Annual Report | 2006

SALVA
KINDLUSTUS

Annual Report

Business name:	Salva Kindlustuse AS
Registry code:	10284984
Address:	Pärnu mnt.16, 10141 Tallinn
Telephone:	6800 500
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E-mail:	salva@salva.ee
Internet homepage:	www.salva.ee
Core activity:	non-life insurance
Beginning of financial year:	01.01.2006
End of financial year:	31.12.2006
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 2006 we collected EEK 365 million insurance premiums and our net profit was EEK 24 million.

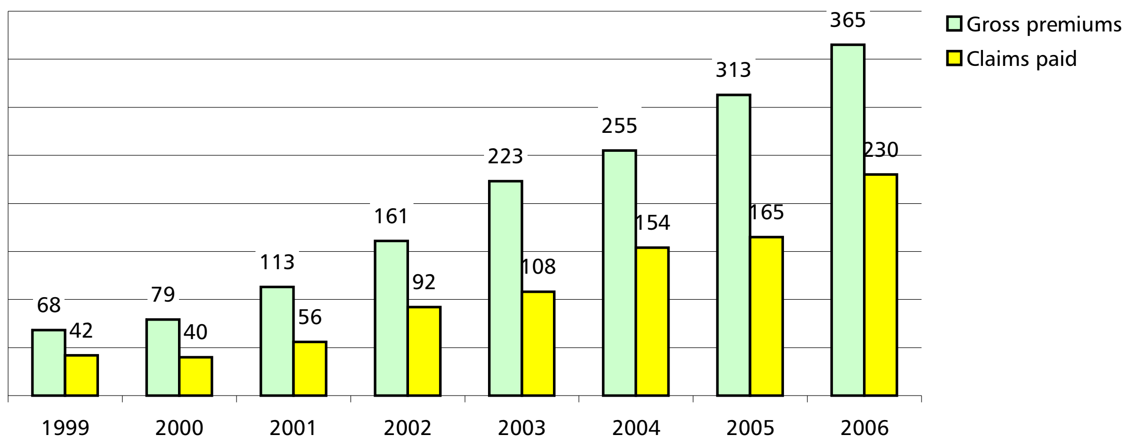
Salva Kindlustuse AS has its representative offices and points of sale across Estonia. Large amount of sales is organized through brokers and other agents.

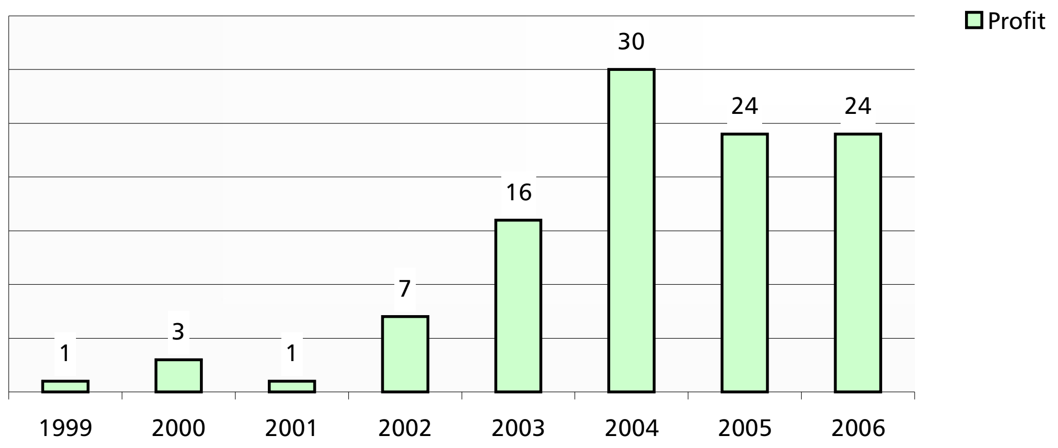
Salva Kindlustuse AS consolidation group includes:

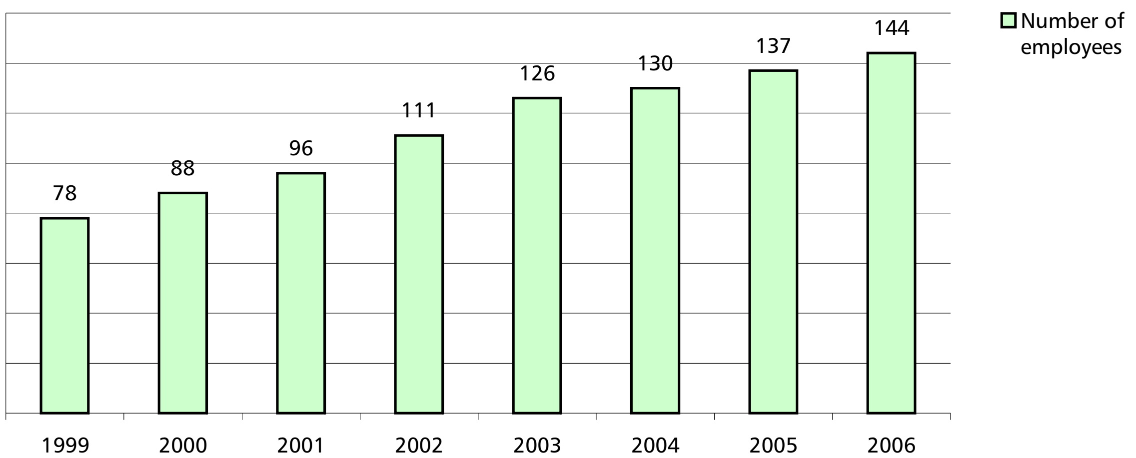
Salva Kindlustuse AS	- parent company
Salva Kahjukäsitluse OÜ	- participation of Salva Kindlustuse AS is 100%
Salva Arenduse OÜ	- participation of Salva Kindlustuse AS is 100%
Safiirex Invest OÜ	- participation of Salva Kahjukäsitluse OÜ is 100%

Management Report

Main figures







Management Report

Vision, mission and values

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 2007

In 2007 we will be facing a tight market situation and increased competition. That is why our main priorities are product development, development of electronic sales channels and making the loss adjustment process faster and more effective.

Management Report

Address of the Chairman of the Management Board

The year 2006 was successful for the Estonian economy. Along with economic growth the insurance premiums of our clients increased by 16% and insurance benefits by 39%. However, compared to the last year, the profit was same. It was caused primarily by the increase of the 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 2006 was up to 11%. The economic growth forecast for 2007 according to different opinions is 5-9%. Whereas in the euro-zone the average economic growth is 2,8% and forecasts for the next year are 2,4%.

Strong economic growth has got its downsides as well. One is definitely the increasing shortage and rising prices of labour force. Increased incomes that are accompanying the growth raise domestic consumption and impair foreign trade balance. Families' debt burden has reached a level that restricts usable income and the continuing rise of loan interests by the European Central Bank to 3.75% may lead to a situation where obligations taken with loans may become unrealisable despite the income growth. High economic growth means also higher inflation which will be further influenced by higher excise duty rates due to be raised with regard to EU treaties. .

Our development

We have tried to root more customer oriented thinking and internal efficiency. 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

Principles of management

In 2006 we exceeded the average market growth which was 14%. The growth of insurance premiums slowed down to 17% compared to 2005, amounting to 365 million kroons

Management Report

Address of the Chairman of the Management Board

We are concerned about the insufficiency of motor TPL rates and the increasing claims ratio. We adjusted rates in some vehicle groups in March 2006 and also at the beginning of this year. Growth in other optional insurance types has reflected the overall economic growth, income growth and the related domestic consumption growth. The growth was also influenced by the activity of banks in the credit market and the related growth in the real estate market. We have managed to exceed the market growth and meet our main goals.

Financial objectives

In 2006 we achieved most of our financial objectives. Planned sales growth was exceeded by 1%, 20% fell short of the profit plan and net loss grew to the 44%.

What will the year 2007 bring?

In 2007 we will also be affected by increasing competition which is why we are expecting our sales volume to decrease. However, relying on the ongoing economic growth and income growth we hope to outdo our prognosis. We have to be ready for changes and keep up our ability to provide our clients with quality services.

I believe that we will be able to grow fast and be successful in the ever-growing competition in 2007 and also thereafter.

Tiit Pahapill
Chairman of the Management Board

Management Report

Summary of the economic performance

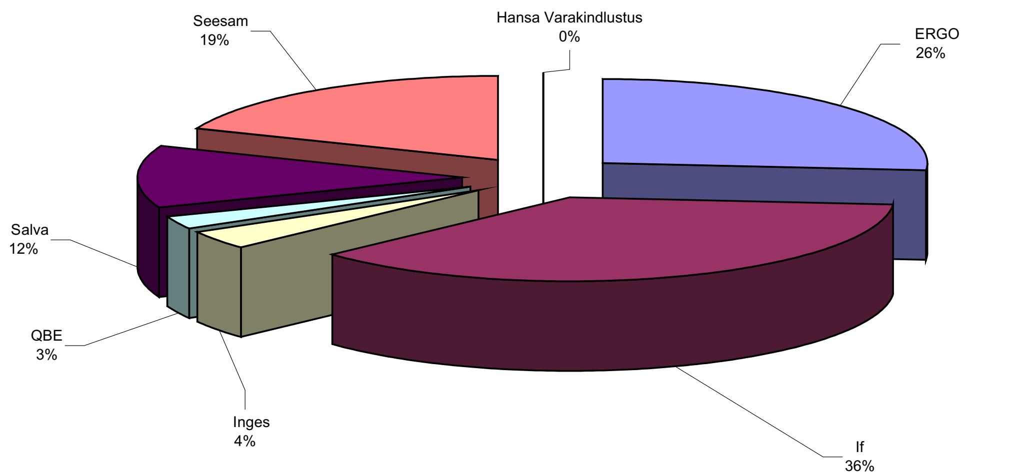
Overview

The premiums collected by non-life insurance providers in the Estonian insurance market in 2006 amounted to 3,130 million kroons. Compared to 2005, the amount of premiums increased by 14%. The amount of claims paid totalled 1,639 million kroons which was 12% more than last year.

