Salva Kindlustuse AS

Annual report

2007

SALVA
KINDLUSTUS

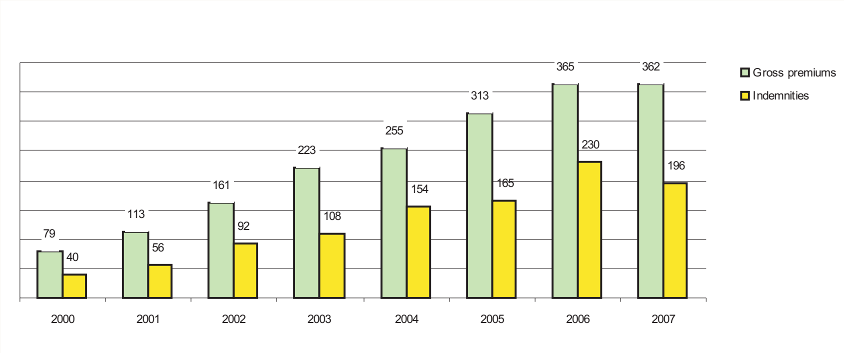
Contents

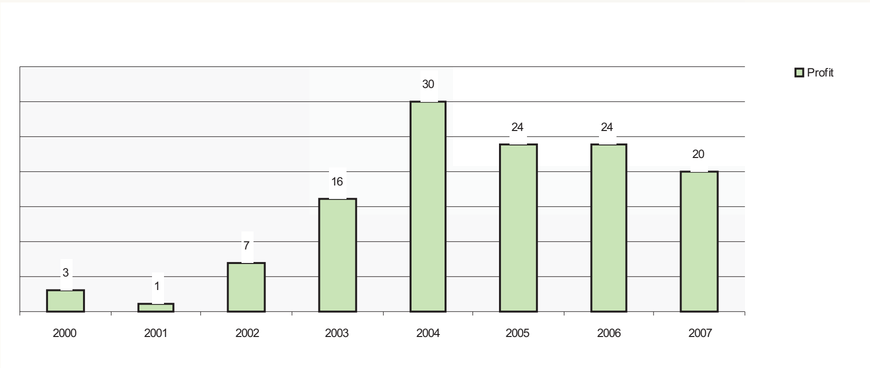
General Information of Salva Kindlustuse AS

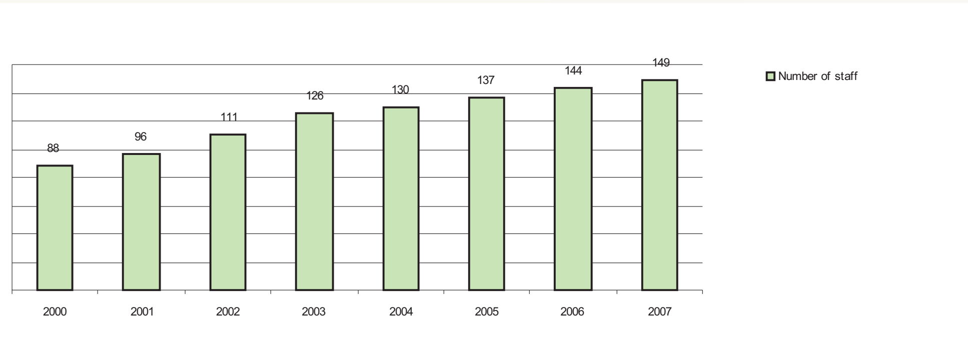
Business name:	Salva Kindlustuse AS
Address:	Pärnu mnt.16, 10141 Tallinn
Commercial register code:	10284984
Telephone:	6800 500
Fax:	6800 501
Electronic mail:	salva@salva.ee
Website:	http://www.salva.ee
Main activity:	non-life insurance
Beginning of financial year:	01.01.2007
End of financial year:	31.12.2007
CEO:	Tiit Pahapill
Auditor	KPMG Baltics AS

Management report

Principal indicators







Vision, mission and strategy

Vision
To represent for customers the epitome of a reliable insurance company.

Mission
We are a continuously developing non-life insurance company, rendering reliable insurance services to all our customers and co-operation partners applying the professional experience, proper conduct of affairs, and customer-friendly attitude of our entire staff.

Values

Strong mutual customer relationships
We are easily and conveniently accessible through our representative office across Estonia, our website or by telephone. Every client is a special client for us, any contacts between ourselves and our clients are always targeted at achieving a mutually satisfying result. Trust of our clients is our greatest value.

Motivating work environment
We offer our staff a modern and innovative environment, where – along with generating a good team atmosphere, essential for achieving good results – personal needs of every individual have not been forgotten either. We continuously train our staff, value their education and professional self-realisation. We take into consideration the individual input of every staff member into achieving the common goals.

High-quality and reliable service
We guarantee the quality of the insurance services offered through our long-term experience, proper conduct of affairs and the ability to react swiftly. We pay considerable attention to risk management and continuous improvement of services. We remain open and objective in any situation, and will not compromise the quality in the name of quantity. Customers may always rely on us.

Goals for the year 2008
In 2008 we are facing a difficult market situation and ever-intensifying competition. Efficiency and quality are the cornerstones which we shall be relying on in our sales process. Development of electronic sales channels is becoming increasingly more important. Having established sales offices across Estonia we have set ourselves a goal to bring more customers to us, and to be accessible for our customers. Moreover, we our efforts are targeted at ensuring that any loss adjustment proceedings efficient and swift.

General information
Salva Kindlustuse AS (hereinafter Company) is operating on the Estonian insurance market since 1993, and within its fifteen years of business has become one of the leading non-life insurance company in Estonia, offering a full range of services. The Company is registered and transacts business in Estonia.

Today the Company's portfolio contains all the most widely used non-life insurance products, the number of which exceeds 15. The Company's clientele includes private individuals and businesses as well as companies and agencies of the public sector.
The representative offices (8) and the sales offices (14) of the Company are situated in many regions in Estonia, whereas the seat of the head office is Tallinn.

Salva Kindlustuse AS Group

Companies of the consolidation group

Business name	Register	Date of registration	Address	Main activity	Shareholding (%)
Salva Kindlustuse AS	10284984	March 1993	Pärnu mnt.16, Tallinn	non-life insurance	100%
Salva Arenduse OÜ (in liquidation)*	10430822	April 1998	Pärnu mnt.16, Tallinn	asset management, advertising and consulting services	100%
Salva Kahjukäsitluse OÜ*	10259383	September 1997	Tammsaare tee 118B, Tallinn	handling of loss events, vehicle rent, property management	100%
Safiirex Invest OÜ (in liquidation)**	10976475	October 2003	Pärnu mnt.16, Tallinn	real estate development	100%

The parent company is Salva Kindlustuse AS, whose main business is non-life insurance.

*Consolidated subsidiaries of Salva Kindlustuse AS

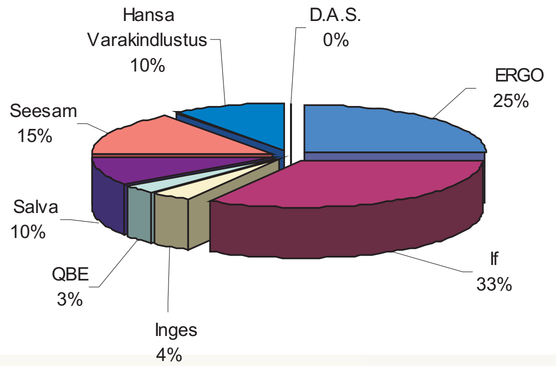
** Consolidated subsidiary of Salva Kahjukäsitluse OÜ.

Economic environment
2007 was a controversial year in the Estonian economy. The economic growth that reached 11% during the first quarters of the year, dropped to 4.8% in the fourth quarter.

The overall economic growth figure in Estonia in 2007 reached 7%. It is predicted that the economic growth rate in 2008 will also be slowing down, and the anticipated economic growth will not exceed 3 to 4%. The tapering down of the economic growth is primarily caused by the reduction of the domestic demand. This can be seen in the reduction of car sales figures and real estate transaction, the continuous price decrease on the real estate market, and the slowed down growth of construction activities. By the end of the year the population's certainty in the prospects of both their own family as well as the State economic situation had dropped. This is witnessed by the diminishing increase of home loans as well as consumer loans. Revival of the economic growth this year is dependent on both the ability of companies to adjust themselves to foreign markets, as well as on the attitudes in the real estate sector. However, the rapid price increase rate of the beginning of the year 2008 – the consumer price index this January exceeded that of the same period of the last year by 11%, does not cause optimism.
According to the assessment of the Bank of Estonia due to high inflation introduction of euro in Estonia before 2011 seems unlikely as well.

Non-life insurance market
In 2007 the Estonian non-life insurance company collected insurance premiums on the Estonian market in the aggregate amount of 3724 million kroons. As compared with the year 2006 the amount of premiums increased by 19%. The value of paid-out insurance indemnities was 2045 million kroon, which is by 25% higher as compared with the previous year. The largest share of all the classes of insurance offered on the insurance market is held by various motor vehicles related insurance types – the mandatory motor third party liability insurance (27%) and optional motor vehicle insurance (42%). The share of property insurance amounts to 27%, and the aggregated share of all the remaining classes of insurance amounts to 4% of the market. The structure has not changed considerably during the recent years. The same structure is also visible in the insurance indemnity payments, whereas the share of indemnity discharge by the end of 2007 was 55%.

