846	11 832 746
Accrued expenses and prepaid revenue		**18 049 193**	**15 957 406**
Accrued expenses and other prepaid revenue	**22**	6 912 533	5 933 926
Reinsurer´s share in deferred acquisition costs		11 136 660	10 023 480
Technical provisions	**23**	**204 148 047**	**147 153 747**
Unearned premiums		95 196 244	69 468 906
Claims outstanding		108 951 803	77 684 841
Equity	**26**	**91 350 375**	**72 367 291**
Stock capital		10 000 000	10 000 000
General reserve		4 209 041	4 209 041
Other reserves		1 008 085	1 008 085
Retained earnings		52 150 164	27 008 694
Profit for the financial year		23 983 085	30 141 471
T O T A L LIABILITIES AND EQUITY		**349 407 752**	**252 840 377**

Consolidated financial statements

Change in Equity

EEK

Consolidated	Stock capital	General reserve	Other reserve	Retained earnings	Total
Balance 31.12.2003	**10 000 000**	**2 657 791**	**1 008 085**	**28 559 944**	**42 225 820**
Change in general reserve		1 551 250		-1 551 250	0
Profit for financial year				30 141 471	30 141 471
Balance 31.12.2004	**10 000 000**	**4 209 041**	**1 008 085**	**57 150 165**	**72 367 291**
Balance 31.12.2004	**10 000 000**	**4 209 041**	**1 008 085**	**57 150 164**	**72 367 290**
Profit for financial year				23 983 086	23 983 086
Dividends paid				-5 000 000	-5 000 000
Balance 31.12.2005	**10 000 000**	**4 209 041**	**1 008 085**	**76 133 250**	**91 350 376**

Consolidated financial statements

Cash Flow Statement

EEK	2005	2 004
Cash flow from business operations	**41 711 952**	**28 396 861**
Premiums collected	306 951 348	258 932 744
Claims paid, returned premiums, claim handling expenses	-139 738 179	-132 674 416
Transactions with reinsurers	-35 862 590	-22 342 183
Operating expenses paid	-82 192 801	-60 333 599
Other income and expenses	-5 931 501	-15 185 685
Income tax paid	-1 514 325	0
Real estate investments	0	-785 939
Stocks and variable yield securities investments	-57 546 010	-24 189 407
Sales of stocks and variable yield securities	29 738 007	2 723 836
Fixed yield securities investments	-70 596	-1 912 636
Sales of fixed yield securities	2 621 280	0
Loans	-5 155 000	-3 813 000
Amounts collected from loans	3 573 968	1 306 831
Deposits	-47 421 383	-7 000 000
Amounts collected from deposits	30 817 173	10 000 000
Other investments	0	-2 662 415
Sales of other investments	9 206 327	2 160 057
Interests	804 880	339 986
Dividends	25 117	29 396
Investments expenses paid	-859 433	-784 742
Cash flow from investment operations	**-693 799**	**-2 041 628**
Tangible and intangible fixed assets investments	-1 389 294	-4 806 863
Sales of tangible and intangible fixed assets	695 495	2 765 235
Cash flow from financial operations	**-5 000 000**	**0**
Dividends paid	-5 000 000	0
Total cash flow	**6 752 483**	**1 767 200**
Cash and cash equivalents (beginning of year)	**4 483 473**	**2 716 273**
Change of cash and cash equivalents	**1 752 483**	**1 767 200**
Cash and cash equivalents (end of year)	**6 235 956**	**4 483 473**

Note 1. Accounting policies

Salva Kindlustuse AS (hereinafter as Company) is a company registered in Estonia. The financial statements prepared at 31. December 2005 consolidate Salva Kindlustuse AS and its daughter companies (together a Group). The Group offers all most common non-life insurance products in Estonia, incl. obligatory traffic insurance.

To the Salva Kindlustuse AS group in 2005 belonged Salva Kindlustuse AS and its two daughter companies:

Name of the company	Participation	Location
Salva Kahjukäsitluse OÜ	100%	Estonia
Salva Arenduse OÜ	100%	Estonia

The management board confirmed the publishing of the annual financial statements with its decision on 10. March 2006.

(a) Compliance confirmation

The consolidated financial statements are prepared in compliance with International Financial Reporting Standards (IFRS), as the European Union (EU) adopts them.

The present Group's financial statements implement for the first time the demands of IFRS and all IFRS standards applicable for the Group and effective as at 1 January 2005 have been followed.Implementing of the IFRS has not changed the financial situation, financial performance of cash flows of the group reported earlier. The changes in parent company's separate financial reports caused by the transition to the IFRS are presented in the note xx (main statements of the parent company).

(b) Bases of preparation

Consolidated financial statements have been prepared in Estonian kroons, if not stated otherwise. In preparing the consolidated financial statements the costs acquisition principle has been taken as a basis, except for the cases, which have been described in the following accounting principles. Entrepreneurs, belonging to the Group employ, in essential part, common accounting principles, which are used consistently for all periods presented in the statements.

The presentation of consolidated financial statements in accordance to the International Financial Reporting Standards requires making the estimates and assumptions made by the management board, which influence at the date of the statements the balance of the disclosed assets and liabilities and disclosing the conditional assets and liabilities and the profits and expenses connected to them in the reporting period. Estimated and assumptions connected to them are based on the experiences of the previous periods and on several other factors, which in given circumstances are considered to be justified. According to the results the decisions concerning the balance value of assets and liabilities are made, which according to other sources are not evident. Actual results may differ from given estimates.

Estimates and assumptions are constantly reviewed. The changes coming form financial assessments are reported in the data of the year during which the assessments were changed, if the changes concerned only this statement. Should the changes concern also the coming periods, they are to be documented both in reporting and the coming periods.

Following accounting principles have been used constantly in preparing all statements presented in consolidated statements. In connection to the transition to the IFRS the principles have also been implemented in preparing the initial balance sheet as at 01. January 2004.

(c) Changes in presentation

Pursuant to the amended Estonian legal acts applicable to the reporting standards of the insurers the infusions to the money-market funds are reported in respective investment listings. Accordingly the balance listings as at 31 December 2004 are corrected as follows:

Cash and cash equivalents	EEK	- 6 739 730
Financial investments	EEK	+6 739 730

(d) Consolidation

The consolidated statements include the financial data of daughter companies, which are controlled by the parent company. The daughter company is considered to be controlled by the parent company if the parent company exercises control over the half of the daughter company's voting rights, if parent company is able to control the actions and financial policy of the daughter company or if parent company has the right to appoint or recall the majority of the management board members.

In preparing the consolidated statements all transactions between the companies belonging to the consolidation group, mutual balances and unrealised profit have been eliminated.

Information about parent company´s basic statements

In accordance with the Estonian Accounting Act the notes of the consolidating entity's consolidated annual financial statements shall include the information about the consolidating entity's basic statements. The parent company's basic statements have to be prepared using the same accounting principles and estimates, which have been implemented in preparing the consolidated statements.

(e) Insurance agreements

Non-life insurance agreements are the agreements according to which the insurer takes the insurance risk from the other parties (policyholder) with an aim to pay the benefit to the policyholder at the event of loss. Insurance risk is different from the financial risk. Financial risk is a type of risk which includes the possibility for future change in one or many of the following aspects: determined interest rate, the price of the security, prices of the consumer goods, exchange rates, price index, credit index or rating or other variables, should the non-financial variable not be characteristic to the party of the agreement. Insurance agreements may also transfer partial financial risk. The insurance agreements are generally concluded for one year.

(f) Reporting and observation of the insurance agreements

Insurance premiums

Gross premiums are collected and receivable premiums or partial payments of the insurance agreements concluded during the year, the payment deadline or the date of entering into force of which belongs to the accounting period. Prepayments form policyholders and the discounts given to the policyholders are not reported in the premium profit. Gross premiums include the benefits paid to the agents.

The reinsurance premiums are reinsurance agreement based part of the gross premiums, which are transferred or are due to be transferred to the reinsurer.

Earned part of premium is reported as profit. The premiums, which are earned after the reporting date, are taken as expenses or are documented in the balance sheet as the provisions of the unearned premiums.

Provision of the unearned premiums

The provision of the unearned premiums includes the part of the gross premiums, which will supposedly be earned during the next economic year. The provision is calculated separately for every insurance agreement and supplementary agreement according to the gross premiums following the Pro Rata Temporis method.