Insurances connected to the motor vehicles constitute the biggest part of the non-life insurance market – obligatory traffic insurance (contribution 29%), optional traffic insurance (contribution 40%). Property insurance constitutes 23 % and total other insurance groups 8% from the non-life insurance market.

The same structure is documented in loss payments, the level of which in 2006 was 52%.

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



The current market distribution has developed over the recent years, but new competitors have changed the situation in the insurance market. The data of the subsidiaries of foreign insurance providers that operate in the Estonian market are not available. In 2006 Hansapank's subsidiary Hansa Varakindlustus entered the non-life insurance market and, having access to the group's home loan and motor vehicle insurance clients, is expected to influence the non-life insurance market considerably in the coming years.

Significant financials

	2006	2005	2004	2003
In thousands of EEK, except for ratios as at 31. December 2006 or for the stock				
For accounting period				
Gross premiums	364 823	313 080	255 160	222 963
Gross premiums earned	353 657	287 352	254 602	201 364
Gross losses earned	222 806	181 587	133 687	120 196
Gross expenses	97 549	81 737	74 458	50 985
Net loss ratio	44%	46%	37%	49%
Net expense ratio	38%	34%	32%	30%
Net combined ratio	82%	80%	69%	79%
Payout ratio	55%	48%	56%	45%
At the end of the accounting period				
Total assets	413 827	351 104	252 840	232 921
Financial investments	170 226	136 894	89 125	63 254
Real estate investments	12 500	14 000	11 200	14 286
Investments' rate in assets	44%	43%	40%	33%
Profitability indicators				
Technical result	21 509	18 793	24 211	10 482
Investment result	5 656	7 933	4 822	4 988
Period's profit	24 165	23 983	30 141	21 289
Return on assets	24%	29%	42%	61%
Return on investments for the year	3,4%	6,4%	4,0%	10,0%
For stock				
Profit for one stock (kroons)	24,16	23,98	30,14	21,29
Figures explained:				
Gross preimums earned	gross premiums written + change in provision for unearned premium			
Gross claims incurred	claims incurred + change in provision for claims outstanding			
Gross losses	claim adjustment costs +aquisition costs+change			
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			
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			

Financial performance

Revenue

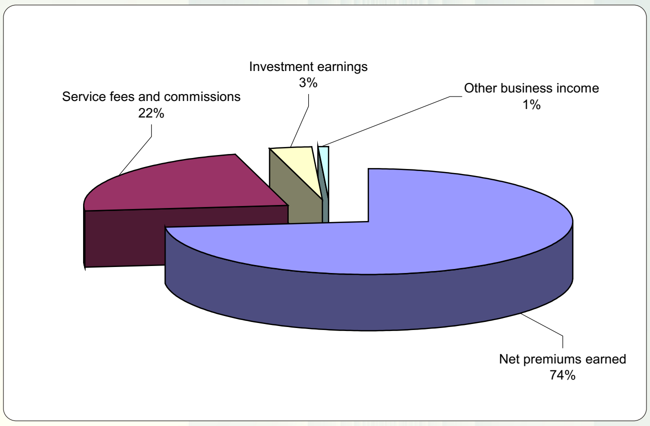
The consolidated profit of Salva Kindlustuse AS in 2006 was 24 million kroons.

The consolidated net claims ratio from reinsurance accounted for 44%. In the previous period it had been 46%.

By the end of 2006 the net reinsurance ratio of expenses to premiums was 38% compared to 34% the year before.

The technical profit in 2006, which amounted to 22 million kroons, grew by 17% compared to the last year. .

Gross insurance premiums totalled 365 million kroons. The growth compared to the previous year was 16%.
Premiums earned grew by 20% and net premiums earned by 30%.
Such a result was due to a slowdown in premium growth and the reduction of reinsurance share in gross premiums.
At the end of 2006 there were 149,000 valid insurance agreements indicating a 4% rise compared to the last year.



Revenue from service fees and commissions decreased by 8%.

The fall is due to the implementation of the minimum rate in the calculation of commissions in some types of reinsurance agreements in relation with the increasing claim ratio in motor TPL insurance.

Return on investments fell by 40% compared to the last year. This was due to a rise in expenses related to real estate investments and a fall in the stock market in the middle of 2006.

Claims

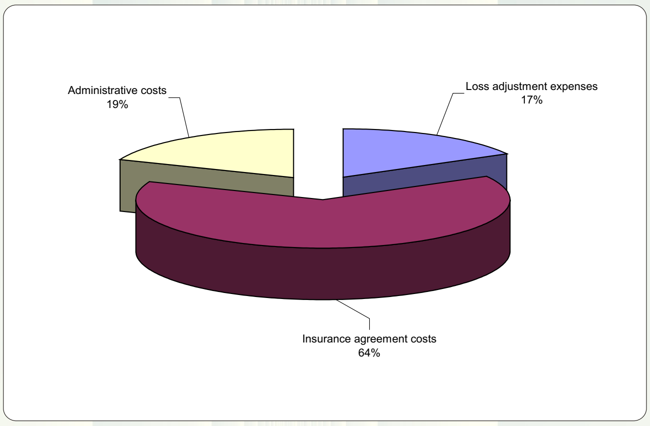
The consolidated amount of claims paid in 2006 was 202 million kroons. The growth compared to the previous year was 26%. The net growth from reinsurance was 24%.

The number of claims, which was 11,436 in 2006, grew by 20% compared to 2005.

52% of claims were motor TPL claims with a 35% growth.

Financial performance

Operational costs



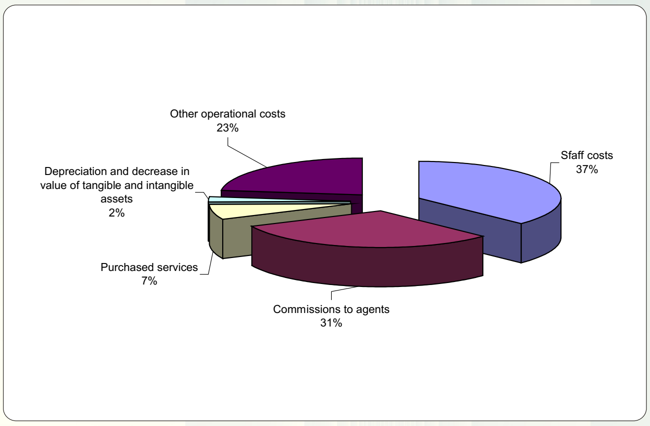
The share of insurance premiums collected via agents fell from 64% in 2005 to 62% in 2006.

Other costs went down by 27%. For the sake of comparability we should eliminate from other costs one-time real estate development costs in the amount of 7.9 million kroons without which growth would be 5%.

Operational costs increased by 7% to 103.2 million kroons in 2006.
Staff costs increased by 12% compared to the last year. The number of Group employees rose by 5%.

Loss adjustment expenses went up by 23% in relation with a 38% increase in the number of claims.

Insurance agreement costs increased by 22% in 2006, including commissions paid to agents which grew by 19%.



Balance

The consolidated value of Salva Kindlustuse AS assets grew by 18% in 2006 and amounted to 414 million kroons.
Claims from direct insurance activities increased by 32% in 2006 and their share in assets was 8%, having grown by 1% within the year.

As a result of positive cash flow from insurance activities, investment volume increased by 21%, reaching 183 million kroons. Investments account to 44% of assets.

Gross technical insurance provisions accounted for 57% of assets at the end of the year and grew by 16% to 236 million kroons.

Clients' prepayments and obligations in front of reinsurance providers increased by 42% and accounted for 12% of assets.

Financial performance

Equity capital

Salva Kindlustuse AS equity capital grew by 20% in 2006, reaching 110 million kroons at the end of the year. With a fund emission in 2006 the amount of share capital was brought into conformity with the Insurance Activities Act that took effect on 01 January 2005 and established three million euros as the minimum share capital of insurance companies as at 01 January 2007.