Market shares of non-life insurance companies expressed in premiums received by the end of 2007.



As compared to the last year the distribution of market shares has changed. Hansa Varakindlustus, a subsidiary of Hansapank, who entered the non-life insurance market in 2007, who has access to the Group's home loan and vehicle leasing customers, increased its market share by the end of the year to 10%, whereas most of the larger insurance companies had to surrender a part of their market share.

This information does not represent data of 2007 of branches of foreign insurance companies who operate on the Estonian market, e.g. AAS Gjensidige (former Parex Kindlustus), BTA, Codan, Fennia.

The reduced economic growth rate will definitely leave a trace on the insurance sector as well. This can be impacted by the increased inflation rate that reduces the families spending power, the decreased volume of construction contracts, the slowdown of the home loans, and the reduced car sales figures. On the other hand, loss indemnity expenses will be increasing as well, because the prices of auto workshops services and vehicle spare parts have also been subject to price increase.

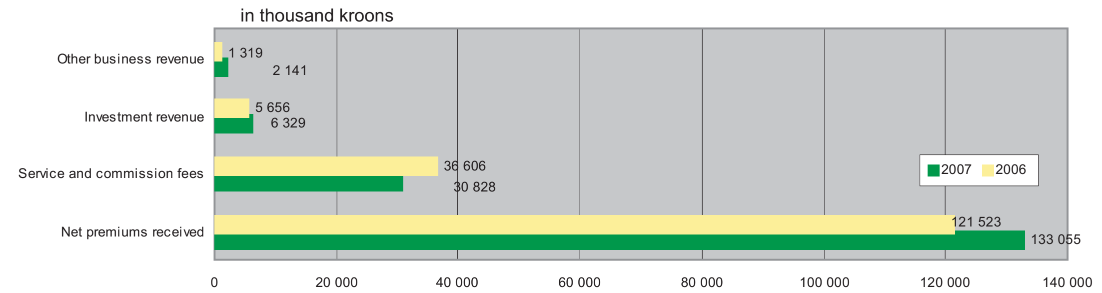
This puts pressure on the need to increase to increase tariff, which is difficult in the intense competition environment.

Due to the reduced economic growth rate we have predicted that next year the insurance market growth will amount to 12–13%.

Financial results

Net profit in 2007 amounted to 20 million kroons (in 2006 – 24 million kroons). The year can be deemed very successful, because the estimates at the beginning of the year were much more pessimistic.

Revenues



In 2007 the aggregate revenue increase amounted to 5%. This figure represents a 9% increase of premiums received, a 16% reduction of the service and commission revenues, and a 12% increase of the investment revenues.

In 2007 Salva Kindlustuse AS collected insurance premiums in the gross amount of 362 million kroons (in 2006 – 365 million kroons), which is less by 1% as compared to the previous year.

The highest growth of insurance premiums was witnessed in the liability insurance and travel insurance sectors, amounting to 58% and 54% respectively. Motor third vehicle traffic insurance premiums were reduced by -13%, and the motor vehicle premiums by -6%.

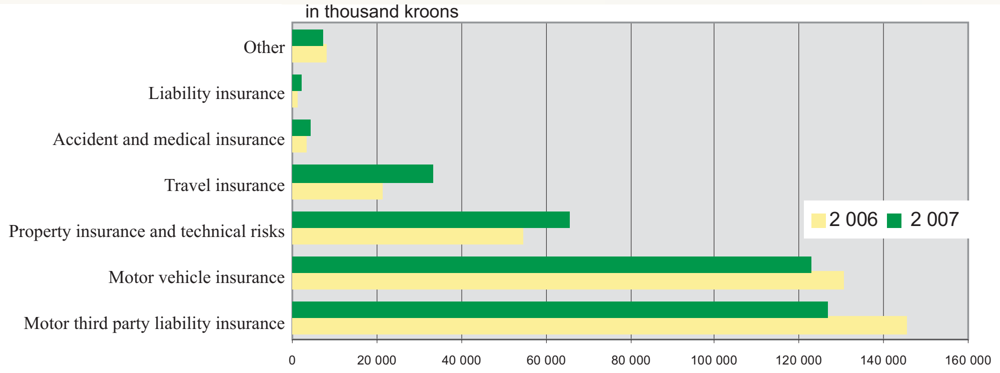
The share of brokers and resellers in the total sales volume amounts to 45%, the network of own staff, and the electronic channels gave 55% of the sales volume. Last year the respective figures were 62% and 38%.
Premiums earned increased by 1% and net premiums earned – by 9%. The profit earned from insurance activities in 2007 amounted to 16 million kroons, which equalled to 74% of the indicator for the same period of the previous year.

This result was conditioned by the reduced premium growth rate, and the reduction of the share of the reinsurer in the gross premiums. The same changes have also caused the reduction in the service and commission fees by 16%, as compared to the same period of the last year.

The consolidated net loss ratio to reinsurance amounted to 45%. The relevant indicator pertaining to the same period of the previous year was 44%.

The ratio of consolidated expenses to net reinsurance premiums in 2007 amounted to 45% by the end of the year. The relevant figure of the last year was 40%.

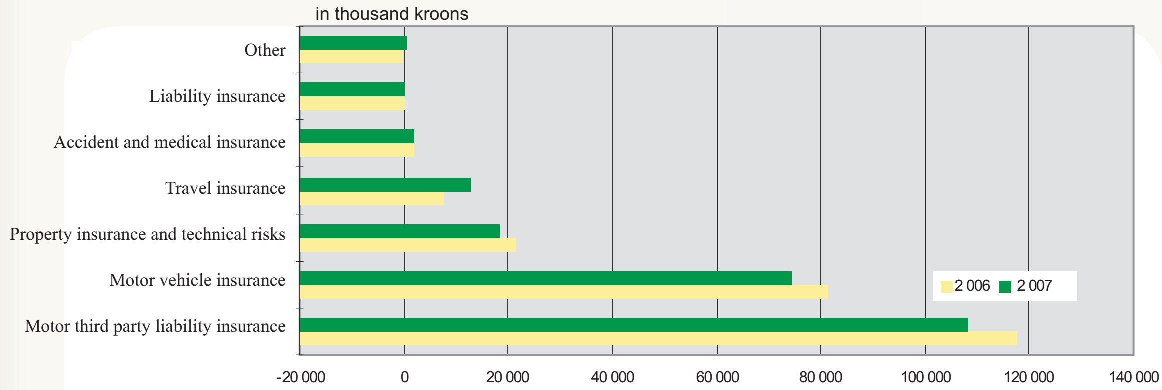
Insurance premiums of Salva Kindlustus AS by types in 2006–2007.



Loss claims

In 2007 the loss claims disbursements amounted to 194 million kroons. As compared to the last year the total loss claims amount decreased by 3%. The net loss claims deriving from reinsurance increased by 11% due to the reduced share of the reinsurer.

Insurance indemnities of Salva Kindlustus AS by types in 2006–2007.

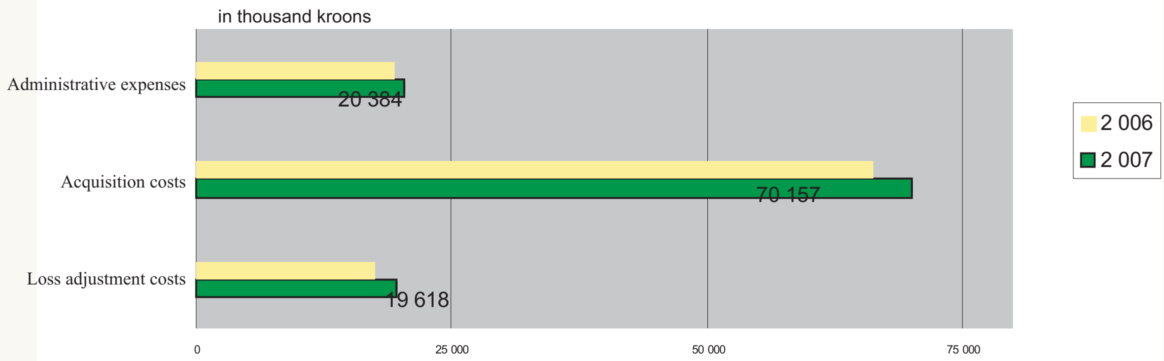


The number of satisfied loss claims in 2007 amounted to 12.3 thousand, increasing compared to the previous year by 8%.

The largest share of the losses – 77% – was formed by motor third party liability and optional vehicle insurance losses. In 2006 their share amounted to 87%. The share of travel insurance losses in the total loss amount increased from 9% to 18%.

Operating expenses

In 2007 the operating expenses increased as compared to the year 2006 by 7%, incl. loss adjustment expenses – by 12%, acquisition costs by 6%, and the administrative expenses by 5%.



As compared to the preceding year the payroll expenses, included in the acquisition cost, increased by 15% and the commission fees paid to brokers increased by 12%. This resulted from directing the sale into the Company's own channels, and the ensuing reduction of the share of brokers.

Balance sheet

The consolidated value of assets of Salva Kindlustuse AS increased in 2007 by 9%, and amounted to 450 million kroons.

Claims stemming from direct insurance activities increased in 2007 by 3%, and the share of the assets amounted to 6%.