The part of reinsurance in the unearned premiums' provisions constitutes the same percentage part from the unearned premiums' provisions as the premiums of the proportional reinsurance from the gross premiums.

(g) Occurred claims for compensation

The expenses of the claims for compensation consist of the paid damages and claim adjustment expenses, collected and receivable recalls and the changes in provisions of outstanding claims of the accounting period.

The part of reinsurance in the losses and in the changes in provisions of outstanding claims includes the part, for which the reinsurer is responsible and which proceeds from the conditions of the reinsurance agreement.

Outstanding part of the claims is documented in the balance sheet as the provision of outstanding claims.

Provision for outstanding claims

The provision of outstanding claims includes total costs of necessary provisions of the occurred losses, calculated according to the prognosis of the Group, which are outstanding at the balance date regardless of the fact whether they are reported or not, and also respective internal and external treatment costs of the claims and suitable conservative margin. Outstanding claims are evaluated separately, whereby the occurred but not yet reported losses and also the influence of both internal and external prognosed events (e.g. changes in claim treatment procedures, inflation, legal development tendencies and changes in jurisdiction, experiences of the past and trends) are taken into account. Presupposed returnable sums from reinsurance and the sale of residual assets and regress are reported as separate assets.

Returnable sums from reinsurance and other returnable are estimated similarly to the outstanding claims. The provision of the outstanding claims is not discounted except for the annuity provision of the traffic insurance, which is discounted to its present value using standard actuary methods, the pension increase index and discount rate recommended by the guarantee fund.

(h) Reinsurance

In the course of its conventional business the Group applies reinsurance with an aim to limit possible net loss by dissipating the insurance risks. Reinsurance premiums and collected benefits are documented in the consolidated profit and loss statement and in balance sheet using the gross method separately from respective insurance contracts, since the reinsurance contracts do not release the Group from direct liabilities to policyholders.

Only those agreements are reported as reinsurance agreements, which stipulate essential transfer of insurance risks. The rights provided by agreements, according to which no essential risks are transferred, are reported as financial instruments.

Paid reinsurance premiums are reported as costs following the same principle as when the agreement-based insurance premiums are documented as profit.

Assets from reinsurance

The part of reinsurance in the technical provisions is documented according to the same principles as were applied for calculating the technical provisions. Claims from reinsurance include receivables from retroceding companies for paid damages.

The covering value of assets connected to the reinsurance is assessed on every balance sheet day. Should any circumstances emerge which refer to doubtful accruals concerning the initially documented amounts, the value of assets is written down to the amount of probable accruals.

Liabilities from reinsurance

The liabilities from reinsurance include amounts for the retroceding companies pursuant to the retrocession treaties and returned provisions of the reinsurance commissions. The provisions are created for returned reinsurance commissions, which are stipulated by the calculation of the commissions having different schedules and depend on final loss ratio.

(i) Acquisition costs and the part of the reinsurance in acquisition costs

Acquisition costs, which are directly connected with premiums directly transferred to the next reporting period, are capitalized as unearned expenses. The bases of calculating the capitalized acquisition costs are the gross premiums and the expenses by groups. Capitalized acquisition costs consist the same percentage from direct acquisition costs as the whole amount of provisions of unearned premiums form the total amount of gross premiums. The part of reinsurance in the capitalized acquisition costs constitutes the same percentage part of commissions proceeding from the reinsurance agreement as the provisions of the unearned premiums in reinsurances in reinsurance premiums. The bases of the calculation are the insurance premiums and the commissions by groups stipulated in the reinsurance agreement.

(j) Test of the sufficiency of obligations and related assets

The sufficiency of the insurance obligations is tested at the date of the statement, using current assessments for the future cash flows of the insurance agreements. If the assessment shows that the insurance obligations' balance value minus capitalized acquisition costs and related intangible assets is insufficient in the light of future cash flows, the deficit shall be reported in the profit or loss side as the change in the capitalized acquisition costs.

(k) Profit

Earned insurance premiums

The calculating principles of the reinsurance premiums' profit are described in the paragraph (f).

Profit from fees and commissions

The profit from fees and commissions includes reinsurance commissions and other service fees connected to the concluding of insurance agreements.

In reinsurance commissions the commissions stemming form the retrocession treaty, receivable from the retroceding company, including the commissions that stem from the recessionaire's participation in the profit of the retroceding company are reported. The changes of provisions of the reinsurance commissions are also documented here. The calculating principle of the provisions is described in the paragraph (h). The profit from retrocession treaty commissions is reported applying the same principles as when reporting the insurance agreements acquisition costs (cf. Paragraph (i) describing the calculating principles). Compensation form participation in the profit of the retroceding company is documented on an accrual basis.

Financial income

Financial income includes income form financial assets and rental income from real estate investments.

Income from financial assets includes interest and dividend income, net income in fair value through profit and loss statement classified financial assets' re-evaluation and from realization of financial assets. Further information on the reporting of the financial assets could be found in the paragraph of calculating principles (s).

Rental income, based on the operating lease is reported in the profit and loss statement during the rental period linearly for the rental period as a profit.

(l) Costs

Operating lease

Operating leasing payments are reported in the profit and loss statement linearly during the rental period as a costs.

Insurance business costs

Insurance business costs are divided into administrative, acquisition and claim adjustment costs. In consolidation the claim adjustment and investment costs are influenced by the costs of the daughter companies.

Administrative costs are the costs, which are connected to the collecting premiums, portfolio management and reinsurance. In administrative costs also the costs are indicated, which serve the interest of the company as a whole, and which are not taken into account in reporting the technical return and which do not belong to the investment costs. Such costs are payments and benefits to the auditors, experts, legal and tax consultants and membership fees to the insurance unions etc.

The payments to the Estonian Traffic Insurance Fund are also reported under administrative costs. Insurance companies, which are the members of the fund, pay from collected traffic insurance payments the membership fee to the Fund. The payment rate in 2005 rate was 2,8%. For 2006 the established rate is 2,1%.

Acquisition costs are divided by their nature to the direct and indirect acquisition costs. Direct acquisition costs include the costs having changing nature and proceeding from the concluding of the insurance agreements incl. commissions to the agents, expenses connected to the preparing of the insurance documents, printing, transportation and communication costs.

Indirect acquisition costs include costs having constant nature incl. sales department and insurance department labour costs, advertisement costs, mission expenses, change of the value of fixed assets and other costs, which do not belong to the administrative, claim adjustment nor the investment costs.

In the investment costs the personnel costs connected to the investments are shown, also the commissions to the administrative companies of investments, transaction costs of purchasing the financial assets and other investment related costs.

(m) Taxation

Pursuant to the effective legislation in Estonia the company's profit is not liable to tax, therefore there are no deferred income tax claims or liabilities. However, the dividends paid from the retained profit are liable to tax with the rate 23/77 (until 31 December 2005 the tax rate was 24/76) from the amount paid out as net dividends. The corporate tax accompanying dividend payout is reported in the profit and loss statement as income tax in the period during which the dividends were declared, regardless of the period for they have been declared or will be paid out.

Other payment rates in 2005 pursuant to the effective Taxation Act were as follows:

Income tax	24 per cent of taxable income
Social tax	33 per cent of the taxable amount of incomes received and on fringe benefits
Value added tax	18 per cent of the taxable value of sold goods and services
Land tax	0.5-2.0 per cent of the assessed value of land annually
Unemployment insurance tax	0,5 per cent of incomes received and 1 per cent of taxable income

(n) Foreign currency

The parent company and daughter companies use EEK the currency of its economic environment as the accounting currency. Transactions based on foreign currency are documented with the exchange rates of the Bank of Estonia applicable on the day of the transaction. In balance sheet the foreign currency based fixed assets and liabilities as at 31 December 2005 are converted into Estonian kroons at the exchange rate of the Bank of Estonia applicable on the day of preparing the balance sheet. Profit and loss incurred from the currency transactions is reported in the reporting period's profit and loss statement as incomes and losses.

(o) Assets kept for sale and terminated fields of activity

Assets (incl tangible and intangible assets and long-term financial investments), which shall be sold or liquidated, are classified in compliance with the IFRS 5 as "kept for sale". The depreciation calculation of the assets is stopped and they will be reported in the balance sheet on a separate line in depreciated residual value or in fair value, depending on which is lower and from which the expenses necessary for sale or liquidation have been subtracted.