Investment activities

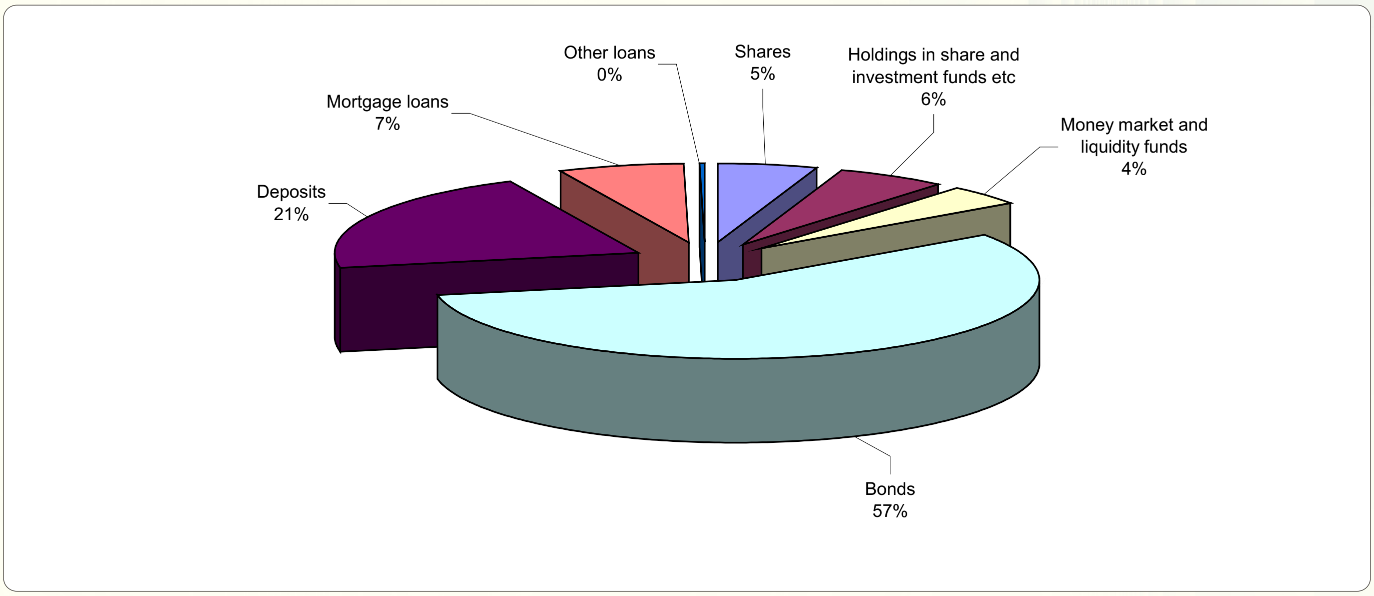
On a strategic level, investment management is the responsibility of the financial risks management committee. At the end of 2006 the investment portfolio was restructured towards low interest and low credit risk instruments. To improve portfolio risk management we replaced bond funds with direct investments into bonds, thereby increasing the average risk rating of bonds to the level AAA.

Credit risk distribution in the bonds portfolio was as follows: 83% of bonds had credit rating AAA (according to S&P) or Aaa (according to Moody); 15% of bonds had credit rating AA or Aa.

Salva Kindlustuse AS consolidated profit from investment activities in 2006 was 5.7 million kroons compared to 7.9 millions last year. The annual consolidated investment yield was 3.4%.

At the end of 2006, financial investments exceeded net technical provisions by 111 million kroons, providing sufficient liquidity.

The structure of financial investments as at 31.12.2006



Risk management

Last year we revised cross-company risk management principles. In addition to the insurance risk contained in our core activity we also assumed a more systematic approach to financial and operation risk management. Risk management has become an important part of strategic management. We have formed two separate committees: operational risk management and financial risk management committee. Within the year we subjected our key persons to several training courses. We are also working on a risk management manual for daily reference, focussing on the important constituents of the risk management framework. All of this is aimed at better company management and in view of the requirements of Solvency II directive that is being prepared by the European Commission as an instrument for evaluating solvency aspects of insurance companies.

As a result of the above-mentioned activities we have a redesigned investment strategy which now focuses on diversifying risks arising from the obligations structure related to insurance activities rather than taking additional risks. An important incentive for this was the predicted competition growth in the local insurance market.

In the coming periods we will be focusing more on risk measurement techniques and reports related to disclosing results. We will also be gathering data about risk classes to support reporting and working on management reports relying on those data to be able to make better informed decisions.

To sum up – last year we started to work on a risk management framework for the whole company and in the coming period we will be focusing more on quantification and disclosure related issues.

Staff

At the end of 2006 the staff consisted of 144 employees of whom 82 were sales people. Remuneration costs including earnings-related taxes amounted to 35.2 million kroons. The respective figure for the last year was 32.3 million kroons. The remuneration costs of management board members were 3.9 million kroons and those of supervisory board members 319 thousand kroons. Management board or supervisory board members are not entitled to receive compensation when leaving.

Objectives for 2007

We are prepared to respond to even more intense competition in 2007. The objective of the management board of Salva Kindlustus is to maintain the present efficiency level and, if possible, also market share. To achieve that we will focus on making related sales channels more effective and developing broker relations. We will also continue to develop sales software to support the company's business processes in the best possible way.

Consolidated financial statements

Declaration by the Management Board and signatures to the annual report of 2006.

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 (09. March 2007), 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	............................09.03.2007
Irja Elias	Member of the Management Board	............................09.03.2007
Urmas Kivirüüt	Member of the Management Board	.............................09.03.2007
Andres Lõhmus	Member of the Management Board	............................09.03.2007

Consolidated financial statements

Consolidated Income Statement

EEK	Notes	2 006	2 005
Gross premiums	5	364 823 231	313 079 603
Reinsurance premiums	5	-238 787 611	-208 178 870
Change in unearned premiums	21	-11 166 458	-25 727 338
Reinsurer´s share of change in unearned premiums	21	6 654 111	14 423 799
Earned premiums net of reinsurance	**22**	**121 523 273**	**93 597 194**
Service fees and commissions	6	36 606 277	40 006 239
Financial income	8	5 656 037	7 932 505
Other commercial income	9	1 318 840	9 422 825
Total income		**165 104 427**	**150 958 763**
Claims	10	-201 550 697	-150 319 797
Reinsurer´s share in claims		154 668 961	114 392 581
Change in claims outstanding	21	-21 254 977	-31 266 962
Reinsurance share of change in claims outstanding	21	14 458 747	23 853 114
Claims incurred net of reinsurance		**-53 677 966**	**-43 341 064**
Acquisition costs	11	-66 236 569	-54 148 685
Administrative expenses	11	-19 396 418	-27 852 673
Total operating expenses		**-85 632 987**	**-82 001 358**
Income tax	**12**	**1 628 661**	**1 633 255**
Result for the financial year		**24 164 813**	**23 983 086**

Consolidated financial statements

Consolidated Balance Sheet

EEK

ASSETS	Notes	31.12.2006	31.12.2005
Cash and cash equivalents		**7 446 393**	**6 235 956**
Receivables		**32 195 298**	**24 458 934**
Direct insurance	13	27 493 454	19 935 369
Reinsurance	13	4 701 844	4 523 565
Accrued income and prepaid expenses		**177 684 088**	**156 211 951**
Reinsurer´s share in technical provisions	21	165 013 986	143 901 128
Accrued income		196 509	270 579
Deferred acquisition cost		11 366 384	10 932 144
Other prepaid expenses		1 107 209	1 108 100
Investments		**182 726 171**	**150 893 881**
Real estate investments	14	12 500 000	14 000 000
Financial investments	15	170 226 171	136 893 881
Intangible Fixed Assets	16	**12 149 117**	**10 108 912**
Tangible Fixed Assets	17	**1 626 324**	**1 498 119**
T O T A L ASSETS		**413 827 391**	**349 407 753**

LIABILITIES	Notes	31.12.2006	31.12.2005
Liabilities		**51 181 550**	**35 860 137**
Direct insurance	18	**12 811 656**	**8 450 291**
Reinsurance	19	38 369 894	27 409 846
Accrued expenses and prepaid revenue		**16 561 170**	**18 049 193**
Accrued expenses and other prepaid revenue	20	7 805 425	6 912 533
Reinsurer´s share in deferred acquisition costs	21	8 755 745	11 136 660
Technical provisions	20	**236 569 482**	**204 148 047**
Equity		**109 515 189**	**91 350 376**
Stock capital		50 000 000	10 000 000
General reserve		5 000 000	4 209 041
Other reserves		1 008 085	1 008 085
Retained earnings		29 342 291	52 150 164
Profit for the financial year		24 164 813	23 983 086
T O T A L LIABILITIES AND EQUITY		**413 827 391**	**349 407 753**