As a result of the positive cash flow of the insurance business the investment volume has grown 20% amounting to 219 million kroons. The share of investments in the assets amounts to 49%.

Liabilities deriving from insurance contracts reached 56% of the asset value by the end of the year, having increased by 6% compared to the preceding year, and amounting to 250 million kroons.

Client advance payments and liabilities before reinsurers increased by 11% and amounted to 15% of the assets.

Shareholders' equity

In 2007 the shareholders' equity of Salva Kindlustuse AS increased by 13%, amounting to 124 million kroons. 6 million kroons was distributed to shareholders in 2007 as dividends.

Investment activities

At the strategy level the investment activities are controlled by the financial risks management committee. Restructuring of the investment portfolio towards low-interest-rate and low-credit-risk instruments that was realised at the end of 2006, was justified.

Having regard to the nature of the liabilities, as well as the competitive situation on the insurance market the strategic distribution of our assets for the year of 2007 was set towards holding of bonds with the maximum term of one year and of at least the average of AA credit rating, and keeping their share of the entire assets to the minimum level of 90%.

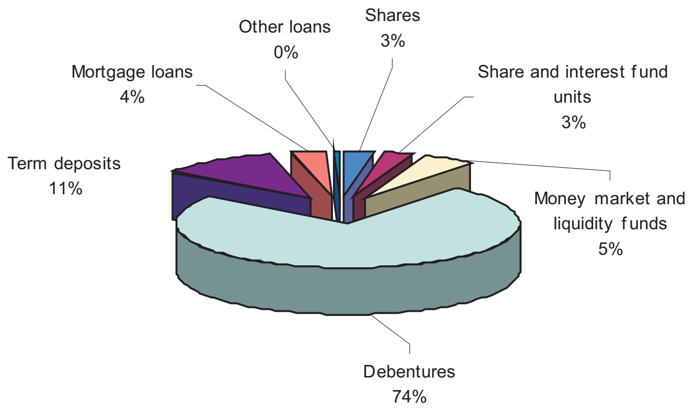
The consolidated profit of Salva Kindlustuse AS in 2007 earned from investment activities was 6.2 million kroons. The revenue earned during the same period of the previous year was 5.7 million kroons. Consolidated annual rate of return on investments was 3.1%. The average rate of return of the bond portfolio was 3%.

The credit risk spread in the bond portfolio was the following: 53% of the bonds were credit rated AAA (by S&P) or Aaa (by Moody's); 20% of the bonds were credit rated AA or Aa.

70% of the investments are held in euros and 27% in Estonian kroons. This has reduced the currency risk to the minimum.

As at the end of the year the financial investments exceed the net technical reserves by 139 million kroons, and they secure the Company a sufficient liquidity reserve.

Financial investments structure as at 31.12.2007



Organisation and management

Salva Kindlustuse AS (hereinafter Company) is operating on the Estonian insurance market since 1993, and within its fifteen years of business has become one of the leading non-life insurance company in Estonia, offering a full range of services. Today the Company's portfolio contains all the most widely used non-life insurance products, the number of which exceeds 15. The Company's clientele includes private individuals and businesses as well as companies and agencies of the public sector.

The representative offices (8) and the sales offices (14) of the Company are situated in many regions in Estonia, whereas the seat of the head office is Tallinn.

The Company's supervisory board has six members, and the fees paid to the members of the supervisory board, including taxes, amounted to 460 thousand kroons (2006 – 460 thousand kroons).

The Company's management board has four members, and the fees paid to the members of the management board, including taxes, amounted to 4.8 million kroons (2006 – 3.9 million kroons).

The number of staff of the company in 2007 was 149, 84 of them were sales staff. The number of staff has increased from 144 of the previous year on account of the sales and development staff. The full-time staff of Salva Kindlustus is young and well educated – the average age is 39 years and 32% of them have higher education, and 28% – secondary vocational education.

The personnel of the Group are motivated and satisfied with their work environment, a fact that was also demonstrated by the staff satisfaction survey conducted in 2007. A great deal of attention is paid to selection and in-service training of the staff. Product training is carried out by specialists in the relevant field. Assistance of training firms is requested for organising management and sale related training events. Salva's staff visit the Company's co-operation partners, the major European reinsurance companies, for in-service training.

Payroll expenses, including payroll-based taxes amounted to 44.8 million kroons in 2007. Compared to the previous year the payroll expenses increased by 16% (in 2006 – 38.6 million kroons). Such steep increase of payroll expenses was typical for the entire Estonian economy last year.

The Group's development in the reporting year and targets for 2008

A great deal of attention was paid in 2007 to improve the efficiency of the Group's business, both in the field of IT solutions, as well as the organisation management field.

In 2007 the development of customer servicing and sales structure reached a stage, where the existing business and IT solutions did not provide sufficient flexibility to offer the clientele and co-operation partners swift and innovative solutions. As a result of this the management board decided to launch the development of the next generation of IT systems.

Starting from the beginning of 2007 the website of Salva Kindlustus offers a possibility of purchasing a travel insurance policy directly from the Internet. This option has turned out to be very popular among our clientele.

In order to be available on the nationwide scale a sales office was opened in 2007 in Võru. Nevertheless, in order to improve efficiency, we have also been increasingly concentrating insurance contract management into central sales channels, and have reorganised the sales organisation.

The sales and insurance departments collaborated for the purpose of product development – the insurance terms and conditions were rearranged for accident and travel insurance products.

The loss adjustment services are undergoing a continuous development process – the objective is to ensure swiftness and facility of communicating with the insurance company in the case of a possible event insured. This possibility is achieved by the option of sending loss notices electronically, as well as contract with car workshops and car dealerships.

In order to better serve our clients and to improve the work conditions of it staff the Tallinn office of Salva Kahjukäsitluse OÜ moved to new and spacious premises.

Furthermore, we have been trying to make our contribution to our environment by supporting sports and culture.

From the beginning of 2007 we have a contract with the Estonian Judo Association, and according to the contract renewed this years, in 2008 the Company is one of the principal supporters of the Association with a view of assisting the Estonian Judo team to compete at the Beijing Olympics.

In addition to judo Salva is also a supporter of the volleyball team Tartu Pere Leib, and youth basketball teams Salva Tartu/Kuremaa.

Already on 24 January 2008 the chairperson of the council of the Estonian National Culture Foundation (ERKF) Mr. Eri Klas, and the chairperson of the management board of Salva Kindlustuse AS Mr. Tiit Pahapill signed a contract under which a Salva Kindlustus foundation is formed within the ERKF.

The Salva Kindlustuse AS sub-foundation will be supporting participation of young musicians at competitions. The foundation of the new ERKF sub-foundation was constituted already in 2003. In 2007 the value of the fund reached 100 000 kroons. The first Salva Kindlustus foundation scholarships will be awarded in the autumn of 2009.

We shall be ready in 2008 to respond to the ever-increasing competition. The objective of the management board of Salva Kindlustus is to maintain the company's efficiency, and – if possible – its market position. For this purpose attention is paid to the development of electronic sales channels and intensification and optimisation of the work of the existing sales organisation. Furthermore, the sales software is continuously being improved in order for it to support the company's business processes in the best possible way.

In the spring of 2008 Salva Kindlustus AS will be celebrating its 15th anniversary, a fact that provides us an additional reason to thank your customers for their loyalty and trust.

Tiit Pahapill

Chair of the management board

Principal financial indicators

Group	2007	2006	2005
In thousand kroons			
Of the reporting period			
Gross premiums	361 842	364 823	313 080
Net reinsurance premiums earned	133 055	121 523	93 602
Gross losses incurred	206 415	222 806	181 587
Net loss claims from reinsurance	59 869	53 678	43 341
Total operating expenses	92 141	86 455	82 001
Net operating expenses	59 713	49 027	41 995
Net loss ratio	45%	44%	46%
Net expenses ratio	45%	40%	45%
Net combined ratio	90%	84%	91%
At the end of the reporting period			
Total assets	450 398	413 827	351 104
Financial investments	206 966	170 226	136 894
Real estate investments	12 500	12 500	14 000
Share of investments in assets			
Efficiency indicators			
Technical result	16 369	21 509	18 793
Investment result	6 329	5 656	7 933
Profit for the period	20 231	24 165	23 983
Return on equity	17%	24%	29%
Return on investment on an annual basis	3,1%	3,40%	6,36%
Per share			
Profit per share (kroons)	20,23	24,16	23,98

Explanations of financial indicators:

Gross premiums earned	gross premiums + change in EPE
Gross losses incurred	total loss claims amount + change in RNE
Net operating expenses	Contract execution and administrative expenses - service and commission fees
Net loss ratio	(net loss claims from reinsurance + change in net technical reserve from reinsurance)/ (net reinsurance premiums earned + other net technical revenues from reinsurance)
Net expense ratio	(net operating expenses – service and commission fee revenue)/ (net reinsurance premiums earned)

Consolidated annual accounts

Declaration of the management board and signatures on the annual accounts of 2007

The management board declares its liability for preparing of the consolidated annual accounts of Salva Kindlustuse AS, and confirms that:

- the recording principles used to prepare the annual accounts comply with the International Financial Reporting Standards, as adopted by the European Union;
- the annual accounts accurately and fairly reflect the financial situation, result of business operations and cash-flow of Salva Kindlustuse AS and the Group;
- any known circumstances that have been disclosed before preparing the annual accounts on 15 March 2008 have been taken duly into consideration and presented in the annual accounts;
- The companies of the Salva Kindlustuse AS Group are continuously operating business entities, except for Salva Arenduse OÜ regarding which the dissolution decision was passed on 14.10.2005, and Safiireks Invest OÜ, regarding which the dissolution decision was passed on 07 September 2007.