(p) Tangible assets

In documenting the Tangible Assets in the Balance sheet accumulated depreciation and amounts of write-downs caused by the impairment of the assets have been subtracted from the acquisition costs.

The acquisition costs of the tangible assets include the purchase price paid and other direct expenditure and presumed later expenditure, which is necessary for keeping the assets in working order or for replacing its parts. In establishing the amortization norms of the tangible assets the life of object's important parts is valued separately.

Objects the acquisition cost of which exceeds EEK 10 000 and the useful life of which is more than a year are documented as a tangible assets in accordance to the materiality concept.

In calculating the depreciation of tangible assets from the acquisition costs the linear method is applied, the presupposed economic useful life is taken as a basis. Depreciation calculation is stopped by classification as " tangible assets expecting to be sold" or at the end of reporting.

Average useful lives of the balance sheet groups are as follows:

Buildings	25 years
Inventory	from 3 to 5 years
Hardware	3 years

Value of land is not subject to amortization.

Should the circumstances, which may change the assets' or the asset group's useful life, occur, the amortization periods assigned to the tangible assets are reviewed. The influence of the change of evaluations is documented in the reporting period and also in following periods.

Later expenditure connected to the tangible assets is added to the balance cost of the assets only if it is evident, that it will earn economic profit in the future. Other expenditure, which rather supports the ability of the tangible assets to create economic profit, are documented in the expenses of the reporting period.

In case of decrease of the tangible assets' value given assets are discounted to its covering value. Should the mentioned tangible assets' value grow again, the expenses caused by the depreciation are cancelled.

(q) Real estate investments

Real estate investments are assets, which the company hold as an owner or has leased out under capital lease conditions for earning rental income or increasing its value or for both purposes. Real estate investments are documented in the balance sheet at their acquisition costs, which shall also include directly connected purchase transaction costs.

Real estate investments are assessed at the balance day in their fair value. The fair value is determined with the help of discounted future cash flows, acquired from the real estate investments. The profits caused by the change of values are documented in the profit and loss statement of the reporting period.

Documenting of the rental income from real estate investments is described in paragraph (k).

(r) Intangible assets

In reporting the intangible assets in the balance sheet the accumulated depreciation and amounts of write-downs caused by the impairment of the assets have been subtracted from the acquisition costs.

Licenses and other rights stipulated by the agreements are documented in the balance sheet as the intangible assets, for the purchasing of which expenses have been incurred, including computer software costs.

Intangible assets are amortized in linear method during their presupposed useful life, which is usually 1-5 years.

In case of decreasing the value of the intangible assets, the value of the given assets is discounted to its covering value. Should the mentioned intangible assets' value grow again, the expenses caused by the depreciation are cancelled.

(s) Financial assets

Depending on their acquisition purpose the financial assets are classified as follows:

Financial assets in fair value through profit and loss statement are the financial assets, which have been purchased with an aim to trade or in initial reporting the Group determined them as such.

The investments kept until the redemption deadline are financial assets, which shall not be regarded as financial derivatives and which are fixed or have determinable payments and fixed redemption deadlines, whereby the Group plans and is able to hold the assets until the redemption deadline.

Loans and claims are the financial assets, which are fixed withy determinable payments and shall not be regarded as financial derivatives which are unlisted on the active market, with an exception of those, which are meant for selling by the Group in the near future; those, which are determined by the Group in initial reporting as in fair value through profit and loss statement or ready for sale or those for which the Group is unable to get back total initial investment.

The financial assets ready for sale are the financial assets which are not financial derivatives and which are determined to belong to this category or have not been included into any other category.

Acquisition of financial assets is reported on the transaction day, i.e. on the moment when the Group is obliged to acquire the assets. Should the agreement-based rights to the cash flows from investments expire or investments with all essential possessions-connected risks and goods be handed over, the documenting is stopped.

Financial assets are documented in the fair value, to which the transaction costs, which are directly connected to their purchase, are added. It applies to all financial assets, which are not in fair value through profit and loss statement.

After the initial reporting the Group assesses the financial assets in fair value through profit and loss statement and financial assets ready for sale in fair value without discounting possible transaction costs occurred at selling. The fair value of the listed securities is their listed purchase rate as at balance sheet day. Should the financial assets market be inactive the evaluation methods for assessing the just value would be used by the Group. They include latest market transactions of the independent parties, references to other similar instruments, analysis of the discounted cash flows and assessment models of the options. Should it prove to be impossible to evaluate the value of financial instruments reliably, they are assessed in their acquisition value.

Investments that are kept until the redemption deadline, loans and claims are assessed in the corrected acquisition value applying effective interest method, whereby the depreciation is subtracted from the acquisition cost.

Realized profit and loss and in fair value through profit and loss statement the unrealised profit and loss coming form the change of fair value of financial assets are documented in the period's report in which they incurred. The unrealised profit and loss coming from the change of fair value of financial assets ready to sale is reported directly in the capital and reserves with an exception of losses from depreciation and losses from monetary assets and liabilities such as debt securities, profit and loss from exchange rate. Should the financial assets ready for sale be sold or decrease in value, the cumulative profit, which was previously reported in capital and reserves will be documented as profit or loss. Should the investments ready for sale include interests, the calculated interest using effective interest method is reported in the profit and loss statement.

Derivative transactions are reported in the balance sheet in their fair value; agreements with positive value in asset and with negative value in liabilities. All profit and loss coming form the change of value of the financial derivatives is reported in the profit and loss statement.

(t) Other claims

Debts of policyholders, reinsurers, agents and other persons are documented as claims at the end of the reporting period. In the balance sheet the claims are reported in their corrected acquisition cost, i. e. without doubtful accruals and hopeless claims. In assessing the claims every claim has been analyzed separately and doubtful accruals have been documented as expenses.

(u) Impairment of assets

On every balance sheet day the management of the company assesses the probability of signs referring refer to the impairment of assets. Should there be any suspicions, which refer to the impairment of asset object below its balance value, the test of asset coverage is conducted. Covering value of assets equals to the highest of two figures: fair value of assets (minus sale expenses) or operating value calculated on the basis of discounted cash flows. Should the test result show that the covering value is lower than its balance sheet value, the asset object is written down to its covering value. Should it prove to be impossible to conduct the asset value test of a single asset object, the respective value is calculated for smallest asset group (money generating unit) to which this object belongs. The write-downs of assets are reported as the reporting period's costs.

Should the results of the test of covering value of assets written down earlier indicate, that the covering value has become higher than the balance sheet residual value, the earlier write downs is cancelled and the balance sheet value of assets is increased. In such case the upper limit shall be the balance sheet residual value of assets, which includes the normal amortization of the in-between years.

(v) Cash and cash equivalents

Cash and cash equivalents are reported as short-term extremely liquid investments, which are freely convertible to a certain amount of money and whereby risk of change in value connected to them is unimportant, incl. monies in cash and in credit institutions and transferable deposits. Cash flow statement is prepared using direct method.

(w) Provisions and contingent liabilities

The company creates provisions for the liabilities the realization date of which or the sum are not fixed. In determining the amount of the provision and the realization time the estimates of the management board and experts of the corresponding field are taken into account.

Should the company before the balance date have acquired legal or operations-based liability, and the realization of the provision as resource cost is plausible (over 50%) and the amount of the provision is reliably determined the provision shall be reported.

Expenses accompanying the realization of the provisions are estimated at the balance day and the amount of the provisions is estimated again on every balance day. Should the provision plausibly be realized after one year, it shall be documented in its discounted present value. In discounting the interest rate of the market applicable to the similar liabilities is taken as a basis. Should the plausibility of realization of liabilities be lower than 50% or the estimation of their amount is not reliable, the liabilities shall be classified as contingent liabilities. Contingent liabilities are reported on the off-balance sheet.

(x) Other liabilities

Other liabilities are documented in the acquisition cost.

(y) Events after the balance sheet date

The annual financial statements report important circumstances influencing the assessment of assets and liabilities, which occurred between the balance sheet date 31 December 2005 and the date of preparing the financial statements, which are connected to the transactions taken place during the reporting period or the earlier periods.

Events after the balance sheet date, which have not been taken into account in assessing the assets and liabilities, and which will influence essentially the results of the next reporting period are disclosed in the notes to the interim report.