Consolidated financial statements

Consolidated Cash Flow Statement

EEK	**2006**	**2 005**
Cash flow from business operations	**9 064 055**	**7 446 282**
Premiums collected	363 639 497	306 951 348
Claims paid, returned premiums, claim handling expenses	-201 952 772	-139 738 179
Transactions with reinsurers	-39 111 519	-35 862 590
Operating expenses paid	-95 736 675	-82 192 801
Other income and expenses	12 794 490	-5 931 501
Income tax paid	-1 667 110	-1 514 325
Stocks and variable yield securities investments	-54 439 569	-57 546 010
Sales of stocks and variable yield securities	130 819 774	29 738 007
Bonds and fixed yield securities investments	-95 961 250	-70 596
Sales of bonds and fixed yield securities	7 206 075	2 621 280
Loans	-6 640 000	-5 155 000
Amounts collected from loans	1 808 563	3 573 968
Deposits	-42 828 174	-47 421 383
Amounts collected from deposits	30 754 364	30 817 173
Sales of other investments	0	9 206 327
Interests	2 512 149	804 880
Dividends	342 411	25 117
Investments expenses paid	-2 476 199	-859 433
Cash flow from financial operations	**-1 853 618**	**-693 799**
Tangible and intangible fixed assets investments	-4 724 611	-1 389 294
Sales of tangible and intangible fixed assets	2 870 993	695 495
Cash flow from investments	**-6 000 000**	**-5 000 000**
Dividends paid	-6 000 000	-5 000 000
Total cash flow	**1 210 437**	**1 752 483**
Cash and cash equivalents (beginning of year)	**6 235 956**	**4 483 473**
Change of cash and cash equivalents	**1 210 437**	**1 752 483**
Cash and cash equivalents (end of year)	**7 446 393**	**6 235 956**

Consolidated financial statements

Change in Equity

EEK	Stock capital	General reserve	Other reserve	Retained earnings	Total
Balance 31.12.2004	10 000 000	4 209 041	1 008 085	57 150 164	72 367 290
Profit for financial year	0	0	0	23 983 086	23 983 086
Dividends paid	0	0	0	-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
Increasing the share capital via fund emission	40 000 000	0	0	-40 000 000	0
Increasing reserve capital	0	790 959	0	-790 959	0
Profit for financial year	0	0	0	24 164 813	24 164 813
Dividends paid	0	0	0	-6 000 000	-6 000 000
Balance 31.12.2006	50 000 000	5 000 000	1 008 085	53 507 104	109 515 189

Note 1. Accounting policies

Salva Kindlustuse AS (hereinafter as Company) is a company registered in Estonia. The financial statements prepared at 31. December 2006 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 2006 belonged:

Name of the companyi	Participation	Location
Salva Kahjukäsitluse OÜ	100%	Estonia
Salva Arenduse OÜ	100%	Estonia
Safiireks Invest OÜ	100%	Estonia

The management board confirmed the publishing of the annual financial statements with its decision on 09. March 2007.

(a) Compliance confirmation

The consolidated accounting report has been compiled in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and their interpretations as adopted by the European Union and effective from the year 2006.

(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, with an exception of the following assts and liabilities, which have been reported in fair value: financial assets and liabilities in fair value through profit and loss; shares for sale, hedges and real estate investments. The companies belonging to the group employ in essential part single evaluation bases and accounting methods.

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.

(c) 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. Similarly the basic statements of the parent company have not been included to the main 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.

(d) 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. An exception is open-ended motor TPL insurance agreements allowing the issue insurance policies with the maximum period of one year.

(e) Reporting and observation of the agreements

Insurance payments

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.

(f) 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 for outstanding claims is intended for meeting losses and loss adjustment costs that have not been paid by the balance date.

The provision for outstanding claims includes:

- settled but outstanding claims

- claims registered but not settled (RBNS)

- claims incurred but not reported (IBNR)

Each outstanding claim is analysed individually, taking into account incurred but unreported losses and the influence of predicted internal and external developments (e.g. changes in loss adjustment procedures, inflation, legal trends, legislative amendments, past experience and trends). The provision for outstanding claims includes loss adjustment expenses.

Each RBNS claim is viewed independently relying on the information known to the loss adjuster. If there is not enough information, earlier adjustments are used. RBNS is closed by full indemnification of losses.

IBNR is calculated at the end of each accounting period for losses presumably incurred but not reported. The calculation method varies in different insurance types but relies on statistical information and actuarial studies based on past cases.

The provision for outstanding claims is not discounted, except motor TPL annuity provision which is discounted to the present value, using standard actuarial methods and the pension index and discount rate suggested by the traffic insurance guarantee fund.

Expected income from reinsurance, the sale of salvages and recoveries and recourse is reported separately and is not deducted from the provision for outstanding claims. Income from reinsurance and other receivables is calculated similarly to outstanding claims.

(g) 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.

(h) 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.

(i) 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.

(j) Profit

Earned insurance

The calculating principles of the insurance premium are reported in the paragraph (e).

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 (g). The profit from retrocession treaty commissions is reported applying the same principles as when reporting the insurance agreements acquisition costs (cf. Paragraph (h) 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 realestateinvestments.
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 (r).

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.

(k) Costs

Operating lease

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

Insurance business costs

Insurance business costs are divided into administrative, acquisition and claim adjustment costs.

Administrative costs are the costs, which are connected to the collecting premiums, portfolio management and reinsurance. Administrative costs are divided to insurance classes with regard to the relative importance of group's acquisition costs to the total acquisition costs. 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 2006 rate was 2,1%. For 2007 the established rate is 1,1%.

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.

Loss adjustment expenses

Loss adjustment expenses include direct staff costs related to loss adjustment, expertise costs and service fees.

Investment costs

Investment costs include investment related staff costs, commissions to investment management companies, transaction costs related to the purchase of financial assets other investment related costs.

(l) Taxation

Pursuant to the effective legislation in Estonia the company´s profit is not liable to tax, therefore there are no deferred income tax with the rate 22/78 (until 31.12.2006 the tax rate was 23/77) from amount paid out as net dividends. The corporate tax accounted from dividends is reported as income tax in the profit and loss statement of the period in which the dividends were declared, regardless of the period for which they have been declared or will be paid out.

Other payment rates in 2006 pursuant to the effective Taxation Act were as follows:

Income tax	23 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	0,3 per cent of incomes received and 0,6 per cent of taxable income

(m) 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.

(n) 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. Fixed assets include essential assets used in the concern's economic activity with the useful life exceeding one year.
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.
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

At the end of the accounting period the residual useful life of the essential tangible assets, applied method of amortization and not amortized residual values are estimated. Should the residual useful life be essentially different than estimated initially, the amortization rate in given tangible assets part is changed.

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.

(o) 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 (j).

(p) 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.

The write-off of intangible assets relies on the presumption that its final value is zero.

(r) Financial investments

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.

(s) 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.

(t) 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.

(u) 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.

(v) 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.

(w) Other liabilities

Other liabilities are documented in the acquisition cost.

(x) 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 2006 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.

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

By the time of writing this report a number of new international financial reporting standards and interpretations have been released that will become obligatory for the company after the balance date. The following is the management's assessment of the possible effects of the new standards and interpretations when first implemented in financial reporting:

- IAS 1 “Presentation of Financial Statements” as amended – disclosure of equity capital related information, and IFRS 7 “Financial Instruments: Disclosures” apply to reporting periods starting on 01 January 2007 or later. The company has decided not to apply the amendments before the term. The standards provide for the disclosure of additional information in financial reports.
- IFRIC 7 “Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies” applies to reporting periods starting on 01 March 2006 or later. IFRIC 7 will not affect the company's financial reporting.
- IFRIC 8 “Scope of IFRS 2. Share-based payment” applies to reporting periods starting on 01 May 2006 or later. IFRIC 8 will not affect the company's financial reporting.
- IFRIC 9 “Reassessment of Embedded Derivatives” applies to reporting periods starting on 01 June 2006 or later. IFRIC 9 will not affect the company's financial reporting.
- IFRIC 10 "Interim Financial Reporting and Impairment” applies to reporting periods starting on 01 November 2006 or later. IFRIC 10 will not affect the company's financial reporting.
- IFRIC 11 “IFRS 2: Group and Treasury Share Transactions” applies to reporting periods starting on 01 March 2007 or later. IFRIC 11 will not affect the company's financial reporting..
- IFRIC 12 “Service Concession Arrangements” applies to reporting periods starting on 01 January
  2008 or later. IFRIC 12 will not affect the company's financial reporting
- IFRS 8 “Operating Segments” applies to reporting periods starting on 01 January 2009 or later. IFRS 8 will not affect the company's financial reporting.

Note 2. 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%.

Salvages and recoveries

Expected income from salvages and recoveries are reported separately under assets and assessed in their fair value on every balance date. The evaluation of provisions relies on past experience which is applied to current developments and likely future events.

Note 3. Risk policy and management in Salva Kindlustuse AS

Managing insurance and financial risks is an essential part of the company's activity. To back obligations established by insurance agreements it is important to select assets whose duration and value will meet the expected cash flows of portfolio losses on the expiry date.

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.

The company uses various methods to assess and monitor the occurrence of insurance risks in each individual case and in general. The methods include internal models of risk measurement, sensitivity analyses and stress tests.

Pricing relies on the probability theory. The main risk is that the actual number and gravity of losses exceeds estimates. Also, insurance cases are odd in nature and the actual number or size of cases may easily disagree with estimates that have been calculated by statistical methods.

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.

Reinsurance

Salva Kindlustus has concluded agreements with a number of reinsurance partners to diversify insurance risks. Those agreements diversify risk and minimise the effect of losses. Reinsurance terms contain the reinsurer's obligation to indemnify an agreed amount of the damages paid. However, there is still a chance that the reinsurer may fail to fulfil its obligations. The company has established the minimum accepted credit rating in selecting reinsurance providers. Reinsurance risks are related to both insurance and investment activities.