Tiit Pahapill	Chair of the management board	________________	15.03.2008
Irja Elias	member of the management board	________________	15.03.2008
Urmas Kivirüüt	member of the management board	________________	15.03.2008
Andres Lõhmus	member of the management board	________________	15.03.2008

Consolidated income statement

in thousand kroons	Notes:	2 007	2 006
REVENUE			
Gross premiums	5	361 842	364 823
Reinsurance premiums	5	-227 115	-238 788
Changes in prepaid premium reserves	5	-2 931	-11 166
Reinsurance ratio of the changes in prepaid premium reserves	5	1 258	6 654
Net reinsurance premiums earned	5	**133 055**	**121 523**
Service and commission fee revenue	6	30 828	36 606
Net investment revenue	7	7 929	6 478
Other operating revenue	8	2 141	1 319
Total revenue		**173 952**	**165 927**
EXPENSES			
Loss claims incurred	9	-206 415	-222 806
Reinsurance ratio of the loss claims	9	146 546	169 128
Net loss claims from reinsurance	9	**-59 869**	**-53 678**
Acquisition costs	10	-70 157	-66 237
Administrative expenses	10	-20 384	-19 396
Financial expenses	10	-1 600	-822
Total operating expenses		**-92 141**	**-86 455**
Income tax	11	1 712	1 629
Profit of the reporting year		**20 231**	**24 165**

Consolidated balance sheet

in thousand kroons	Notes:	31.12.2007	31.12.2006
ASSETS			
Tangible assets	**13**	11 553	12 149
Real estate investments	**14**	12 500	12 500
Intangible assets	**15**	11 462	12 993
Financial investments	**16**	206 966	170 226
Receivables under reinsurance contracts	**17,21**	172 694	169 716
Receivables from insurance business and other receivables	**18**	29 909	28 797
Cash and equivalents	**19**	5 314	7 446
TOTAL ASSETS		**450 398**	**413 827**
LIABILITIES AND OWNERS EQUITY			
Share capital		50 000	50 000
Reserve capital		5 000	5 000
Other reserves		1 008	1 008
Retained profit		47 507	29 342
Profit for the current year		20 231	24 165
Total owners equity	**20**	**123 746**	**109 515**
Liabilities under insurance contracts	**21**	250 116	236 569
Liabilities from reinsurance	**22**	52 277	47 126
Liabilities explicitly from insurance business	**23**	14 324	12 812
Accrued expenses and prepaid revenue	**24**	9 935	7 805
Total liabilities		**326 652**	**304 312**
TOTAL LIABILITIES AND OWNERS EQUITY		**450 398**	**413 827**

Consolidated statement of shareholders' equity

in thousand kroons	Share capital	Reserve capital	Other reserves	Retained profit	Total
As at 31.12.2005	**10 000**	**4 209**	**1 008**	**76 133**	**91 350**
Increase of share capital by bonus issue	40 000	0	0	-40 000	0
Increase of reserve capital	0	791	0	-791	0
Profit of the reporting period	0	0	0	24 165	24 165
Dividends paid	0	0	0	-6 000	-6 000
As at 31.12.2006	**50 000**	**5 000**	**1 008**	**53 507**	**109 515**
Profit of the reporting period	0	0	0	20 231	20 231
Dividends paid	0	0	0	-6 000	-6 000
As at 31.12.2007	**50 000**	**5 000**	**1 008**	**67 738**	**123 746**

See also Note 20.

Consolidated cash flow statement

in thousand kroons		2007	2006
Cash flow from business activities	**Notes:**	**5 231**	**9 064**
Insurance premiums received		363 065	363 639
Paid indemnities and loss adjustment expenses		-212 814	-201 953
Paid to reinsurers		-48 933	-39 112
Paid as operating expenses		-100 495	-95 737
Other revenue and expense		38 057	12 794
Income tax paid		-1 698	-1 667
Acquisition of shares and other interest		-22 467	-54 440
Sale of shares and other interest		26 259	130 820
Securities with fixed rate of return acquired		-120 360	-95 961
Revenue from sale of securities with fixed rate of return		64 040	7 206
Loans granted and repayment thereof		3 753	-4 831
Cash flow from term deposits		12 678	-12 074
Interest received		6 296	2 512
Dividends received		309	342
Investment expenses paid		-2 461	-2 476
Cash flow from investments into tangible and intangible capital stocks		**-1 363**	**-1 854**
Acquisition of tangible and intangible capital stocks	13,15	-2 951	-4 725
Sale of tangible and intangible capital stocks	13,15	1 588	2 871
Cash flow from financing activities		**-6 000**	**-6 000**
Dividends paid	20	-6 000	-6 000
Total cash flow		**-2 133**	**1 210**
Cash and equivalents at the beginning of the period		**7 446**	**6 236**
Cash and equivalents at the end of the period		**5 314**	**7 446**

Notes to annual accounts

Note 1. Accounting policies used for preparing the annual report

Salva Kindlustuse AS (hereinafter Company) is a non-life insurance company registered in Estonia. The consolidated annual accounts prepared as at 31 December 2007 include the data of Salva Kindlustuse AS and its subsidiaries (jointly 'Group').

In 2007 the Salva Kindlustuse AS Group included the following entities:

Company name	Shareholding	Owner	Location
Salva Kahjukäsitluse OÜ	100%	Salva Kindlustuse AS	Estonia
Salva Arenduse OÜ	100%	Salva Kindlustuse AS	Estonia (in liquidation)
Safiireks Invest OÜ	100%	Salva Kahjukäsitluse OÜ	Estonia (in liquidation)

The management board has approved the disclosure of the annual accounts by its resolution dated 15 March 2008. The shareholders have the right to decline the annual report prepared by the management board, and demand drawing of a new report.

(a) Declaration of conformity

The consolidated annual accounts have been prepared in line with the International Financial Reporting Standards (IFRS) developed by the International Accounting Standards Board (IASB), and their interpretations, as adopted by the European Union (EU), and entered into effect for the year 2007.

(b) Basics of the annual accounts

The consolidated annual accounts have been prepared in thousand kroons, unless explicitly stated otherwise. The consolidated annual accounts have been prepared on the basis of the acquisition cost principle, with the exception of cases that have been described in the following accounting policies. The companies of the Group have adopted common accounting policies, which are applied consistently for all the periods referred to in the annual accounts.

In accordance with the International Financial Reporting Standards the preparing of consolidated annual accounts presumes presentation of the management's assessments and forecasts that may influence the balances of assets and liabilities as at the date of the annual accounts, and the statement of contingent assets and liabilities, as well as any revenues and expenses of the reporting period connected with the same. The assessment and the forecasts based thereon stem from the experiences of the preceding periods, and various other factors that are deemed reasonable having regard to the existing circumstances. On the basis of the results obtained decisions are made regarding book values of assets and liabilities are established, if the same have not become evident on the basis of other sources. Actual results can differ from these assessments.

Assessments and the preconditions constituting the ground thereof are being continuously reviewed. Any changes caused by accounting assessments are recorded in the data of the year when the assessments were changed, if the changes in questions pertain only to that reporting year. If these changes apply subsequent periods as well, they shall be recorded both in the reporting period as well as the subsequent periods.

The accounting policies provided below have been consistently applied regarding all the years referred to in these consolidated accounts.

The management assessments and forecasts applied in preparing the annual accounts are presented in Note 2.

(c) Accounting currency and foreign currency based transactions and entries

The Group's accounting and presentation currency is Estonian kroon.

Foreign currency transactions have been reflected according to the exchange rate of Bank of Estonia as at the date of the transaction. Any assets and liabilities denominated in foreign currencies have been translated based on the foreign currency exchange rates of the Bank of Estonia officially effective on the balance sheet date. Gains and losses from currency translations are recorded in income statement as revenue and expense of the period in question.

(d) Consolidation

Consolidated reports include financial data of the subsidiary undertakings controlled by the parent undertaking. Subsidiary undertakings are deemed controlled by the parent undertaking if more than one-half of the votes in the subsidiary undertaking are held by the parent undertaking, if the parent undertaking is capable of controlling the operating and financial policy of the subsidiary undertaking, or if the parent undertaking has the right to appoint or remove the majority of the members of the management board.

In the consolidated accounts any transactions between companies of the Group, as well as mutual balances and unrealised profit have been eliminated.

Information on the basic reports of the parent undertaking

Pursuant to the Accounting Act of the Republic of Estonia the notes to the consolidated annual accounts of the consolidating entity shall contain information on the main statements of the consolidating entity. The main statements of the parent undertaking are prepared applying the same recording principles and assessment bases, which have also been used for preparing consolidated accounts.

Bases for assessing subsidiaries in the unconsolidated balance sheet of the parent company have been provided in annex 2.

(e) Insurance contracts

A non-life insurance contract means a contract, under which the insurer underwrites a considerable insurance risk of the other party (the policyholder or the insured) in order to pay the policyholder or the insured person an indemnity, should the insured event occur. An insured risk is different from a financial risk. Financial risk means a risk, where subsequent changes of one or several of the following items can occur: established interest rate, price of a security, consumer prices, currency exchange rates, price index, credit rating or credit index, or another variable, where in the case of a non-financial variable is the variable is not inherent in the party to the contract. Insurance contracts may also involve some financial risk.