(aa) New international standards of financial reporting and interpretations of the International Financial Reporting Interpretations Committee (IFRIC)

At the moment of preparing the present report new standards of international financial reporting and the interpretations thereof have been issued, become obligatory to the Group for annual periods beginning on or after 1 January 2006. The Group's evaluation of the possible influences of new standards and interpretations to the financial statements during the period of their first time application are presented below.

- Amended IAS 1 - Presentation of financial statements: Capital disclosures. IAS 1 amendment applies to all entities, effective for annual periods beginning on or after 1 January 2007. The Group has decided not to apply the amendments earlier. The standard prescribes additional disclosure in the financial statements.

- Amended IAS 19: „Employee benefits". The amendments apply to all entities, effective for annual periods beginning on or after 1 January 2006. The amendment prescribes additional detailed requirements of the accounting and disclosure for employee benefits. The given amendments do not influence the financial statements of the Group.

- Amended IAS 39: „Cash Flow Hedges of Forecast Intragroup Transactions". The amendments apply to all entities, effective for annual periods beginning on or after 1 January 2006. The given amendments do not influence the financial statements of the Group.

- Amended IAS 39 „Fair Value Option". The amendments apply to all entities, effective for annual periods beginning on or after 1 January 2006. The amendments restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit and loss (the 'fair value option'). The given amendment does not influence essentially the financial statements of the Group.

- IAS 39 and amended IFRS 4 „Financial guarantee contracts". The amendments apply to all entities, effective for annual periods beginning on or after 1 January 2006. The Group has decided not to apply the amendments earlier. According to the evaluation of the management the application of the amendments do not cause at the moment of preparing the report of existing assets and liabilities of the Group documenting changes.

- Amendment to IFRS 1 „First-time Adoption of International Financial Reporting Standards" and amendment to IFRS 6 „Exploration for and Evaluation of Mineral Resources ". The amendments apply to all entities, effective for annual periods beginning on or after 1 January 2006. The given amendments do not influence the financial statements of the Group.

- IFRS 7 „ Financial instruments: Disclosure Requirements". The standard applies to all entities, effective for annual periods beginning on or after 1 January 2007. The Group has decided not to apply the amendment earlier. The standard prescribes additional disclosure in the financial statements.

- IFRIC 4 „Determining Whether an Arrangement Contains a Lease " applies to all entities, effective for annual periods beginning on or after 1 January 2006. IFRIC 4 requires that the fact whether an arrangement contains a lease shall be determined on the basis of the content of the arrangement. The interpretation specifies that an arrangement that meets the following criteria is, or contains, a lease: (a) fulfilment of the arrangement depends upon a specific asset; and (b) the arrangement conveys a right to control the use of the underlying asset. The management of the Group has not yet completed the analysis in full extent and is not able to assess the impact of changes to the financial reports of the Group.

- IFRIC 5 „Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds" applies to all entities, effective for annual periods beginning on or after 1 January 2006. IFRIC 5 does not influence the financial statements of the Group.

- IFRIC 6 „Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment". IFRIC 6 applies to all entities, effective for annual periods beginning on or after 1 December 2005. IFRIC 6 does not influence the financial statements of the Group.

- IFRIC 7 „Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies ". IFRIC 7 applies to all entities, effective for annual periods beginning on or after 1 March 2006. IFRIC 7 The given amendment does not influence the financial statements of the Group.

- IFRIC 8 „IFRS 2 Share-based Payment ". IFRIC 8 applies to all entities, effective for annual Periods beginning on or after 1 March 2006. IFRIC 8 does not influence the financial statements of the Group.

- IFRIC 9 „Reassessment of Embedded Derivatives". IFRIC 9 concludes that an entity must Assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 apply to all entities, effective for annual periods beginning on or after 1 June 2006 The management of the Group has not yet completed the analysis in full extent and is not able to assess the Impact of changed to the financial reports of the Group.

Note 2. Explanations accompanying transition to the International Financial Reporting Standards (IFRS)

Salva Kindlustuse AS prepares the consolidated financial statements in compliance with the IFRS for the first time.

Above-mentioned accounting principles have been used in preparing the annual report of the year, which ended on 31 December 2005. Comparable information is reported about the year, which ended on 31 December 2004 and in preparing the initial balance sheet as at 1. January 2004.

First time adoption of the international financial reporting standards did not cause changes in consolidated opening balance sheet.

Note 3. Accounting estimates and assumptions

In preparing the statements several accounting estimates and assumptions, which influence the assets reported in the statements and liabilities and contingent assets and liabilities published in the notes have been taken into account. Although the mentioned estimates have been made according to the best knowledge of the management board, they may not correspond to the actual result acquired later.

More important accounting estimates in implementing accounting principles have been described below:

Policyholder's claims for compensation

The estimates of the company about reported and unreported losses and provisions for the claims for compensations are supplemented and revised on the quarterly basis and the changes are documented in the profit. Estimation of provisions takes place according to the historic experience, which is applied to present developments and plausible future events.

Real estate investments

Real estate investments are valued on every balance sheet day in their fair value. The fair value is determined by the discounted cash flows coming form the real estate investments. The discount rate used at estimating the fair value of the real estate investment was 9,63%. The real estate investments, which have been used by the company, or the parts of it are reported as tangible assets.

Note 4. Management of the insurance risk

Principles of the risk management and the policy of insurance risk dissipation

The insurance business of the company presupposes a loss case risk of the person or a company connected directly to the insurance agreement.

Such risks may occur with persons, property, accountability, and health, financial or other losses, which proceed from the insurance cases. The company as such is not fully protected from the insecurities of timing and impact level of losses. We are also exposed to the insurance and investment business based market risks.

For risk management and in order to dissipate the insurance risk the company employs underwriting limitations, coordination of operations, limits, price instructions and also reinsurance.

Underwriting strategy

The company's underwriting strategy aim is to achieve the portfolio's variety in order to guarantee its balance. We believe that by having a big risk portfolio with similar risks, we will be able to guarantee the better predictability of our results.

The implementation of the strategy takes place on a continuous basis through the price policy and the participation of underwriters. Underwriters' participation means that the risks exceeding the sales-persons' right to signature have to be always fixed by the underwriter's decision in the repayable form. For detecting the unusual risks the database queries are used, during which the risks, which differ from the portfolio's average are analysed more closely. As a means of insurance risk management the company aims to increase employees' risk consciousness and create the control environment.

The management reports are analysed on a monthly basis. Special attention is paid to collected insurance premiums and loss ratios of the insurance year.

The maximum duration of the Insurance agreements is five years.

Underwriting risk may proceed from the insufficient insurance premium. In insurance risk management we follow the reasonable pricing, product development, choice of risks and reinsurance. Therefore we observe carefully the changes taking place in the economic environment and try to react on them.

Reinsurance strategy

The company uses the reinsurance for dissipation of the insurance risks taken by it and for protecting the resource capital. Pursuant to the Salva Kindlustuse principles of insurance risk dissipation we use both proportional and non-proportional obligatory reinsurance agreements.

Underwriters have the right and in certain condition the obligation to conclude facultative reinsurance agreements.

Note 5. Financial risk management

Financial operations may be accompanied by the financial risks. The aim of the financial risk management is to dissipate financial risks. Such risks include market risk, credit risk, liquidity risk and reinsurance risk.

Market risk

Market risk is caused by investing the assets of Salva Kindlustus to the financial instruments sensitive to the market risk.

Market risk could be described as a risk of changing the fair value of financial instruments caused by the interest rates, price of securities or exchange rates.

For market risk management Salva Kindlustus has adopted the policy determining the management of investments and assets, according to which the distribution of different asset groups and their purchasing methods shall be chosen.

The policy of distribution of the mentioned assets is rather conservative, focusing 80% to the instruments with fixed efficiency or including similar instruments.

ALM, stress and other tests are not conducted systematically, nevertheless the structure of assets and investments follow the principles of compliance of the assets and liabilities and sufficient risk reserve. The dissipation of risks proceeding from changes in the exchange rate are not handled separately, since premiums collected in other currencies constitute relatively marginal part from the total accruals and their duration in the company is short.

Credit risk

Credit risks of the company's assets occurs when the counter party is not able to fulfil its obligations stipulated by the agreement. Assets under risk may include debt securities and loans and claims. The credit risk of the company's assets are sufficiently dissipated between several professionally managed funds and in other regards the value of positions containing credit risk does not exceed 0,5% of the total value of investments.