Property incurance

Product description. Salva Kindlustus insures property located in Estonia. Property insurance protects a policyholder's real property against loss or damage with certain limits and restrictions. Income comes from insurance premiums of which the amounts needed to satisfy claims and company costs are deducted. We will also have a certain restricted period for earning investment yields as there is a time gap between collecting premiums and paying claims. Events that damage property or buildings (e.g. fire or theft) usually happen unexpectedly and the cause is easy to determine. Therefore claims are also reported quickly and can be satisfied without delay. That is why property insurance is classified as short-time insurance, meaning that further increase in costs and return on investment are irrelevant.

Risk management. The main risks related to property insurance have to do with the insurance agreement, competition, lack of claim related experience and fraud. The risk entailed in concluding agreements is that the company may fail to collect sufficient insurance premiums for various insured property. The risk has different characteristics such as location of property, safety measures adopted, insured field of activity, age of property, etc. As to domestic property insurance there are many objects with similar risk profiles. The insurance of the property of legal persons takes into account the unique location of the object, field of activity and combination of safety measures. Calculating the size of insurance premium in accordance with risk factors is subjective and therefore risky.

In property insurance, risk is managed primarily through pricing and risk selection. For a risk to be acceptable Salva Kindlustus relies on strict rules in concluding insurance agreements.

Vehicle insurance

Product description. The insurance objects comprise land vehicles registered in the Republic of Estonia. Vehicle insurance protects a policyholder against damage to, destruction or loss of the vehicle within certain limits.

Risk management. Usually in this type of insurance losses are reported quickly and are less complicated. The risk contained in loss adjustment is relatively low.

The number of losses depends on weather conditions and increases in the winter period. There is also a correlation between fuel price and economic activity, which influences traffic intensity. Salva Kindlustus analyses changes in the causes, size and frequency of claims and takes appropriate measures

Motor TPL insurance

Product description. Motor TPL covers traffic accidents in the member states of the European Union and the green card convention. Motor TLP combines property and liability insurance. Indemnities are paid according to the liability limits of the country where the accident happened. In some countries there are no limits. Motor TPL covers damage caused to the property of third persons and personal injury. According to Estonian legislation, the insurance also covers the medical costs of the person who was driving the vehicle that caused the accident.

Risk management. The risks contained in motor TPL are managed through pricing and reinsurance. The rates are usually calculated per year. Motor TPL has a very long-term element, i.e. annuity premiums. In pricing we have taken into consideration that in the future personal injury related costs will increase and therefore the risk contained in annuity provision estimates is one of the highest.

In motor TPL Salva Kindustus has restricted its liability to excess of loss reinsurance with the policy limit 3.9 million kroons.

Managing financial risks

Insurance and investment activities may contain financial risks. The aim of financial risk management is to eliminate financial risks in a natural manner. We manage financial risks by the replacement portfolio method. The content of the replacement portfolio is based on financial risks involved in insurance activities – mostly interest risk which is a subtype of market risk and related to the time gap between an insurance case and payment of the claim. Such risks can be market risk, credit risk (including claims against reinsurers) and liquidity 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.

We have adopted a more systematic approach to asset and liability risk management tests, stress tests etc. The structure of assets and investment follows asset-liability and sufficient risk capital principles. Naturally we keep an eye on money and capital markets.

Credit risk

A credit risk to the company's assets arises from the other party's inability to meet contractual obligations. Such assets may be bonds, loans or claims. As to claims, the highest risk is contained in claims related to insurance activities such as claims to reinsurers and brokers. We are consistent in monitoring the performance of contractual obligations.

The credit risk to the company's assets has been sufficiently diversified via professionally managed funds and, as to the rest, the value of positions involving credit risks does not exceed 0.5% of the total investment value. In investment activities an additional high-quality credit risk (minimum A-level credit rating) is accepted for up to 95% share of assets with interest risk. Loans are given against security, except loans given to employees.

Currency risk

Currency risk is a potential loss due to exchange rate fluctuations.

We do not manage such risks separately, as premiums paid in other currencies account for a marginal share and stay within the company for a short term only. We have reduced currency risk by keeping financial investments mostly fixed in Estonian kroons and euros. The risk contained in the exchange rate between the kroon and the euro is marginal.

Interest risk

Interest risk lies in long-term financial assets and liabilities that are sensitive to changes in interest rates. To reduce interest risk we monitor the average duration of the investment portfolio which serves as an indicator of the sensitivity of assets and liabilities to valid interest rates.

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 important part of present value. Considering the fact that reinsurers have the obligation to transfer to us their part of the cash loss in case of need on 14 days and that the claim adjustment and reserve payout time averages between 20 to 40 days, the liquidity risk in the company is managed sufficiently.

Operational risk management

Providing daily services to policyholders, making and signing agreements, managing the organisation, administrating rights of use, etc. involve various risks that can be called operational risks. Data connected to important transactions are saved in databases. To be able do all that, we have technology that supports business processes. Operational risks may thus be the result of human errors, fraud, invalid records due to system failures, monitoring or related to transactions and positions. Risks are also related to insufficient information systems or internal supervision leading to unpredicted losses. Those are inherent risks and are to be managed directly by the management.

Strategic operational risk is a risk related to critical turns in politics, the changing needs of the members of society, amendments to legislation or changed government policies, tax changes, etc. Strategic operational risk comes from outside the company and because it is linked directly to external reasons is not directly manageable by the company.

In Salva Kindlustus, the main goal of operational risk management is risk prevention. Prevention is based on the proactive behaviour of both executives and employees. We are currently working on a risk management manual describing operational risks. Assessing and measuring operational risks is a secondary activity. Assessment and measurement help to shape mutual attitudes that are the foundation of a strong risk management culture in an organisation.

In the present development stage Salva conducts assessments once a year. Assessment is only part of management. Salva uses the best methods for management. The main emphasis is on disclosure, related regular correspondence and support processes with the aim of implementing a strong risk management culture top-down. In addition to assessment, key persons in units with higher risk are subjected to training courses. This is where insurance cases are studied. Through this guidance-mentoring process knowledge and skills are passed on to the staff. Discussions and assessments are recorded and available to all key persons, thus increasing supervision and strengthening organisation culture which is based on implementing decisions.

The process is launched at least once a year with making summaries of the past and setting goals for the future. Operational risk management is not an isolated activity but is integrated into strategic management in the context of long-term planning. If necessary, operational risk management activities are more frequent.

Note 4. 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 the cumulative losses	Earlier	1999	2000	2001	2002	2003	2004	2005	2006
1 year after the year of policy validation	0	46 629	51 964	89 001	132 404	137 957	157 493	225 071	
2 years..	0	43 884	50 461	85 628	131 306	137 051	154 026		
3 years ..	0	43 560	51 553	83 723	136 378	132 938			
4 years ..	0	44 049	51 883	82 642	135 624				
5 years ..	0	43 992	51 736	81 995					
6 years ..	0	43 849	51 338						
7 years	0	43 798							
Estimation of the cumulative losses	0	43 798	51 338	81 995	135 624	132 938	154 026	225 071	162 987
Payments as at 31.12.2006	0	43 409	50 356	77 862	121 406	125 731	143 902	194 695	103 468
Provision of outstanding claims as at 31.12.2006	3 259	389	982	4 133	14 218	7 207	10 124	30 376	59 519

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 5. Gross premiums

	2006			2005		
EEK	Gross premiums	Reinsurer´s share	Net premiums	Gross premiums	Reinsurer´s share	Net premiums
Traffic insurance	145 616 907	102 628 324	42 988 583	139 560 097	97 676 600	41 883 497
Personal accident	3 222 452	1 933 470	1 288 982	2 920 757	1 748 915	1 171 842
Travel insurance	21 447 359	2 089 300	19 358 059	16 368 083	2 595 942	13 772 141
Property insurance	54 529 861	33 642 815	20 887 046	42 860 659	26 851 772	16 008 887
Insurance of vehicles	130 660 544	91 599 561	39 060 983	99 832 795	69 890 992	29 941 803
Liability insurance	1 397 565	1 095 253	302 312	916 604	730 913	185 691
Goods in transit insurance	502 320	387 456	114 864	702 163	597 501	104 662
Carriers liability	787 566	678 191	109 375	695 477	557 581	137 896
Liability insurance of watercraft owner	152 891	118 150	34 741	103 718	59 806	43 912
Railway rolling stock insurance	4 247 935	4 111 510	136 425	7 036 221	7 002 437	33 784
Guarantee insurance	2 257 831	503 581	1 754 250	2 083 029	466 411	1 616 618
Total	**364 823 231**	**238 787 611**	**126 035 620**	**313 079 603**	**208 178 870**	**104 900 733**

Note 6. Reinsurance commissions and participation in the profit

EEK	2006	2005
Reinsurance commissions	34 104 067	41 127 755
Participation in the reinsurer's profit	121 295	-8 336
The part of reinsurance in the change of acquisition costs	2 380 915	-1 113 180
Total	**36 606 277**	**40 006 239**

Note 7. Revenue of reinsurance

EEK	2006	2005
Reinsurance premiums	-238 787 611	-208 178 870
Reinsurer´s share of change in unearned premiums	6 654 111	14 423 799
Reinsurer´s share of claims paid	154 668 961	114 392 581
Reinsurer´s share of change in claims outstanding	14 458 787	23 853 114
Reinsurance commissions and participation in the profit	34 225 362	41 118 919
Total	**-28 780 390**	**-14 390 457**

Note 8. Financial income

EEK	Note	2006	2005
Real estate investments profit/loss	14	-481 621	2 786 003
Return on trade portfolio		4 122 761	5 566 135
Return on bonds held until redemption date		631 992	182 618
Dividend income		342 411	25 117
Interest from deposits		169 269	157 505
Other financial income incl. interests form loans		1 693 378	223 414
Other investments expenses		-822 153	-1 008 287
Total		**5 656 037**	**7 932 505**

Note 9. Other business income

EEK	2006	2005
Sale of registered immovable and utility networks	0	9 111 521
Rental income	11 462	10 902
Other	1 307 378	300 402
Total	**1 318 840**	**9 422 825**

Note 10. Claim adjustments

EEK	Note	2006	2005
Paid damages		204 026 681	148 360 743
Claim adjustment expenses	11	17 557 342	14 221 246
Recalls and sums accrued with realization of the residual assets		-13 107 367	-7 426 951
According to the estimations the accrued recalls and expected sales revenue form salvage		-6 925 959	-4 835 241
Total		**201 550 697**	**150 319 797**

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 13). The part of the reinsurance is evaluated similarly with the claim adjustments (Note 18).