Insurance contracts are generally executed for a period of one year. The motor third party liability insurance contracts, executed for an indefinite period of time, form an exception of the above, whereas the policies issued thereunder are valid for the maximum term of one year.

(f) Recording and assessment of insurance contracts

Insurance premiums

Gross insurance premiums mean premiums as well as premium instalments received and receivable under insurance contracts entered into during the year, the due date or effective date whereof falls into the reporting period. Advance payments received from policyholders and benefits granted to policyholders are not recorded as premium revenue.

Reinsurance premiums mean the share of gross premium under reinsurance contracts, which is transferred or is subject to transferring to a reinsurer.
A reinsurance premium shall be deemed received upon the expiry of the insurance cover. Premiums, which are earned after the reporting date shall be recorded in the balance sheet as a prepaid premiums reserve.

Prepaid premiums reserve

The prepaid premiums reserve is formed to pay any expenses deriving from insured events covered by effective insurance contracts, which have not occurred by the balance sheet date, as well as to cover any expenses connected with contract management. The prepaid premiums reserve represents the share of gross premiums, which is likely to be earned during the next financial year. The reserve is calculated separately for every insurance contract and additional contracts on the basis of gross premiums, applying the pro rata method.

The prepaid premiums reserve is recorded on the balance sheet line “Liabilities under insurance contracts”.

The reinsurance ratio of the prepaid premiums reserve equals the same percentage of the prepaid premiums reserve, as the pro rata share of the reinsurance premiums of the gross premiums. The reinsurance ratio of the prepaid premiums reserve has been recorded on the balance sheet line “Reinsurer's assets”.

(g) Loss claims

Expenses incurred in the insurance business consists of indemnities paid during the reporting period, los adjustment expenses, reclamations received and receivable, and changes in outstanding claims reserves.

The share of outstanding claims is recorded in the balance sheet as the outstanding claims reserve.

The reinsurance ratio of the loss claims expense means the share to the extent of which it represents the reinsurer's liability, and that derives from the terms and conditions of the reinsurance contract.

Outstanding claims reserve

The outstanding claims reserve is formed to cover losses and loss adjustment expenses, which have already been incurred, but are outstanding as at the balance sheet date.

The outstanding claims reserve includes:

- adjusted or outstanding losses
- reported and registered losses, which have not been fully settled (RBNS)
- losses, which have incurred but not yet reported (IBNR)

Outstanding claims are assessed by analysing every one of them separately, having regard to the incurred and not yet reported losses, and the impact of both internal as well as external predictable events (e.g. changes in loss adjustment proceedings, inflation, legal development tendencies, and legislative amendments, as well as past experience and trends). The outstanding claims reserve includes adjustment expenses.

The RBNS is estimated in the course of the loss adjustment process separately for every individual loss file, on the basis of the information available to the loss adjuster. If no information is available, estimates based on previous experience are used. RBNS is terminated by full discharge of the claim.

IBNR is calculated at the end of every accounting period on such losses, which have likely to have already incurred, but have not been reported to us yet. The IBNR calculation methods are different for different classes of insurance, but they are based on historical statistics, and the actuarial valuations based on the analysis of historical data.

Outstanding claims reserves are not discounted, with the exception of the motor third party liability insurance annuity reserve, which is discounted into the discounted value using standard actuarial methods and retirement pension increase index and the discount rate recommended by the Motor Third Party Liability Insurance Guarantee Fund.

The estimated amounts received from reinsurance, sale of residual assets and reclamations are recorded as separate assets and the outstanding claims reserve is not reduced by these amounts. Any amounts received from reinsurance, and other recoverable amounts are assessed in the same way as outstanding claims.

(h) Reinsurance

The group purchases reinsurance cover in the course of normal business operations, in order to limit potential net losses by diversifying risks. Reinsurance premiums and indemnities received are recorded in the consolidated income statement and the balance sheet separately from the relevant insurance contracts, since no reinsurance agreements relieve the Group from its direct liabilities to the policyholders.

Only these contracts, which represent considerable transfer of a risk insured, are recorded as reinsurance contracts. Contractual rights, which do not represent transferring of a considerable part of a risk, are recorded as financial instruments.

Reinsurance premiums paid are recorded as expenses applying the same principle that was applied to recording of contractual insurance premiums as revenue.

Reinsurer's assets

Amounts receivable under reinsurance contracts to cover any indemnified losses, and the reinsurers' share of the outstanding claims reserve, which are outstanding on the annual report date, are recorded in the balance sheet as reinsurer's assets.

The reinsurance ratio of the technical reserves is recorded applying the same principles that are used to establish the technical reserves.

The hedged value of assets connected with reinsurance is valuated on every balance sheet date. Should any circumstances emerge that render receipt of all initially accounted receivables unlikely, the assets' value is discounted to the amount likely to be collected.

Liabilities from reinsurance

Liabilities from reinsurance include amounts payable to reinsurers under reinsurance contracts, as well as refundable reserve of the reinsurance commission fees. The reserve is formed for refundable reinsurance commission fees that derive from the variable commission schedules set forth in certain reinsurance contract, and depend on the ultimate loss ratio.

Liabilities from reinsurance also comprise the reinsurance ratio of the acquisition costs, the calculation principles of which are set forth in subsection (i), and the reinsurer's share of the reclamations and salvaged assets (see Note 2).

(i) Deferred acquisition costs and the reinsurance ratio

Acquisition costs, which are directly connected with the premiums carried forward to the next reporting period, are capitalised as prepaid expenses. The calculations of such deferred acquisition costs are based on gross premiums and expenses by their types. The percentage share of the deferred acquisition costs of the direct acquisition costs equals the percentage share of the total amount of prepaid premiums of the aggregate gross premiums amount. The calculations are based on insurance premiums and commission fees deriving from reinsurance contracts by their types.

The reinsurance ratio of the deferred acquisition costs forms the same percentage share of the commission fees deriving from reinsurance contracts, as the reinsurance ratio of the prepaid premiums reserve forms of the reinsurance premiums. The calculations are based on the reinsurers' share of the premiums by insurance years, and the commission fees deriving from reinsurance contracts by types.

(j) Liabilities and adequacy of committed assets test

The adequacy of insurance liabilities is tested on the report date, using current estimates pertaining to future cash flows of the insurance contracts. If an estimate shows that the value of deferred acquisition costs and intangible assets is inadequate having regard to future cash flows, the entire deficit shall be recorded in the balance sheet as a change in deferred acquisition costs. A provision against outstanding risks is established to cover the difference.

(k) Revenues

Insurance premium revenue

The principles of recording of insurance premium revenue are described in subsection (f).

Revenue from service and commission fees

The revenue from service and commission fees is inclusive of reinsurance commission fees and other service fees connected with execution of insurance contracts.

Reinsurance commission fees revenue represents the commission fee receivable from a reinsurer under a reinsurance contract, including commission fees stemming from the participation of the reinsurer in the reinsurer's profit. Furthermore, this also represents changes in reinsurance commission fees reserve, the principles of recording of which are described in subsection (h). Reinsurance contracts' commission fees are recorded applying the same principles as those applied to the insurance contracts acquisition costs (see accounting policies, subsection (i)). The fee for participating in the profit of a reinsurer is recorded on the accrual basis.

Investment revenues

Investment revenues include revenues earned from financial investments and rental revenue from real estate investments.

Financial investments revenue includes interest and dividend revenue, net revenue in its fair value with changes via the income statement classified financial investments revaluation and realisation.

Interest revenue earned from loans granted is recorded using the effective interest rate.

Additional information on recording of financial revenues earned from financial investments is provided in subsection (r) of the accounting policies.

(l) Expenses

Loss claims incurred

The accounting policies applied to record loss claims incurred have been described in subsection (g).

Loss adjustment expenses

Loss adjustment expenses include direct payroll expenses, expert fees, and service fees directly connected with adjustment of losses. Loss adjustment expenses are recorded in income statement as a part of indemnified losses.

Administrative expenses

Administrative expenses mean expenses, which are related with collection of premiums, portfolio management and reinsurance. Administrative expenses also represent expenses, which are borne in the interest of the undertaking as a whole, which are not taken into consideration when calculating the underwriting result, and which do not form a part of the investment expenses. These expenses are fees and compensations paid to auditors, experts, legal and tax consultants, supervisory fees, and membership fees paid to the Insurance Association.

Furthermore, administrative expenses also include payments to the Estonian Traffic Insurance Foundation. Insurance company, who are members of the Foundation, pay the Foundation a membership fees from the motor third party liability insurance premiums collected. In 2007 the rate charged was 1.1%, and in 2008 the rate is set at 1.17% of the motor third party liability insurance premiums; additionally the Company pays a fixed fee of 600 thousand kroons.

Acquisition costs

Based on their nature acquisition costs are divided into direct and indirect acquisition costs. Direct acquisition costs shall mean costs of variable nature, which derive from executing of insurance contracts, incl. commission fees to brokers, expenses connected with preparing and printing of insurance documents, transport and communication expenses. Indirect acquisition costs are fixed costs, incl. fixed payroll expenses of the sales and insurance departments, advertising costs, business travel costs, changes in the value of fixed assets, and other expenses, to the extent that they are not a part of administrative expenses, loss (claims) adjustment costs or investment costs.