Liquidity risk

In order to compensate damages the company needs monetary resources every day. Considering the liquidity risk the infusion of the company's assets is extremely conservative. 80% of our assets could be realized in maximum seven days without losing the present value. Considering the fact that reinsurers have the obligation to transfer to us their part of the cash loss in case of need and that the claim adjustment and reserve payout time averages between 20 to 40 days, the liquidity risk in the company is managed sufficiently.

Reinsurance risk

In order to minimize its insurance risks Salva Kindlustus has concluded reinsurance agreements with different reinsurers. Mentioned agreements dissipate the risk and minimize the loss impact to the result. The reinsurance conditions stipulate the reinsurer's obligation to compensate the agreed part of paid damages. However the risk, that the reinsurer would not be able to fulfil its obligation still exists. The company has established minimal acceptable public credit ratings for choosing the reinsurers.

Note 6. Formation of losses

The loss formation chart is prepared with an aim to put the gross provisions of the claims outstanding reported in the financial statements into context, which would allow the comparison of loss formation with previous years. As a result the chart shows the ability of the company to assess the total value of the losses and whether the provisions have been sufficient during the previous years.

Thousands of EEK

	Year of the policy validation								
Estimation of cumulative losses	Earlier	1999	2000	2001	2002	2003	2004	2005	Total
1 year after the year of policy validation	0	46 629	51 964	89 001	132 404	137 957	157 493	0	615 448
2 years ..	0	43 884	50 461	85 628	131 306	137 051			448 330
3 years ..	0	43 560	51 553	83 723	136 378				315 214
4 years ..	0	44 049	51 883	82 642					178 574
5 years ..	0	43 992	51 736						95 728
6 years ..	0	43 849							43 849
									0
Estimation of cumulative losses	0	43 849	51 736	82 642	136 378	137 051	157 493	130 107	739 256
Payments as at 31.12.2005	0	43 483	50 415	77 808	119 589	125 786	138 487	78 808	634 376
Provision of outstanding claims as at 31.12.2005	4 071	366	1 321	4 834	16 789	11 265	19 007	51 299	108 952

According to the management boards estimation at the end of 2005 the amount of the technical provisions in the financial statements is correct and sufficient for covering future liabilities proceeding from the insurance portfolio. Technical provisions have been calculated pursuant to the information available at the day of the reporting date about the risks in the insurance portfolio and according to the generally accepted actual principles and the internal regulations of the company.

Note 7. Reinsurance commissions and participation in the profit

EEK	**2005**	**2004**
Reinsurance commissions	41 127 755	38 012 431
Participation in the reinsurer´s profit	-8 336	202 345
The part of reinsurance in the change of acquisition costs	-1 113 180	353 704
Commissions from the mediated agreements	0	516 642
Other fees connected to the reinsurance premiums	0	353 161
Total	**40 006 239**	**39 438 283**

Note 8. Financial income

EEK	Note	2005	2004
Real estate investments profit/loss	13	2 786 003	651 591
Interest income from the securities with fixed rate of retun		151 128	85 616
Interest from deposits		157 505	150 440
Other financial income incl. interests from loan		248 531	266 263
Profit/losses of changes of investments` value		3 282 729	4 088 758
Profit/losses from realization of investments		2 314 896	277 245
Other costs from investments		-1 008 287	-698 402
Total		**7 932 505**	**4 821 511**

Note 9. Other business income

EEK	2005	2004
Sale of registered immovable and utility networks	9 111 521	2 127 792
Rental income	10 902	13 780
Other	300 402	2 261 681
Total	**9 422 825**	**4 403 253**

Note 10. Claim adjustments

EEK	Note	2005	2004
Paid damages		148 360 743	136 019 195
Claim adjustment expenses	11	14 221 246	13 566 069
Recalls and sums accrued with realization of the residual assets		-12 262 192	-7 173 144
Total		**150 319 797**	**142 412 120**

According to the estimations the accrued recalls and expected sales revenue form salvage is reported as separate claim which cut down the amount of paid provisions (Note 12). The part of the reinsurance is evaluated similarly with the claim adjustments (Note 19).

Note 11. Operation costs

EEK	Claim adjustment costs		Insurance agreements acquisition costs		Administrative costs		TOTAL	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Labour costs	6 148 090	5 347 923	18 324 691	14 567 339	9 458 603	8 173 909	33 931 384	28 089 171
Commissions to the agents	0	0	27 266 532	23 048 864	0	0	27 266 532	23 048 864
Outsourced services	5 073 799	4 572 609	0	0	0	0	5 073 799	4 572 609
Depreciation and impairment of tangible and intangible asets	961 175	1 055 818	475 061	365 089	498 602	624 540	1 934 838	2 045 447
Other operation costs	2 038 182	2 589 719	10 751 173	9 516 514	17 895 468	11 171 972	30 684 823	23 278 205
Change of capitalized acquisition costs	0	0	-2 668 772	-230 087	0	0	-2 668 772	-230 087
Total	**14 221 246**	**13 566 069**	**54 148 685**	**47 267 719**	**27 852 673**	**19 970 421**	**96 222 604**	**80 804 209**

Note 12. Receivables from direct insurance

EEK	**31.12.2005**	**31.12.2004**
Policyholders	5 861 998	3 556 740
Insurance agents	9 223 631	7 141 430
Recalls and salvage	4 835 241	0
Other claims	14 499	172 587
Total claims from direct insurance business	**19 935 369**	**10 870 757**

As claims and incomes the accrued and expected fair cost of recalls and salvage is reported as at 31 December 2005. The respective reinsurer's part is documented among the part of the reinsurer of the claim adjustments. (Note 19).

Changes in allowances for doubtful accounts:

EEK	**31.12.2005**	**31.12.2004**
Doubtful accounts at the beginning of the perio	**-369 225**	**-320 951**
Doubtful accounts determined as such received during the reorting period	47 256	16 802
Doubtful accounts determined as such during the reporting period	-268 286	-66 056
Claims classified as bad during the reporting period	196 063	980
Doubtful accounts at the end of the period	**-394 192**	**-369 225**

Note 13. Real estate investments

The group owns registered immovable in the centre of Tallinn, 55% of which is rented out and the company uses the rest. Since the registered immovable is transferred by parts, the rented out part of it is reported as real estate investment. The part is reported as tangible assets. The real estate investment is assessed in the balance sheet in fair value. For calculating the fair value the method of discounted future cash flows is applied, as a result of which the fair value of the whole registered immovable was assessed to be EEK 25 millions.

EEK	**2005**	**2004**
The balance sheet cost of the real estate investments		
At the beginning of the year	11 200 000	11 200 000
Revaluation	2 800 000	0
At the end of the year	**14 000 000**	**11 200 000**

EEK	**2005**	**2004**
Earning and outlays of the real estate investments		
Earning	4 210 155	1 014 114
incl. re-evaluation	2 800 000	0
Real estate investment managing costs	-1 424 152	-362 521
Total	**2 786 030**	**651 593**

Note 14. Financial investments

31.12.2005 *EEK*	Note	Fair value through profit/loss	Until redemption date	Loans and deposits	Total
Shares and participation in the investment funds					
Quoted		8 367 733			8 367 733
Liquidity funds		12 072 933			12 072 933
Debt security funds		78 146 611			78 146 611
Debt securities					
Fixed rate of return			1 526 625		1 526 625
Changing rate of return		6 048 695			6 048 695
Loans					
Mortgage loans	15			6 200 000	6 200 000
Other loans	15			927 074	927 074
Deposits	15			23 604 210	23 604 210
Total		**104 635 972**	**1 526 625**	**30 731 284**	**136 893 881**
31.12.2004					
Shares and participation in the investment funds					
Quoted		1 837 507			1 837 507
Liquidity funds		6 739 730			6 739 730
Debt security funds		58 515 330			58 515 330
Debt securities					
Fixed rate of return			2 013 131		2 013 131
Changing rate of return		6 955 577			6 955 577
Loans					
Mortgage loans	15			2 147 000	2 147 000
Other loans	15			2 214 572	2 214 572
Deposits	15			7 000 000	7 000 000
Total		**74 048 144**	**2 013 131**	**11 361 572**	**87 422 847**

Note 14. Financial investments (follow up)