Note 11. Operation costs

EEK	Claim adjustment costs (Note 10)		Insurance agreements acquisition costs		Administrative costs		TOTAL	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Labour costs	7 089 429	6 148 090	21 313 550	18 324 691	9 976 502	9 458 603	38 379 481	33 931 384
Commissions to the agents	0	0	32 314 140	27 266 532	0	0	32 314 140	27 266 532
Outsourced services	6 937 440	5 073 799	0	0	0	0	6 937 440	5 073 799
Depreciation and impairment of tangible and intangible assets	885 459	961 175	786 372	475 061	394 449	498 602	2 066 280	1 934 838
Other operation costs	2 645 014	2 038 182	12 256 747	10 751 173	9 025 467	17 895 468	23 927 228	30 684 823
Change of capitalized acquisition costs	0	0	-434 240	-2 668 772	0	0	-434 240	-2 668 772
Total	**17 557 342**	**14 221 246**	**66 236 569**	**54 148 685**	**19 396 418**	**27 852 673**	**103 190 329**	**96 222 604**

Note 12. Income tax

EEK	2006	2005
Profit before taxation	25 793 474	25 616 341
Corporate tax	0	0
Income tax on dividends	1 628 661	1 633 255
Net profit of accounting period	**24 164 813**	**23 983 086**

Note 13. Claims from direct insurance business

EEK	31.12.2006	31.12.2005
Policyholders	7 885 757	5 861 998
Insurance agents	7 830 146	9 223 631
Recalls and salvage	11 761 200	4 835 241
Other claims	16 351	14 499
Claims from reinsurance	4 701 844	4 523 565
Total	**32 195 298**	**24 458 934**

As claims and incomes the accrued and expected fair cost of recalls and salvage is reported as at 31 December 2006. The respective reinsurer's part is documented among the part of the reinsurer of the claim adjustments (Note 18).

Changes in allowances for doubtful accounts:

EEK	31.12.2006	31.12.2005
Doubtful accounts at the beginning of the period	**-394 192**	**-369 225**
Doubtful accounts determined as such received during the reporting period	39 887	47 256
Doubtful accounts determined as such during the reporting period	-119 810	-268 286
Claims classified as bad during the reporting period	42560	196 063
Doubtful accounts at the end of the period	**-431 555**	**-394 192**

Note 14. 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 investments. 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 investment constitutes EEK 25 millions.

EEK	2006	2005
The balance sheet cost of the real estate investments		
At the beginning of the year	14 000 000	11 200 000
Revaluation	0	2 800 000
Change in proportions of the real estate investment and tangible assets	-1 500 000	0
At the end of period	**12 500 000**	**14 000 000**

EEK	2006	2005
Earnings and outlays of the real estate investments		
Earnings	1 172 425	4 210 155
incl. re-evaluation	0	2 800 000
Real estate investment managing costs	-1 654 046	-1 424 152
Total	**-481 621**	**2 786 003**

Note 15. Financial investments

31.12.2006	Fair value through profit/loss	Until redemption date	Loans and deposits	Total
Shares and participation in the investment funds				
Quoted	8 979 323	0	0	8 979 323
Liquidity funds	7 267 959	0	0	7 267 959
Debt security funds	9 852 597	0	0	9 852 597
Debt securities				
Fixated rate of return	40 209 357	55 633 887	0	95 843 244
Changing rate of return	654 624	0	0	654 624
Loans				
Mortgage loan	0	0	11 500 000	11 500 000
Other loans	0	0	450 404	450 404
Deposits	0	0	35 678 020	35 678 020
Total	**66 963 860**	**55 633 887**	**47 628 424**	**170 226 171**
31.12.2005				
Shares and participation in the investment funds				
Quoted	8 367 733	0	0	8 367 733
Liquidity funds	12 072 933	0	0	12 072 933
Debt security funds	78 146 611	0	0	78 146 611
Debt securities				
Fixated rate of return	0	1 526 625	0	1 526 625
Changing rate of return	6 048 695	0	0	6 048 695
Loans				
Mortgage loan	0	0	6 200 000	6 200 000
Other loans	0	0	927 074	927 074
Deposits	0	0	23 604 210	23 604 210
Total	**104 635 972**	**1 526 625**	**30 731 284**	**136 893 881**

Note 15. Financial investments (follow up)

EEK	Fair value through profit/loss	Until redemption date	Loans and deposits	Total
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**
Acquired during the period	108 782 182	41 618 637	49 414 019	199 814 838
Sold during the period	-135 564 917	-1 550 893	-32 516 879	-169 632 689
Book profit in the change of investment's value	3 142 544	7 597	0	3 150 141
Balance cost as at 31.12.2006	**80 995 781**	**41 601 966**	**47 628 424**	**170 226 171**

Shares and investment fund units

Shares and investment fund units belong to the trade portfolio and are reported in their fair value. The fair value of securities is determined based on the quotations of custodian banks.

The breakdown of shares and investment fund units by currencies is as follows:

EEK	**31.12.2006**	**31.12.2005**
EEK	16 354 998	94 497 788
USD	91 763	0
EUR	6 366 580	0
LTL	3 051 961	2 533 967
LVL	234 577	213 407
HUF	0	883 025
GBP	0	459 090
Total	**26 099 879**	**98 587 277**

Bonds

Bonds are divided into those held until redemption date (adjusted acquisition cost) or trade portfolio (in fair value adjusted throughout the profit statement).

EEK	31.12.2006 Fair value	31.12.2006 Adjusted acquisition cost	31.12.2006 Total	31.12.2005 Fair value	31.12.2005 Adjusted acquisition cost	31.12.2005 Total
Fixed yield bonds						
Government bonds	7 236 468	23 976 820	31 213 288	0	0	0
Financial institution bonds	32 455 875	31 657 067	64 112 942	0	0	0
Other bonds	517 014	0	517 014	6 048 695	0	6 048 695
Total	**40 209 357**	**55 633 887**	**95 843 244**	**6 048 695**	**0**	**6 048 695**
Variable yield bonds						
Other bonds	654 624	0	654 624	0	1 526 625	1 526 625
Total	**654 624**	**0**	**654 624**	**0**	**1 526 625**	**1 526 625**
Bonds in total	**40 863 981**	**55 633 887**	**96 497 868**	**6 048 695**	**1 526 625**	**7 575 320**

The average duration of fixed yield securities was 1.2 years. The average interest rate was 4.2%.

The bonds portfolio composition by credit rating is as follows:

Standard & Poor's	Moody's	31.12.2006	31.12.2005
Held until redemption date			
AAA	Aaa	47 939 453	0
AA	Aa	5 916 582	0
Trade portfolio			
AAA	Aaa	32 215 241	0
AA	Aa	8 467 209	0
Less than A	Less than A	1 959 383	7 575 320
Total		**96 497 868**	**7 575 320**

The bonds portfolio composion by redemption date is as follows:

EEK	**31.12.2006**	**31.12.2005**
Held until redemption date		
Until 6 months	15 856 669	0
6 months – 1 year	39 777 217	700 000
Trade portfolio		
Until 6 months	517 014	0
1 – 2 years	38 904 599	826 625
2 – 3 years	222 148	0
Over 5 years	1 220 221	6 048 695
Total	**96 497 868**	**7 575 320**

The weighted average internal interest rate of fixed yield bonds as at 31.12.2006 was 3.6

The bonds composion by currency:

EEK	**31.12.2006**	**31.12.2005**
Held until redemption date		
EEK	0	700 000
EUR	55 633 886	826 625
Trade portfolio		
EEK	1 171 638	551 528
EUR	39 126 747	5 497 167
LVL	565 597	0
Total	**96 497 868**	**7 575 320**

Loans

EEK	**31.12.2006**	**31.12.2005**
Mortgage loans		
Loans deadline from 3 months to 1 year	8 200 000	5 100 000
Loans deadline from 1-3 years	1 000 000	1 100 000
Loans deadline from 3-5 years	2 300 000	0
Total	**11 500 000**	**6 200 000**
Other loans		
Loans deadline until 3 months	59 063	220 985
Loans deadline from 3 months to 1 year	69 807	251 522
Loans deadline from 1-5 years	321 534	454 567
Total	**450 404**	**927 074**

The annual interest rated of the issued loans are between 4,92 –9,5%.