Acquisition costs are adjusted in income statement by changes in the deferred acquisition costs of net reinsurance (i).

Financial expenses

Financial expenses represent payroll expenses connected with investment activities, commission fees to investment management companies, transaction expenses related to acquisition of financial assets and other expenses connected with investment activities.

(m) Taxation

Pursuant to the currently effective legislation no corporate income tax is applied to a company's profit in Estonia, and thus there are no deferred tax claims or liabilities either. Instead of the profit taxation in Estonia is applied to dividends paid on the account of retained profit at the rate of 21/70 (until 31.12.2007 the tax rate 22/78 applied) of the amount paid out as net dividends. Income tax occurring with payment of dividends is recorded in income statement as an income tax expense of the period when dividends were announced, independent of the period for which they were announced, or when they were actually paid.

Other tax rates, set forth by the effective tax legislation, applied in 2007 where:

Individual income tax	22% of the taxable payments
Social tax	33% of the amounts paid to the staff, and fringe benefits
Value added tax	18% of the taxable value of goods sold and services rendered
Land tax	0.5 – 2.0% of the taxable value of land per year
Unemployment insurance tax	0.3% of the amounts paid to the staff, and 0.6% of the taxable disbursements

(n) Tangible assets

At recording of tangible assets in the balance sheet the accrued depreciation and the discounts caused by decrease in value are subtracted from its acquisition cost. Essential asset items used for the Group's own enterprise with the useful life exceeding one year are recorded in the balance sheet as capital assets.

Acquisition cost of tangible assets consists of the purchasing price paid and other direct expenses, and estimated subsequent expenditures, which are required to keep the asset in a proper working order, or to replace its parts. In order to establish the depreciation rates of tangible assets the useful life of essential parts of the asset item are assessed individually.

Depreciation of capital assets is calculated on the basis of the acquisition cost, applying the straight-line method, based on the estimated useful life of the asset. Calculation of depreciation starts from the month when the asset is put to use. Calculation of depreciation is suspended when the item is either classified as “pre-sale capital asset” or when it is no more recorded.

Average useful lives by individual asset groups are:

Buildings	25 years
Inventory	3 to 5 years
Hardware	3 years
Means of transport	3 years

Value of land is not depreciated.

The depreciation periods assigned to tangible assets are reviewed on a yearly basis to establish whether or not circumstances have been discovered that could significantly change the useful life of an individual item of capital asset or a group of capital assets. The effect of the assessments is reflected in the reporting period and during the subsequent periods.

Subsequent expenses connected with tangible assets are added to the book value of the assets when it is likely that this could generate economic benefits in the future. Other expenses, which sooner maintain the ability of capital assets to generate economic benefits, are recorded as expenses of the reporting period.

In the case of impairment of tangible assets the item in question is discounted to its hedged value. If the value of the said capital asset has increased again, the expense generated by the impairment is cancelled.

(o) Real estate investments

Real estate investment is an asset that is held by the Group either as an owner, or as a lessee under capital lease terms, for the purpose of earning rental revenue, value increase or both. A real estate investment is recorded in the balance sheet at its acquisition cost, which also includes transaction fees directly connected with the acquisition.

Real estate investments are assessed on every balance sheet date in its fair value. Fair value is established using the discounted cash flows resulting from real estate investments. Profit or loss stemming from change in value are recorded in income statement of the reporting period.

No external experts have been involved in valuating real estate investments. The principal premises used for valuation are provided in Note 2.

Reporting of rental revenue from real estate investments has been described in subsection (j).

(p) Intangible assets

- *Deferred acquisition costs*

The principles applied to calculating acquisition costs are provided in subsection (i)

- *Other intangible assets*

Other intangible assets are recorded at their acquisition cost that consists of the purchasing price and any other expenses directly related to its acquisition. Subsequent assessment of the value of the asset depends on its useful life – it is either an asset with a determined useful life, or with an indeterminate useful life.

Intangible assets with a determined useful life are recorded in the balance sheet at their acquisition cost, less accrued depreciation and any discounts caused by impairment.

Licenses etc. contractual rights acquired for a cost, including computer software, are recorded in the balance sheet as intangible assets with a determined useful life.

Such assets are depreciated applying the straight-line method during their estimated useful life, which is generally up to five years, and the depreciation is based on the assumption that the final value of the asset is zero. Discounts are recorded in income statement as expenses of the period as a part of acquisition, administrative and loss adjustment expenses.

The Group does not have any assets with an indeterminate useful life.

(q) Capital and operating lease

Lease transactions where all significant risks and benefits related to the asset are transferred to the lessee are recorded as financial lease. Other lease contracts are regarded as operating lease.

During the reporting period the Group had no property leased under capital lease terms.

Company as lessor

Assets leased out under operating lease contracts are recorded in the balance sheet in a normal manner, in the same way as any other assets recorded in the company's balance sheet. Any operating lease payments are recorded during the reporting period as revenue applying the straight-line method.

Company as a lessee

Any operating lease payments are recorded during the reporting period as an expense applying the straight-line method.

(r) Financial investments

Financial investments are classified as follows, depending on the purpose of their acquisition:

Financial investments reported at fair value in income statement, as adjusted, mean financial assets, acquired for trading, or assigned to this category by the Group from the very beginning.

Investments intended to be held until maturity mean financial assets, which are not derivatives, with established or establishable payments and establishable maturities. The Group intends and is capable of hold such assets until their maturity.

Loan receivables and accounts receivable mean assets with established or establishable payments, which are not derivatives, which are not listed on any active market, with the exception of those that the Group intends to sell in the nearest future, and such assets, which have been assigned to this category by the Group from the very beginning, as reported at fair value in income statement, as adjusted, or available for sale, or assets in connection with which the Group will not be able to recover the entire initial investment

Financial investments are reported at fair value, plus, in the case of financial assets, which are not reported at fair value in income statement, as adjusted, any transaction expenses directly related to their acquisition.

Purchasing of financial investments is recorded on the transaction date, i.e. at the time when the Group incurs the obligation to acquire the assets. Reporting is terminated, after the contractual rights related to the cash flow from the investments expiry, or when the investments, as well as any significant risks and benefits connected with the same have been transferred.

After initial recording the fair value of securities reported at fair value in income statement, as adjusted, shall be their purchase quotation, in the case that the securities are listed on a stock exchange. If the financial assets market is not active, the Group shall apply valuation methods to establish the fair value. These include recent market transactions executed by independent parties, references to another similar instrument, and discounted cash flow analysis and option valuation models.

Investments and loans and receivables held to maturity are valuated applying the internal effective rate method at adjusted acquisition cost, less any losses caused by impairment of the asset.

Realised revenue and expenses, and unrealised revenues and expenses stemming from changes in fair value of financial investments reported at fair value in income statement, as adjusted, are recorded in income statement pertaining to the period of their emergence.

Derivative transactions are recorded in the balance sheet in fair value; contracts with a positive value are reported as assets, and those with a negative value – as liabilities. Any revenues and expenses stemming from change in derivative values are recorded in income statement.

(s) Cash and equivalents

Short-term liquid investment that can be freely convertible into a fixed sum of money, with insignificant risk of changes in value, incl. cash at hand and in credit institutions, as well as term deposits are reported as cash and equivalents. The cash flow statement has been prepared applying the direct method.

(t) Impairment of asset value

The Company's management assesses the circumstances referring to the need to discount assets or any group thereof on every balance sheet date. If there are doubts that could refer to the reduction of the value of an individual item of assets below its balance sheet value, a hedged value test is carried out. The hedged value of an item of asset is equal to one of the two indicators, whichever amount is higher: whether the fair value of an asset (minus sales costs) or the service cost found on the basis of discounted cash flow. If the test result shows that the hedged value of assets is lower than its book value, the asset item is discounted to its hedged value. If as a result of the test it becomes evident that the hedged value of the asset is lower than its balance sheet value the item of tangible asset is discounted to its hedged value. Asset discounts are recorded as expenses of the reporting period.

If as a result of an asset hedge value test performed regarding any previously discounted it becomes evident that the hedged value has increased above the depreciated cost as per the balance sheet, the previous discount is cancelled and the balance sheet value of the asset is increased. The depreciated balance sheet cost arrived at using the normal depreciation rate during the intermediate years constitutes the upper limit thereto.

(u) Receivables from insurance business and other receivables

Receivables from policyholders and others outstanding at the end of the period are reported as receivables. The balance sheet reports the receivables in their adjusted cost, i.e. less doubtful and uncollectible receivables. Upon assessing receivables every receivable is analysed individually, and any doubtful receivables are put to expense.

(v) Liabilities explicitly from insurance business

Policyholders' prepayments and liabilities before brokers, outstanding on the date of the report, are reported as liabilities. Liabilities are reported at their adjusted cost.

(w) Provisions and contingent liabilities

The Company forms provisions regarding such liabilities the time of realisation or amount of which is not certain. Assessments regarding the amount and the time of realisation of a provision are based on the opinion of the management board or an expert in the relevant field.

A provision is reported in the case if before the balance sheet date the Company has incurred a legal or operations related obligation, the realisation of the provision in the form of disbursement of resources is likely, and the amount of the provision can be reliably established.