EEK	Fair value through profit/loss	Until redemption date	Loans and deposits	Total
Balance cost as at 01.01.2004	48 594 310	0	12 113 041	60 707 351
Acquired during the period	24 189 407	1 912 636	6 662 436	32 764 479
Sold during the period	-2 723 836		-7 413 905	-10 137 741
Book profit in the change of investment´s value	3 988 263	100 495		4 088 758
Balance cost as at 31.12.2004	**74 048 144**	**2 013 131**	**11 361 572**	**87 422 847**
Balance cost as at 01.01.2005	74 048 144	2 013 131	11 361 572	87 422 847
Acquired during the period	58 466 809	70 596	54 098 383	112 635 788
Sold during the period	-31 065 234	-680 000	-34 728 671	-66 473 905
Book profit in the change of investment´s value	3 186 253	122 898	0	3 309 151
Balance cost as at 31.12.2005	**104 635 972**	**1 526 625**	**30 731 284**	**136 893 881**

The balance cost of the financial investments broken down by currency:

EEK	EEK	EUR	LTL	HUF	GBP	LVL	Total
Debt securities	1 251 528	6 323 792	0	0	0	0	7 575 320
Shares	4 278 244	0	2 533 967	883 025	459 090	213 407	8 367 733
Participation in the investment funds	78 146 611	0	0	0	0	0	78 146 611
Participation in the liquidity funds	12 072 933	0	0	0	0	0	12 072 933
Loans	7 127 074	0	0	0	0	0	7 127 074
Deposits in credit institutions	23 127 259	476 951	0	0	0	0	23 604 210
Total	**126 003 649**	**6 800 743**	**2 533 967**	**883 025**	**459 090**	**213 407**	**136 893 881**
Ratio, %	92,04%	4,97%	1,85%	0,65%	0,34%	0,16%	100,00%

Note 15. Loans

EEK	**31.12.2005**	**31.12.2004**
Mortgage loans		
Loans deadline from 3 months to 1 year	5 100 000	347 000
Loans deadline from 1-3 years	1 100 000	1 800 000
Total	**6 200 000**	**2 147 000**
Other loans		
Loans deadline until 3 months	220 985	23 027
Loans deadline from 3 months to 1 year	251 522	1 128 433
Loans deadline from 1-5 year	454 567	1 063 112
Total	**927 074**	**2 214 572**

The annual interest rated of the issued loans are between 4,92 -10%.

Deposits in credit institutions broken down by deadlines:

	31.12.2005	**31.12.2004**
Deadline until 3 months	17 604 210	2 000 000
Deadline from 3 months to 1 year	6 000 000	5 000 000
Total	**23 604 210**	**7 000 000**

The annual interest rates of the deposits are between 2,35-2,63 %.

Note 16. Reserves

Purchased land by Safiirex Invest OÜ which was meant for resale and other expenses for immovable' development are reported as reserves. All registered immovables have been sold. Sales revenue is reported in other income from business (Note 9) and decrease of reserves among the administrative costs in other operating costs (Note 11).

Note 17. Tangible assets

EEK	Land and buildings	Other tangible assets	Total
Cost			
31.12.2003	8 204 636	9 305 775	17 510 411
Purchased tangible assets	523 959	3 224 741	3 748 700
Reclassified tangible assets	0	-492 640	-492 640
Change of the proportions of the real estate investments	872 859	0	872 859
Sold assets	0	-2 364 343	-2 364 343
Written off assets	0	-764 843	-764 843
31.12.2004	**9 601 454**	**8 908 690**	**18 510 144**
31.12.2004	9 601 454	8 908 690	18 510 144
Purchased tangible assets	0	1 214 748	1 214 748
Sold tangible assets	0	-695 495	-695 495
Written off assets	0	-375 733	-375 733
31.12.2005	**9 601 454**	**9 052 210**	**18 653 664**
Accumulated depreciation			
31.12.2003	-2 477 628	-5 977 119	-8 454 747
Calculated depreciation	-285 083	-1 486 940	-1 772 023
Calcualted depreciation of reclassified assets	0	492 632	492 632
Change of proportions of the real estate investments	-276 270	0	-276 270
Calculated depreciation of the sold assets	0	1 664 592	1 664 592
Calculated deprectiation of written off assts	0	764 843	764 843
31.12.2004	**-3 038 981**	**-4 541 992**	**-7 580 973**
31.12.2004	-3 038 981	-4 541 992	-7 580 973
Calculated depreciation	-262 500	-1 509 334	-1 771 834
Calculated depreciation of the sold assets	0	432 901	432 901
Calculated depreciation of the written off assets	0	375 154	375 154
31.12.2005	**-3 301 481**	**-5 243 271**	**-8 544 752**
Residual value			
31.12.2003	**5 727 008**	**3 328 656**	**9 055 664**
31.12.2004	**6 562 473**	**4 366 698**	**10 929 171**
31.12.2005	**6 299 973**	**3 808 939**	**10 108 912**

The income from the sale of assets in 2005 constituted EEK 33 660 and loss EEK 82 576.

Note 18. Intangible assets

EEK	2005	2004
Acquisition cost		
At the beginning of the year	2 649 751	840 825
Reclassified	0	492 640
Purchasing	349 128	1 321 255
Written off	-130 597	-4 969
At the end of period	**2 868 282**	**2 649 751**
Accumulated depreciation		
At the beginning of the year	-1 014 662	-212 309
Reclassified	0	-492 632
Calculated depreciation	-486 098	-314 690
Written off	130 597	4 969
At the end of the period	**-1 370 163**	**-1 014 662**
Residual value at the end of the period	**1 498 119**	**1 635 089**

The costs of purchasing software have been reported as intangible assets.

Note 19. Liabilities from direct insurance business

EEK	31.12.2005	31.12.2004
Policy holders´ prepayments	3 388 174	4 974 614
Debt to the insurance agents	1 496 369	341 988
The reinsurer´s share in the recalls and salvages	3 099 797	0
Other liabilities	465 951	212 585
Total	**8 450 291**	**5 529 187**

Note 20. Liabilities from reinsurance

EEK	31.12.2005	31.12.2004
Debt to reinsurers	15 897 164	6 501 059
Provisioned share of the reinsurance commissions	11 512 682	5 331 687
Incl. short term share	2 179 577	273 572
Long term share	9 333 105	5 058 115
Total	**27 409 846**	**11 832 746**

The provisions are made for returned reinsurance commissions, which are stipulated by the calculation of the commissions having different schedules and depend on final loss ratio. Provisions are reported in the reinsurance liabilities.

The share of the long-term provisions in reinsurance commissions is calculated in discounted actual value, whereby the discount rate constitutes 5%. We have taken into account that the reinsurance commission calculations take place after the end of the reinsurance year, i.e. during the second year.

Note 21. Operating lease

Assets taken to operating lease

In the consolidated statement for the reporting year the rental costs of vehicles total EEK 341 822 and the rent for rooms constitutes EEK 2 317 439.

The consolidated rental costs of coming periods from effective agreements are as follows:

Until 1 year	1 328 221
1 - 5 years	2 375 557
Over 5 years	671 974

The duration of concluded lease contracts is from 1-10 years.

Assets given to operating lease

During the reporting period the reported other rental income in consolidated statement was EEK 9 505.

During the reporting period the reported rental income of rooms was EEK 1 214 778.