Deposits

Deposits in credit institutions broken down by deadlines:

EEKs	**31.12.2006**	**31.12.2005**
Deadline until 3 months	25 678 020	17 604 210
Deadline from 3 months to 1 year	10 000 000	6 000 000
Total	**35 678 020**	**23 604 210**

The annual interest rates of the deposits are between 2,7 – 3,75%.

Deposits composion by currency:

EEK	**31.12.2006**	**31.12.2005**
EEK	35 508 751	23 127 259
EUR	169 269	476 951
Total	**35 678 020**	**23 604 210**

Note 16. Tangible assets

EEK	Land and buildings	Other tangible assets	Total
Cost			
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
Purchased tangible assets	0	4 023 926	4 023 926
Change of proportions of the real estate investment and tangible assets	1 500 000	0	1 500 000
Sold tangible assets	0	-2 870 993	-2 870 993
Written off assets	0	-1 189 549	-1 189 549
31.12.2006	11 101 454	9 015 594	20 117 048
Accumulated depreciation			
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
Calculated depreciation	-444 060	-1 548 408	-1 992 468
Calculated depreciation of the sold assets	0	1 379 740	1 379 740
Calculated depreciation of the written off assets	0	1 189 549	1 189 549
31.12.2006	-3 745 541	-4 222 390	-7 967 931
Residual value			
31.12.2005	6 299 973	3 808 939	10 108 912
31.12.2006	7 355 913	4 793 204	12 149 117

The income from the sale of assets in 2006 constituted EEK 25 530.

Note 17. Intangible assets

EEK	2006	2005
Acquisition cost		
At the beginning of the year	2 868 282	2 649 751
Purchasing	700 685	349 128
Written off	-437 366	-130 597
At the end of period	**3 131 601**	**2 868 282**
Accumulated depreciation		
At the beginning of the year	-1 370 163	-1 014 662
Calculated depreciation	-568 075	-486 098
Written off	432 961	130 597
At the end of period	**-1 505 277**	**-1 370 163**
Residual value at the end of period	**1 626 324**	**1 498 119**

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

Note 18. Liabilities from direct insurance business

EEK	31.12.2006	31.12.2005
Policy holders' prepayments	3 382 647	3 388 174
Debt to the insurance agents	981 196	1 496 369
The reinsurer's share in the recalls and salvages	8 148 293	3 099 797
Other liabilities	299 520	465 951
TOTAL	**12 811 656**	**8 450 291**

Note 19. Liabilities from reinsurance

EEK	31.12.2006	31.12.2005
Debt to reinsurers	4 006 459	15 897 164
Provisioned share of the reinsurance commissions	34 363 435	11 512 682
Incl. short term share	16 630 395	2 179 577
long term share	17 733 040	9 333 105
TOTAL	**38 369 894**	**27 409 846**

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 20. Outstanding debts and other unearned income

EEK	**31.12.2006**	**31.12.2005**
Debts to employees	3 848 565	3 270 994
Tax debts	2 977 215	2 622 896
Debts to procurer	969 685	1 002 300
Rent prepayment	9 960	16 343
Total	**7 805 425**	**6 912 533**

Note 21. Technical provisions

Technical provisions broken down by the types of insurance

Provision of prepaid premiums	**31.12.2005**		**31.12.2006**	
EEK	total amount	reinsur.	total amount	reinsur.
Traffic insurance	45 551 043	31 885 730	43 412 537	30 388 776
Short-term health insurance	2 577 618	780 150	3 749 299	932 906
Vehicles	30 195 911	21 137 138	38 359 894	26 818 284
Railway, rolling stock, aircraft, vessels	1 117 405	1 047 816	511 111	481 781
Transported goods	160 756	128 605	214 813	171 851
Assets (natural persons)	6 482 982	3 267 349	7 910 000	4 010 055
Assets (legal persons)	7 368 044	4 336 743	10 083 086	6 179 030
Motor vehicles' owner's accountability	113 221	89 123	110 677	70 872
Civil accountability	236 270	187 598	593 137	474 510
Financial loss	1 392 994	218 375	1 418 148	204 673
Total	**95 196 244**	**63 078 627**	**106 362 702**	**69 732 738**

Provision for claims outstanding	**31.12.2005**		**31.12.2006**	
EEK	total amount	reinsur.	total amount	reinsur.
Traffic incurance	75 176 125	57 464 063	92 785 148,00	69 115 251
Short-term health insurance	1 645 410	419 841	2 082 572	319 814
Vehicles	19 603 371	13 722 360	21 030 412	14 721 288
Railway, rolling stock, aircraft, vessels	5 313 240	4 776 915	5 288 240	4 759 415
Assets (natural persons)	1 683 928	861 747	1 897 723	990 259
Assets (legal persons)	4 106 193	2 359 423	5 645 950	4 119 510
Vehicle's owner's accountability	528 824	502 383	578 824	537 383
Civil accountability	894 712	715 769	894 712	715 769
Total	**108 951 803**	**80 822 501**	**130 206 780**	**95 281 248**

Note 21. Technical provisions (follow up)

	31.12.2005		31.12.2006	
	total amount	reinsur.	total amount	reinsur.
Provision for reported claims	92 304 034	69 004 634	109 689 002	81 008 859
Provision for claims incurred but not reported (IBNR)	9 500 172	6 509 871	9 288 550	6 027 365
Motor TPL pension provision	7 147 597	5 307 996	11 229 228	8 245 024
Total	108 951 803	80 822 501	130 206 780	95 281 248

Note 22. Revenue of the non-life insurance broken down by three major types of insurance

	Traffic insurance		Insurance of vehicles		Property insurance		Others		Total	
EEK	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Gross premiums written	145 616 907	139 560 097	130 660 544	99 832 795	54 529 861	42 881 054	34 015 919	30 805 657	364 823 231	313 079 603
Gross premiums earned	147 755 413	127 262 494	122 496 561	91 345 921	50 387 801	38 998 226	33 016 998	29 745 624	353 656 773	287 352 265
Gross claims	-101 360 881	-69 625 003	-71 675 716	-54 337 310	-19 249 077	-17 449 299	-9 265 023	-8 908 185	-201 550 697	-150 319 797
Gross claims incurred	-118 969 904	-88 112 003	-73 102 757	-58 372 797	-21 002 629	-20 605 818	-9 730 384	-14 496 141	-222 805 674	-181 586 759
Gross operating expenses	-23 265 525	-22 899 508	-28 103 820	-21 704 400	-14 965 514	-13 065 952	-13 656 875	-9 845 594	-79 991 734	-67 515 455
Incl commissions	-8 512 662	-9 425 681	-14 840 858	-10 789 054	-4 793 756	-4 395 876	-5 828 184	-4 498 155	-33 975 460	-29 108 766
The revenue of the outgoing reinsurance	-1 351 166	-3 791 018	-12 445 672	-4 481 556	-5 333 057	-4 556 449	-7 269 619	-2 674 115	-26 399 515	-15 503 137
Other net technical profit/loss from reinsurance	-2 881 447	-3 958 638	0	0	0	0	-69 197	5 102	-2 950 644	-3 953 536
Technical revenue	**1 287 371**	**8 501 327**	**8 844 312**	**6 787 168**	**9 086 600**	**770 007**	**2 290 923**	**2 734 876**	**21 509 206**	**18 793 378**

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 23. Operating lease

Assets taken to operating lease

In the consolidated statement for the reporting year the rental costs of vehicles total EEK 431 980 and the rent for rooms constitutes EEK 2 999 023.

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

Until 1 year	1 516 591
1 - 5 years	3 712 658
Over 5 years	500 104

The durations 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 11 462.

During the reporting period the reported rental income of rooms was EEK 792 056.

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

Until 1 year	903 977
1 - 5 years	2 235 580
Over 5 years	919 350

Note 24. Provisions and contingent liabilities

Income tax

The retained profit of the company as at 31.12.2006 constituted EEK 53 507 104. The biggest possible amount for taxation should the total retained profit be paid out as dividends constitutes EEK 15 091 747. Thus, the net amount of dividends paid out would be EEK 38 415 357. 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 2006 is taken into account.

Other

The claims connected to insurance losses brought against Salva Kindlustuse AS constitute EEK 3,3 millions. According to the estimations of the management board the amount of probable claims constitutes approx. EEK 2,7 millions and they are reported in provisions for outstanding claims.

Note 25. Capital and reserves

Share capital

The share capital of the company as at 31.12.2005 was 10,000,000 kroons consisting of one million shares with the nominal value of 10 kroons. In 2006 the share capital 40,000,000 kroons was increased by a fund emission to 50,000,000 kroons consisting of 1 million shares with the nominal value of 50 kroons. Each share gives the right to receive dividends when paid out and one vote at the general meeting of shareholders.

Dividends

In 2006 dividends were paid in the amount of 6 million kroons, i.e. 6 kroons per share.