Expenses accessory to the realisation of a provision are valuated as at the balance sheet date, and the amount of the provision is reviewed every subsequent balance sheet date. If the provision is likely to realise at a date later than after one year, the same shall be reported at its discounted current value. The interest rate applied to similar liabilities on the market shall constitute the grounds for discounting.

A contingent liability means such liabilities the likelihood of emergence of which is less than 50%, or their amount can be reliably valuated. Contingent liabilities are tallied off-balance sheet.

(x) Changes in valuation bases

In 2007 the bases for valuating the reinsurance ratio of deferred acquisition costs were modified. The concept of the acquisition year was applied in valuation, which renders calculations more accurate.

As a result of the change the profit for the year of 2007 was reduced by 2.9 million kroons.

(y) Post balance sheet events

The annual accounts report material circumstances influencing valuation of assets and liabilities, which were disclosed between the balance sheet date 31.12.2007, and the report date, but are connected with the transactions executed during the reporting period or earlier periods.

Post balance sheet events, which have not been considered in valuating assets and liabilities, but which have a significant impact on the results of the subsequent reporting period, have been disclosed in the notes to the annual accounts.

(z) New International Financial Reporting Standards and interpretations provided by the International Financial Reporting Interpretation Committee (IFRIC)

As at the date of this report new mandatory international financial Reporting Standards and their amendments and interpretations have been passed, affecting companies reporting in connection with periods starting on 01 January 2008 or later. The opinion of the management of the company regarding the potential impact of the new standards and interpretations on the financial statements, during the period of first application, is provided below.

Amended IFRS 2 *Share based payment* (applied from 1 January 2009). As the companies of the consolidation group do not have any share based payment plans the amended IFRS 2 does not have any impact on the financial statements.

Amended IFRS 3 *Business Combinations* (applied to the reporting periods starting on 1 July 2009 or later). As these need not be applied to business combinations before passing the amendments to the standard the amended standard does not have a bearing on the financial statements of such business combinations, which emerge before the passing of the amended standard.

IFRS 8 *Operating segments* (applied from 1 January 2009). The standard requires disclosure of segment information be based on the parts of the enterprise that the management is using to make operating decisions. However, the management has not yet fully completed its analyses, and cannot provide an assessment as to the impact of the standard.

Amended IAS 1 *Presentation of financial statements* (applied from 1 January 2009). The amended standard prescribes that submitted information be compiled on the basis of similar attributes, and the concept of statement of comprehensive income be applied. The company's management is currently considering whether to lodge one statement of comprehensive income, or two separate statements.

Amended IAS 23 *Borrowing costs* (applied from 1 January 2009). As the companies of the Group do not have any items of property, which meet the conditions set to borrowing cost capitalisation, the IAS 23 will not have a bearing on the company's financial statements.

Amended IAS 27 *Consolidated and Separate Financial Statements* (applied to the reporting periods starting on 1 July 2009 or later). As the companies of the Group do not hold interest in subsidiaries to which the amendments to the standard apply, the amended IAS 27 does not impact the company's financial statements.

IFRIC 11 IFRS 2 – *Group and Treasury Share Transactions* (applied to the reporting periods starting on 1 Marcy 2007 or later). As the companies of the Group do not have any share-based payment arrangements, the IFRIC 11 does not impact the company's financial statements.

IFRIC 12 *Service Concession Arrangements* (applied from 1 January 2009). As the company has not entered into any service concession arrangements the IFRIC 12 does not impact the company's financial statements.

IFRIC 13 *Customer loyalty programmes* (applied to the reporting periods starting on 1 July 2009 or later). According to the management's opinion the interpretation does not impact the consolidated financial statements.

IFRIC 14 *IAS 19 – the Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (applied to the reporting periods starting on 1 January 2008 or later). The company does not carry out business in countries that apply the minimum funding requirements, which limits the employer's ability to receive refunds or reduce contributions.

Note 2. Estimates and assumptions used for preparing the annual report

Different accounting estimates and assumptions having a bearing on the assets and liabilities reported in the statements, as well as potential assets and liabilities identified in the notes have been used to prepare the statements. Although these estimates have been made to the best of the management's knowledge, the subsequent actual result can differ from the assumptions made.

The main estimates and assumptions made in applying the accounting policies have been provided below:

Assessment of liabilities deriving from insurance contracts

The Group assesses the amount of losses which have been incurred and reported and incurred but not reported by the balance sheet date.

The estimation of the provisions for losses, which have been incurred but are not yet reported, is based on the historical experience where the actual incurred losses of the previous periods have been applied to estimate the future loss claim provisions.

The estimates and the changes of the preceding period are reviewed on every report date, and the provisions are revaluated. The changes are reported in the income statement.

The accounting policies applied to liabilities deriving from insurance contract are described in subsection (f) and (g) of Note 1.

The IBNR provision is found on the basis of statistics involving the portfolio history, and the average indemnity of the preceding years. The IBNR provision is calculated regarding such classes of insurance as motor third party liability insurance, property insurance and travel insurance.

The RBNS provision is calculated on the case-by-case basis having regard to the available information or claim.
Motor third party liability pension provision is calculated as annuities. Likelihood of survival estimates are based on the estimates given in the gender-dependent mortality table, calculated on the basis of the data provided by the Estonian Statistical Office. The real interest rate estimate is 0.75%.

The adjustment expense rate included in the outstanding claims reserve is set on a case-by-case basis:

Motor third party liability insurance – 22% of the loss amount, minimum 1000 kr. and maximum 20 000 kr.

Optional motor vehicle insurance – 20% of the loss amount, minimum 1000 kr. and maximum 100 000 kr.

Property insurance – 15% of the loss amount, minimum 1000 kr. and maximum 100 000 kr.

Adjustment expenses are not reported in the reserve for other insurance classes, as its amount is irrelevant.

Discounted cash flows from potential liabilities stemming from insurance contract, fixed-term, in years:

in thousand kroons	up to 1	1-5	5-10	11+	Total
Liabilities under insurance contracts	183 980	56 686	2 697	6 753	250 116

The applied discount rate was 5%.

Recoveries and salvaged assets

Amounts estimated to be recovered from sale of salvage assets and subrogation are recorded as receivables from insurance activities, and they shall be valuated on every balance sheet date in fair value. Valuation of provisions is based on the historical experience, where the actual amounts received in the preceding periods constitute the grounds for assessment of any potential future recoveries. The changes are reported in the income statement.

Discounted cash flows of recoveries, fixed-term, in years:

in thousand kroons	up to 1	1-5	5-10	Total
Recoveries and salvaged assets	5 037	6 139	706	11 882

The applied discount rate was 5%.

The reinsurance ratio matches the fair ratio of the reinsurer in the receivables, and the relevant amounts are timed as a liability from insurance activity.

Real estate investments

Real estate investments are assessed on every balance sheet date in its fair value. Fair value is established using the discounted future cash flows resulting from real estate investments. No external experts have been used. The principal assumptions applied in assessment were the current actual cash flows from leasing activities, the actual external capital interest rate and the actual rate of regarding return on equity, and in the case of sale of a building – the actual development potential thereof. The interest rate of 6.5% was applied to external capital and the return on equity rate was taken as 22%. The weighted discount rate applied to valuation of the fair value of a real estate investment was 10.4%.

Subsidiaries

The subsidiaries are valuated in the unconsolidated balance sheet of the parent undertaking on every report date in its fair value. Fair value is established using the discounted future cash flows resulting from the subsidiary. The principal assumptions applied in valuation were the actual current cash flow, the increase of sales during the first year by 2%, and in the subsequent years by 5%. The discount rate applied to valuation of the fair value of a subsidiary was 26.6%.

Note 3. Risk policy and risk management of Salva Kindlustuse AS

Inasmuch as the daily business of the Group entails taking of various risks, management of the risks is also forming a significant part of the Group's business. The structure of the internal audit and risk management organisation covers various levels of the Group.

The availability of resources and the approval of the strategy is ensured at the supervisory board level.

Their actual implementation is handled at the management board level, who distributes responsibilities, rights and obligations, and defines the strategic objectives.

Operation a financial risk management committees have been established to assess risks on the systematic basis; these committees handle mist of the risk identification, analyses, discloser and management processes. The risk committee meets once a quarter, and its task is to generate transparency of the entire risk situation, and to identify areas requiring special attention.

In addition the Group has engaged an organisation responsible for internal auditing; this organisation provides an extra-Group valuation of the functioning of the entire model, participates, when required, in the work at various levels, reports to the supervisory board and the management board; furthermore, the Group has engaged experts, who are involved in obtaining adequate and independent assessments of specific areas – information technology, development, financial management, actuarial activities, etc.

While separate units are formed to manage operational and financial risks, the management of the insurance risk, being the principal business of the company, is taken care by the best efforts of the entire organisation.

For the purpose of securing the liabilities stemming from non-life insurance contracts it is essential to select such assets, which by their durability and value at maturity date match the estimated cash flows from damages deriving from the portfolio. This allows carrying out risk management in the most natural manner. The reference base – money and capital market.

Insurance risk management

Risk management principles and insurance risk management policy

The company's insurance activities presume a risk of a loss event, occurring to a person directly connected with an insurance contract.

Such risk may be related to the person's property, liability, health, financial or other losses, deriving from an insured event. The company as such is not fully protected against time-related uncertainties and level of gravity of losses stemming from insurance contracts. Moreover, we are also open to market risks deriving from insurance and investment activities.