The consolidated rent profits of coming periods from effective agreements are as follows:

Until 1 year	1 598 772
1 – 5 years	5 075 072
Over 5 years	2 851 680

Note 22. Outstanding debts and other unearned income

	31.12.2005	**31.12.2004**
Debts to employees	3 270 994	3 344 107
Tax debts	2 622 896	1 633 493
Debts to procurer	1 002 300	938 673
Rent prepayments	16 343	17 653
Total	**6 912 533**	**5 933 926**

Note 23. Technical provisions

Technical provisions broken down by the types of insurance

Provision of prepaid premiums	31.12.2004		31.12.2005		change in 2005	
	Total amount	reinsur.	Total amount	reinsur.	Total amount	reinsur.
Traffic insurance	33 253 440	24 940 079	45 551 043	31 885 730	12 297 603	6 945 651
Short-term health insurance	1 714 476	464 775	2 577 618	780 150	863 142	315 375
Vehicles	21 709 037	15 196 326	30 195 911	21 137 138	8 486 874	5 940 812
Railway, rolling stock, aircraft, vessels	1 241 220	1 104 150	1 117 405	1 047 816	-123 815	-56 334
Transported goods	84 349	71 645	160 756	128 605	76 407	56 960
Assets (natural persons)	4 554 176	2 298 592	6 482 982	3 267 349	1 928 806	968 757
Assets (legal persons)	5 414 022	4 009 670	7 368 044	4 336 743	1 954 022	327 073
Motor vehicles' owner's accountability	108 157	83 604	113 221	89 123	5 064	5 519
Civil accountability	313 661	250 083	236 270	187 598	-77 391	-62 485
Financial loss	1 076 368	235 904	1 392 994	218 375	316 626	-17 529
Total	**69 468 906**	**48 654 828**	**95 196 244**	**63 078 627**	**25 727 338**	**14 423 799**

Provision for claims outstanding	31.12.2004		31.12.2005		change in 2005	
	total amount	reinsur.	total amount	reinsur.	total amount	reinsur.
Traffic incurance	56 689 125	43 040 770	75 176 125,0	57 464 063	18 487 000	14 423 293
Short-term health insurance	1 899 518	671 643	1 645 410	419 841	-254 108	-251 802
Vehicles	15 567 884	10 897 519	19 603 371	13 722 360	4 035 487	2 824 841
Railway, rolling stock, aircraft, vessels	0	0	5 313 240	4 776 915	5 313 240	4 776 915
Assets (natural persons)	958 430	479 215	1 683 928	861 747	725 498	382 532
Assets (legal persons)	1 675 172	1 163 691	4 106 193	2 359 423	2 431 021	1 195 732
Vehicle's owner's accountability	0	0	528 824	502 383	528 824	502 383
Civil accountability	894 712	716 549	894 712	715 769	0	-780
Total	**77 684 841**	**56 969 387**	**108 951 803**	**80 822 501**	**31 266 962**	**23 853 114**

Note 24. Revenue of the non-life insurance broken down by three major types of insurance

	Traffic insurance		Insurance of vehicles		Property insurance		Others		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Gross premiums written	139 560 097	110 344 856	99 832 795	87 249 775	42 881 054	32 276 006	30 805 657	25 641 402	313 079 603	255 512 039
Gross premiums earned	127 262 494	109 274 751	91 345 921	87 832 947	38 998 226	32 545 160	29 745 624	25 300 684	287 352 265	254 953 542
Gross claims	-69 625 003	-79 243 219	-54 337 310	-49 586 641	-17 449 299	-10 348 377	-8 908 185	-3 233 883	-150 319 797	-142 412 120
Gross claims incurred	-88 112 003	-69 282 199	-58 372 797	-47 513 672	-20 605 818	-10 812 111	-14 496 141	-6 079 308	-181 586 759	-133 687 290
Gross operating expenses	-22 899 508	-19 333 749	-21 704 400	-19 963 194	-13 065 952	-11 471 974	-9 845 594	-9 893 068	-67 515 455	-60 661 985
Incl. commissions	-9 425 681	-5 293 970	-10 789 054	-9 365 063	-4 395 876	-2 079 429	-4 498 155	-349 520	-29 108 766	-17 087 982
The revenue of the outgoing reinsurance	-3 791 018	-8 759 262	-4 481 556	-6 911 519	-4 556 449	-7 858 787	-2 674 115	-10 706 298	-15 503 137	-34 235 866
Other net technical profit/loss from reinsurance	-3 958 638	-2 709 332	0	0	0	0	5 102	-55 594	-3 953 536	-2 764 926
Technical revenue	8 501 327	9 190 209	6 787 168	13 444 562	770 007	2 402 289	2 734 876	3 096 399	18 793 378	24 211 294

Gross earned premiums report the changes in provisions for unearned premiums. Gross claims incurred document the changes in provisions for outstanding claims. Commissions comprise agreement concluding costs, renewing, premiums collecting and management costs.

Note 25. Provisions and contingent liabilities

Income tax

The retained profit of the company as at 31.12.2005 constituted EEK 76 193 250. The biggest possible amount for taxation should the total retained profit be paid out as dividends constitutes EEK 22 759 023. Thus, the net amount of dividends paid out would be EEK 53 434 227. In calculating the biggest possible sum for taxation the condition that the income tax expense amount from dividends reported in profit and loss statement of 2006 and the net amount of dividend payouts shall not be higher than the allotment of the profit as at 31 December 2005 is taken into account.

Other

As at 31 December 2005 there were no other contingent liabilities and given guarantees of Salva Kindlustuse AS.

The claims connected to insurance losses brought against Salva Kindlustuse AS constitute EEK 3,4 millions. According to the estimations of the management board the amount of probable claims constitutes approx. EEK 2,9 millions and they are reported in provisions for outstanding claims.

Note 26. Capital and reserves

Share capital

The registered share capital of the Group as at 31 December 2005 and 31 December 2004 constituted EEK 10 000 000, which was divided to 1 million shares with nominal value EEK 10.

Capital reserve

Capital reserve is created from the net profit provisions pursuant to the Insurance Activities Act valid until 31 December 2004. The Insurance Activities Act, which entered into force on 1 January 2005, does not regulate the creation of reserve capital any more. Insurance company shall create the reserve capital pursuant to the Commercial Code and the Articles of Association. Reserve capital is mandatory reserve stipulated by the Commercial Code. Upon a resolution of the shareholders, reserve capital may be used to cover a loss if it is not possible to cover the loss from available shareholders' equity of the private limited company, or may be used to increase share capital. Minimum amount of the share capital shall constitute 10% from the share capital, which is created from the profit provisions. Payments shall not be made to shareholders from reserve capital.

Other reserves

Other reserves include reserves created on the basis of the net profit and they are used to cover the possible losses.

Note 27. Transactions with related parties

Related parties

Related parties are considered to be the share-holders of the company, the entrepreneurs examined by the company, the employees of the company and members of the supervisory board, their close relatives an other persons, over whom the mentioned persons exercise essential influence.

Transactions with management and supervisory board members

The total amount of insurance agreements with premiums concluded with members of the management board during the reporting period constituted EEK 52 812. The fees paid to the members of the management and supervisory board are documented in the management report.

Transactions with other related parties

The companies related to a management board member offer investment purchasing and management services.

Sale and purchase of the services

Purchases	**2005**	**2004**
Companies related to the member of the management board	470 175	568 945

Liabilities	**31.12.2005**	**31.12.2004**
Companies related to the member of the management board	32 635	0

The Balance of the loans issued to company's employees constituted as at 31 December 2005 EEK 927 074.

The transactions of the companies belonging to the consolidation group incl. daughter companies have been removed from the consolidated statement.

According to the estimation of the company's management the prices of transactions with above-mentioned parties do not differ essentially from the market prices.

Note 28. Main statements of the parent company

Salva Kindlustuse AS Balance Sheet

ASSETS		
EEK	**31.12.2005**	**31.12.2004**
Cash and cash equivalents	**3 289 598**	**3 399 908**
Claims	**24 467 734**	**13 488 757**
Receivables from direct insurance business	19 935 369	10 870 757
Receivables from reinsurance	4 523 565	2 617 000
Other receivables	8 800	1 000
Accrued income and prepaid expenses	**155 965 816**	**114 756 436**
Part of reinsurance in technical provisions	143 901 128	105 624 215
Accrued income	195 125	118 046
Aquisition costs	10 932 144	8 263 372
Other prepaid expenses	937 419	750 803
Investments	**213 180 684**	**162 513 103**
Daughter companies	76 286 803	75 090 256
Financial investments	136 893 881	87 422 847
Tangible assets	**1 152 691**	**799 065**
Intangible assets	**1 498 119**	**1 635 089**
ASSETS TOTAL	**399 554 642**	**296 592 358**

LIABILITIES	**31.12.2005**	**31.12.2004**
Accounts payable	**48 306 622**	**20 039 579**
Accounts payable on direct insurance business	8 450 291	5 529 187
Accounts payable on reinsurance business	27 409 846	11 832 746
Other liabilities	12 446 485	2 677 646
Accrued expenses and deferred income	**16 505 358**	**14 851 437**
Accrued expenses and deferred income	5 368 698	4 827 957
Part of reinsurance in aquisition costs	11 136 660	10 023 480
Other deferred income	0	0
Technical provisions	**204 148 047**	**147 153 747**
Provision for prepaid premiums	95 196 244	69 468 906
Provision for claims outstanding	108 951 803	77 684 841
Capital and reserves	**130 594 615**	**114 547 595**
Share capital	10 000 000	10 000 000
Reserve capital	4 185 041	4 185 041
Other reserves	1 008 085	1 008 085
Accumulated profits	94 354 469	65 286 974
Profit for the financial year	21 047 020	34 067 495
TOTAL LIABILITIES	**399 554 642**	**296 592 358**