At a general meeting of shareholders the management has proposed to pay dividends in the amount of 6 million kroons, i.e. 6 kroons per share.

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 26. 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 he management board during the reporting period constituted EEK 46 017.

The remuneration costs of management board members were 3.9 million kroons and those of supervisory board members 319 thousand kroons. Management board or supervisory board members are not entitled to receive compensation when leaving.

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	2006	2005
Companies related to the member of the management board	404 970	470 175

Liabilities	31.12.2006	31.12.2005
Companies related to the member of the management board	0	32 635

The Balance of the loans issued to company's employees constituted as at 31 December 2006 EEK 1 450 404.

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 27. Main statements of the parent company

Salva Kindlustuse AS Balance Sheet

EEK		
ASSETS	**31.12.2006**	**31.12.2005**
Cash and cash equivalents	**5 056 868**	**3 289 598**
Claims	**32 195 298**	**24 467 734**
Receivables from direct insurance business	27 493 454	19 935 369
Receivables from reinsurance	4 701 844	4 523 565
Other receivables	0	8 800
Accrued income and prepaid expenses	**177 383 520**	**155 965 816**
Part of reinsurance in technical provisions	165 013 986	143 901 128
Accrued income	134 429	195 125
Aquisition costs	11 366 384	10 932 144
Other prepaid expenses	868 721	937 419
Investments	**249 206 129**	**213 180 684**
Daughter companies	79 100 803	76 286 803
Finance investments	170 105 326	136 893 881
Tangible assets	**909 585**	**1 152 691**
Intangible assets	**1 626 324**	**1 498 119**
ASSETS TOTAL	**466 377 724**	**399 554 642**
LIABILITIES	**31.12.2006**	**31.12.2005**
Accounts payable	**76 535 874**	**48 306 622**
Accounts payable on direct insurance business	**12 811 656**	**8 450 291**
Accounts payable on reinsurance business	38 369 894	27 409 846
Other liabilities	25 354 324	12 446 485
Accrued expenses and deferred income	**15 050 518**	**16 505 358**
Accrued expenses and deferred income	6 294 773	5 368 698
Part of reinsurance in aquisition costs	8 755 745	11 136 660
Technical provisions	**236 569 482**	**204 148 047**
Capital and reserves	**138 221 850**	**130 594 615**
Share capital	50 000 000	10 000 000
Reserve capital	4 976 000	4 185 041
Other reserves	1 008 085	1 008 085
Accumulated profits	68 610 530	94 354 469
Profit for the financial year	13 627 235	21 047 020
TOTAL LIABILITIES	**466 377 724**	**399 554 642**

Salva Kindlustuse AS Profit and Loss Statement

EEK	**2 006**	**2 005**
Gross premiums written	365 053 857	313 284 961
Reinsurance premiums	-238 787 611	-208 178 870
Change in provision for prepaid premiums	-11 166 458	-25 727 338
Reinsurer's share on provision for prepaid premiums	6 654 111	14 423 799
Earned premiums net of reinsurance	**121 753 899**	**93 802 552**
Fees and commissions	36 606 277	40 006 239
Financial income	14 414 413	18 526 815
Other income from business	1 694 844	194 832
Total incomes	**174 469 433**	**152 530 438**
Claims	-222 807 069	-164 946 998
Reinsurer's share in claims paid	154 668 961	114 392 581
Change in provision for claims outstanding	-21 254 977	-31 266 962
Reinsurer's share in change in provision for claims outstanding	14 458 747	23 853 114
Claims incurred, net of reinsurance	**-74 934 338**	**-57 968 265**
Aquisition costs	-66 236 569	-54 148 685
Administrative costs	-19 652 906	-19 366 468
Total operating costs	**-85 889 475**	**-73 515 153**
Income tax	18 385	0
Result of the accounting period	**13 627 235**	**21 047 020**

Salva Kindlustuse AS Cash Flow Statement

EEK	**2006**	**2 005**
Business cash flows	**8 767 054**	**5 823 645**
Premiums received	363 902 883	307 141 453
Paid compensations, repurchases and treatment costs	-209 899 358	-155 107 701
Settlements with reinsurers	-39 111 519	-35 862 590
Paid operation costs	-84 547 717	-71 275 351
Other profit and loss	90 826	-1 197 102
Paid income tax	-18 385	0
Purchase of shares and other participations	-54 439 569	-57 546 010
Sale of shares and other participations	130 819 774	29 738 007
Purchase of debt securities and fixed securities	-95 961 250	-70 596
Sale of debt securities and fixed securities	7 206 075	2 621 280
Issued loans	-6 465 000	-5 155 000
Repaiment of loans	1 762 515	3 573 968
Positioned to the time deposits	-42 828 174	-47 421 383
Accrued from time deposits	30 754 364	30 817 173
Accrued interests	2 481 331	1 254 880
Accrued dividends	5 842 411	5 025 117
Paid investment costs	-822 153	-712 500
Cash flows from investing activity	**-999 784**	**-933 955**
Purchase of tangible and intangible assets	-999 784	-933 955
Cash flows from financing activity	**-6 000 000**	**-5 000 000**
Paid dividends	-6 000 000	-5 000 000
Cash flows total	**1 767 270**	**-110 310**
Cash and cash equivalents at the beginning of the period	**3 289 598**	**3 399 908**
Change of cash and cash equivalents	**1 767 270**	**-110 310**
Cash and cash equivalents at the end of the period	**5 056 868**	**3 289 598**

Salva Kindlustuse AS Statement of Movements in Capital and reserves

EEK	Share capital	Capital reserve	Other reserves	Accumulated profits	Total
Balance at 31.12.2004	10 000 000	4 185 041	1 008 085	99 354 469	114 547 595
Profit of the period	0	0	0	21 047 020	21 047 020
Dividends declared	0	0	0	-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
Increasing the share capital via fund emission	40 000 000	0	0	-40 000 000	0
Increasing reserve capital	0	790 959	0	-790 959	0
Profit of the period	0	0	0	13 627 235	13 627 235
Dividends declared	0	0	0	-6 000 000	-6 000 000
Balance at 31.12.2006	50 000 000	4 976 000	1 008 085	82 237 765	138 221 850

Signatures of the Management Board and Supervisory Board members to the financial statements of 2006

Management Board:

Tiit Pahapill	Chairman of the Management Board	....	09.03.2007
Irja Elias	Member of the Management Board	....	09.03.2007
Urmas Kivirüüt	Member of the Management Board	....	09.03.2007
Andres Lõhmus	Member of the Management Board	....	09.03.2007

Nõukogu on juhatuse poolt koostatud majandusaasta aruande, mis koosneb tegevusaruandest ja raamatupidamise aastaaruandest, läbi vaadanud ja aktsionäride üldkoosolekule esitamiseks heaks kiitnud.

Supervisory Board:

Leho Siimsen	Chairman of the Supervisory Board	....	09.03.2007
Reigo Kala	Member of the Supervisory Board	....	09.03.2007
Peep Kütt	Member of the Supervisory Board	....	09.03.2007
Marje Hansar	Member of the Supervisory Board	....	09.03.2007
Indrek Kasela	Member of the Supervisory Board	....	09.03.2007
Kustaa Äimä	Member of the Supervisory Board	....	09.03.2007

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Salva Kindlustuse AS

We have audited pages 12 to 53 of the consolidated annual statement of Salva Kindlustuse AS including a consolidated balance sheet as at 31 December 2006, and a consolidated profit statement, equity statement and cash flow statement for the year then ended, as well as a summary on essential accounting principles used in the preparation of the statement and other accompanying documents.

Management's responsibility

The management is responsible for the preparation and true and fair presentation of the consolidated annual statement in accordance with the international financial reporting standards adopted by the European Union. Their responsibility includes the implementation of a relevant internal supervision system to ensure correct preparation and presentation of an annual statement that would be free of material misstatements, the application of relevant accounting principles and the making of sound accounting decisions.

Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with international auditing standards. Those standards require that we conform to ethics principles and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Our audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The extent and content of those procedures depend on the auditors' decisions, including our assessment of the risk that the statement may contain material misstatements. To plan audit procedures, the auditors consider in risk assessment the internal supervision system implemented for the preparation and presentation of a true and fair financial statement, but they do not express an opinion on the efficiency of the internal supervision system. The audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the consolidated financial statement referred to above provides, in all essential respects, a true and fair overview of the financial position of Salva Kindlustuse AS as at 31 December 2006 and the consolidated results of its operations and its cash flows for the year then ended in accordance with the international financial reporting standards adopted by the European Union.

Tallinn, 09.03.2007
KPMG Baltics AS

Taivo Epner
Sworn auditor

Maret Tambek
Sworn auditor

Proposal for the distribution of profit

Retained profit	29 342 291
Net profit of the 2006	24 164 813
Intangible assets in balance value (Insurance Activities Act § 59(2))	- 1 626 324
Total distributed profit at 31. December 2006	51 880 780

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

Dividends	6 000 000
Retained profit after distribution of profit	**45 880 780**

Tiit Pahapill	Chairman of the Management Board	....09.03.2007
Irja Elias	Member of the Management Board	....09.03.2007
Urmas Kivirüüt	Member of the Management Board	....09.03.2007
Andres Lõhmus	Member of the Management Board	....09.03.2007