Salva Kindlustuse AS Profit and Loss Statement

EEK	**2 005**	**2 004**
Gross premiums written	313 284 961	255 449 008
Reinsurance premiums	-208 178 870	-177 363 376
Change in provision for prepaid premiums	-25 727 338	-558 497
Reinsurer's share on provision for prepaid premiums	14 423 799	-96 340
Earned premiums net of reinsurance	**93 802 552**	**77 430 795**
Fees and commissions	**40 006 239**	**39 438 283**
Financial income	19 368 668	18 307 942
Other income from business	194 832	3 474 931
Total incomes	**153 372 291**	**138 651 951**
Claims	-164 946 998	-153 733 835
Reinsurer's share in claims paid	114 392 581	114 110 092
Change in provision for claims outstanding	-31 266 962	8 724 830
Reinsurer's share in change in provision for claims outstanding	23 853 114	-8 848 430
Claims incurred, net of reinsurance	**-57 968 265**	**-39 747 343**
Aquisition costs	-54 148 685	-47 267 719
Administrative costs	-19 366 468	-16 870 992
Total operating costs	**-74 227 653**	**-64 837 113**
Result of the accounting period	**21 176 373**	**34 067 495**

Salva Kindlustuse AS Cash Flow Statement

EEK	**2005**	**2 004**
Business cash flows	**43 698 709**	**26 562 557**
Premiums received	307 141 453	259 188 805
Paid compensations, repurchases and treatment costs	-155 107 701	-149 186 923
Settlements with reinsurers	-35 862 590	-22 342 183
Paid operation costs	-71 275 351	-61 786 172
Other profit and loss	-1 197 102	689 030
Paid income tax	0	0
Purchase of real estate investments		-785 939
Purchase of shares and other participations	-57 546 010	-24 189 407
Sale of shares and other participations	29 738 007	2 723 836
Purchase of debt securities and fixed securities	-70 596	-1 912 636
Sale of debt securities and fixed securities	2 621 280	0
Issued loans	-5 155 000	-3 813 000
Repaiment of loans	3 573 968	1 481 831
Positioned to the time deposits	-47 421 383	-7 000 000
Accrued from time deposits	30 817 173	10 000 000
Purchase of other investments	0	0
Sale of other investments	0	0
Accrued interests	1 254 880	339 986
Accrued dividends	5 025 117	29 396
Paid investment costs	-712 500	-703 817
Cash flows from investing activity	**-933 955**	**-1 879 779**
Purchase of tangible and intangible assets	-933 955	-1 881 279
Sale of tangible and intangible assets	0	1 500
Cash flows from financing activity	**-5 000 000**	**0**
Paid dividends	-5 000 000	0
Cash flows total	**-110 310**	**853 028**
Cash and cash equivalents at the beginning of the period	**3 399 908**	**2 546 880**
Change of cash and cash equivalents	**-110 310**	**853 028**
Cash and cash equivalents at the end of the period	**3 289 598**	**3 399 908**

Salva Kindlustuse AS Statement of Movements in Capital and Reserves

EEK	Share capital	Capital reserve	Other reserves	Accumulated profits	Total
Balance at 31.12.2003	**10 000 000**	**2 633 791**	**1 008 085**	**25 736 181**	**39 378 057**
Effect of changes in the accounting principles				33 535 025	33 535 025
Corrected balance	10 000 000	2 633 791	1 008 085	59 271 206	72 913 082
Change in capital reserve		1 551 250		0	1 551 250
Effect of changes in the accounting principles				6 015 768	6 015 768
Profit of the period				34 067 495	34 067 495
Balance at 31.12.2004	**10 000 000**	**4 185 041**	**1 008 085**	**99 354 469**	**114 547 595**
Balance at 31.12.2004	**10 000 000**	**4 185 041**	**1 008 085**	**99 354 469**	**114 547 595**
Profit of the period				21 047 020	21 047 020
Dividends declared				-5 000 000	-5 000 000
Balance at 31.12.2005	**10 000 000**	**4 185 041**	**1 008 085**	**115 401 489**	**130 594 615**

Changes connected to the transition to the IFRS

In connection to the transition to the IFRS the reporting of the investments of the parent company to the shares of the daughter company has changed. Previously the investments into daughter companies were reported using the method of capital participation, since it was in accordance with generally accepted accounting practice in Estonia. Pursuant to the IAS 27 the investments to the daughter companies shall be reported in acquisition cost or in fair value. The group reports the investments into daughter companies in the fair value. In calculating the fair value the method of discounted future cash flows is applied:

EEK	**31.12.2003**	**Influence**	**1.1.2004**	**31.12.2004**	**Influence**	**1.1.2005**
Shares of the Daughter company	17 143 732	38 254 280	55 398 012	32 909 952	42 180 304	75 090 256
Retaind profit	28 583 944	38 254 280	66 838 224	57 174 165	42 180 304	99 354 469

Signatures of the Management Board and Supervisory Board members to the financial statements of 2005

The Management Board of Salva Kindlustuse AS has prepared annual activities report and financial statement for 2005.

Management Board:

Tiit Pahapill	Chairman of the Management Board....................................	10.03.2006
Irja Elias	Member of the Management Board....................................	10.03.2006
Urmas Kivirüüt	Member of the Management Board....................................	10.03.2006
Andres Lõhmus	Member of the Management Board....................................	10.03.2006

The Supervisory Board has examined the annual report prepared by the Management Board, which includes activities report, annual financial statement and approved it for presenting to the general meeting of the share-holders.

Supervisory Board:

Leho Siimsen	Chairman of the Supervisory Board....................................	10.03.2006
Anu Uritam	Member of the Supervisory Board....................................	10.03.2006
Peep Kütt	Member of the Supervisory Board....................................	10.03.2006
Marje Hansar	Member of the Supervisory Board....................................	10.03.2006
Indrek Kasela	Member of the Supervisory Board....................................	10.03.2006
Kustaa Äimä	Member of the Supervisory Board....................................	10.03.2006

Auditor´s Report

For the stockholders of Salva Kindlustuse AS

We have audited the consolidated Balance Sheet of Salva Kindlustuse AS (hereinafter "company") as of the 31. 12. 2005 and consolidated Income Statement, Cash Flow Statement and Change in Equity for the financial year that ended on 31. 12. 2005. The mentioned consolidated financial statements are found on pages 12-50 and the board of the company is responsible for their validity. Our goal is to give on the basis of the audit results an evaluation about the annual accounting report.

We conducted the audit in accordance with the international accounting standards. The mentioned standards require that the audit is planned and carried out in a way that would provide an opportunity to adequately decide whether the annual report contains significant errors and inaccuracies. During the audit we have selectively verified the evidence, that constitutes the basis for the figures given in the annual report. Our audit included also a critical analysis of the calculating principles and the accounting assessments of the board used in the compilation of the annual accounting report and an opinion about the general way of presenting of the annual accounting report. We think that our audit provides a sufficient basis to give an opinion.

It is our position that the above mentioned consolidated annual accounting report reflects in accordance with the International Accounting Standards justly and correctly in all important matters the financial situation of the company as of the 31. 12. 2005 and also the economic results and cash flows of that period.

Tallinn, 10. March 2006
KPMG Baltics AS

Taivo Epner
Authorised auditor

Proposal for the distribution of profit

Retained profit	52 150 164
Net profit of the 2005	23 983 086
Intangible assets in balance value (Insurance Activities Act § 59(2))	-1 498 119
Total distributed profit at 31. December 2005	74 635 131

The Management Board hereby proposes to distribute the profit as follows:

Dividends	6 000 000
Capitalization issue for share capital increase	40 000 000
Capital reserve	790 959
Retained profit after distribution of profit	27 844 172

Management Board:

Tiit Pahapill Chairman of the Management Board……………………………10.03.2006

Irja Elias Member of the Management Board……………………………10.03.2006

Urmas Kivirüüt Member of the Management Board……………………………10.03.2006

Andres Lõhmus Member of the Management Board……………………………10.03.2006