Insurance risk management is carried out on a daily basis by involving various sources: information provided by the market, information contained in the existing sales system, actuarial knowledge, as well as know-how and processes of the insurance departments. Insurance risk management is handled by applying the underwriting limitations, procedures and limits for co-ordinating of activities, and pricing guidelines, as well as reinsurance.

The Group applies various methods to assess and monitor the occurrence of insurance risks both at the single risk level as well as at the general level. The methods involve internal risk measuring models and sensitivity analyses.

The probability theory is applied to pricing. The main risk stems from the fact that the actual frequency and gravity of losses can be higher than expected. Moreover, any insured event is accidental by its nature, and in any year the actual number of events and their extent can differ from the estimates calculated by applying statistical methods.

Underwriting strategy

The objective of the underwriting strategy is to achieve portfolio diversity ensuring portfolio balance. We believed, that having formed a large portfolio of similar risks we shall be able to ensure a better predictability of our results.

Implementation of the strategy is carried out on a current basis through the pricing policy and the participation of underwriters. Participation of underwriters means that any risks exceeding the signatory rights of the sales staff must always be recorded as an underwriter's decision, passed in a format reproducible in writing. For identifying any unusual risks enquiries to the database are used; in the course of the same the risks diverging from the average within the portfolio are analysed. The grounds for insurance risks management is improvement of risk awareness of every staff member, and creation of the control environment.

Once a month the management reports are being analysed and attention is paid to collection of insurance premiums, and the loss ratio of underwriting years.

Generally, insurance contracts are entered into for the term of one year, the maximum term being five years.

An underwriting risk can derive from an insufficient insurance premium accepted for the risk assumed. In the insurance risk management process we proceed mainly from reasonable pricing, product development, risk selection and reinsurance. Thus we are carefully monitoring the changes taking place in the economic environment, and try to respond to them.

Reinsurance strategy

Reinsurance is applied to manage the insurance risks assumed, and to protect the capital resources. In accordance with the insurance risk management principles applied by Salva Kindlustus, both proportional as well as non-proportional obligatory reinsurance contracts are applied. Underwriters have the right, and under certain conditions – an obligation, to execute facultative reinsurance contracts.

Reinsurance risk

In order to reduce its insurance risks Salva Kindlustus has entered into reinsurance contracts with different reinsurance partners. These reinsurance contracts spread risks and minimise the impact of losses on the result. The reinsurance conditions include the reinsurer's obligation to indemnify an agreed part of the paid out losses. Nevertheless, there is the risk that a reinsurer is unable to meet its obligations. The company has adopted the minimum acceptable public credit rating for its reinsurers, which must be “A” or higher. Risks inherent in the reinsurance are connected both with the insurance as well as investment activities.

Property insurance

Product features. Salva Kindlustus provides insurance cover to property objects located in Estonia, as well as property of Estonian customers, located abroad. Property insurance protects, with certain limitations and restrictions, tangible assets of the policyholder against loss or damage. Revenue of this product is earned in the form of insurance premiums, less any amounts required to satisfy claims, and operating expenses. A certain limited period of time is also left for earning investment revenue, inasmuch as there is a time delay between collection of insurance premiums and payment of indemnities. An event that causes damages to property or a building (e.g. fire or theft) usually takes place unexpectedly, and the cause is easy to establish. Thus the claim is also submitted fast, and it can be satisfied without a delay. Thus property insurance is classified as short-term one, which means that subsequent increase of expenses and return on investment have a limited bearing.

Property insurance risk management. Main risks connected with property insurance are acquisition risk, competition risk, risk of insufficient experience in the field of claims, and fraud risk. Acquisition risk means that the company fails to collect sufficient insurance premiums for different property items insured. Risk associated with any policy differs by various features, like the location of the object, the applied safety measures, the field of activity insured, the age of the property, etc. In the case of domestic property insurance it is assumed that there are many objects of similar risk profile. Things are different when a legal entity's property is involved, and upon acquisition the combination of the object's unique location, the area of activity and the security measures is assessed. Calculation of the insurance premium amount matching the risk circumstances is subjective, and thus uncertain.

In the property insurance field risks are managed primarily through reasonable pricing and risk selection. In order to maintain acceptability of damage risks stringent acquisition rules are applied.

Motor vehicle insurance

Product features. The insured object of motor vehicle insurance is a land vehicle registered in the Republic of Estonia. Motor vehicle insurance protects the policyholder with, certain limitations, against losses caused by possible damage, destruction or loss of the insured object.

Management of optional motor vehicle insurance risks. Generally, within this insurance class the notification period is short, and the damages are relatively uncomplicated. Accuracy of assessment of claims associated with this class of insurance involves a relatively low risk level.

Frequency of damages depends on weather conditions, and the damage volume is higher in winter months. Furthermore, motor vehicle insurance damages demonstrate correlation with fuel prices and economic activity that influences traffic activity. The Group monitors changes in causes, amounts and frequencies of loss claims, and reacts accordingly.

Motor third party liability insurance

Product features. Motor third party liability insurance covers traffic losses, incurred in the European Union Member States and the member states of the Green Card agreement. Upon indemnifying for losses under an insurance case covered by a motor third party liability contract the liability limits effective in the country where the traffic accident occurred, are applied, and in some countries these limits can be absent altogether**.** Motor third party liability insurance indemnifies for property and personal damages caused to a third person. Pursuant to the laws effective in Estonia medical expenses of the person driving the vehicle that caused the accident are covered as well.

Motor third party liability insurance risk management. Risks, which derive from motor third party liability insurance, are managed through pricing and reinsurance. Accuracy and adequacy of tariffs is being continuously monitored, and they are modified in accordance with changes in the environment. Moreover, the motor third party liability insurance involves a highly long-term component, i.e. the annuity payments. The pricing the motor third party liability insurance products takes into consideration the fact that personal damage expenses will be growing, and thus the uncertainty level of annuity provision estimates is one of the highest.

In the motor third party liability insurance field the Company has limited the extent of its liability by applying reinsurance, the excess of loss whereof is 3.9 million kroons, i.e. any expenses above that amount are indemnified by the reinsurer.

Concentration risk involved in the insurance activity

A string of similar events or one event can influence the liabilities and the equity of the Group.

In order to avoid emergence of concentration deriving from one insurance contract or related contracts, control procedures and underwriting limits have been established. Geographical spread of insurance risks is essential, because external factors, e.g. storm, flood, fire and crime rate increase can occur in certain regions, and thus impact the objects situated on such region, having a negative bearing on the Group's cash flows.

The danger of culmination of various risks is mainly handled by the management that evaluates its materiality and probability, and applies risk hedging measures, when necessary.

Sensitivity analysis

The table describes some of the premises that characterise the potential effect of risk parameter changes on the Group's performance and equity.

Factors	Value, 2007	Potential change	Impact on performance, thousand kr	Impact on performance %
Net loss claims submitted	59 869	+1%	-599	-2,98%
High net loss of motor third party liability insurance			-1170	-5,80%
High net loss of property insurance			-500	-2,50%
Operating expenses	92 141	+1%	-921	-4,50%

Financial risks management

Insurance activities and investment activities can involve financial risks. The purpose of financial risks management is hedging the financial risks in a normal way. A committee, comprising of an actuary, the financial manager, and an expert has been founded for financial risks management. Financial risks are managed applying the substitute portfolio method. The basis for putting together a substitute portfolio is associated cash flow that can cause financial risk – mainly the interest risk deriving from the time difference between the insured event and payment of indemnity, which is a part of the market risk. Financial risks can mean market risk, credit risk (incl. claims against reinsurers) and liquidity risk.

Market risk

The market risk stems from placing the Group's assets into financial instruments, which are sensitive to market risk. A market risk can be described as a risk that the fair value of financial instrument changes due to changes in interest rates, securities price or currency exchange rate.

The Group's financial standing in the reporting period is influenced by changes in interest rates and securities prices. Financial assets are less impacted by changes in currency exchange rates.

For the purpose of managing market risks a policy defining investments and asset management has been approved; this policy governs the selection of various asset classes and the method of their acquisition.

The policy of spread of the said assets is rather conservative, concentrating to the extent of 80% on fixed-yield instruments or instruments involving the latter. The structure of the assets and investing activities comply with the principles of correlation between liabilities and assets and the adequacy of the risk reserve.

Due to the short-term nature of the liabilities – the liabilities with the duration exceeding 1 year form 4% of the liabilities – the financial investment portfolio is also compiled as a short-term portfolio to the extent of 90% thereof.

The interest risk profile of the investment portfolio is described in Note 16.

Credit risk

The credit risk impacting the assets of the company derives from the inability of the counterparty to comply with its contractual obligations. Such assets can be, for instance, bonds and loans or claims. 92% of the assets of the Group are open to credit risk. Receivable represent claims related to insurance activities with a more significant risk level, like receivables from reinsurers and insurance brokers. In order to reduce credit risk certain requirements are established to reinsurers. The minimum financial standing rating of reinsurance must be A. Compliance of the receivables with the contract is being continuously monitored. The credit risk of the financial assets portfolio is sufficiently diversified between professionally managed funds, and in other respects the value of positions open to credit risk does not exceed 0.5% of the total investment value. In investment activities an ancillary high-quality credit risk (minimum credit rating A) is accepted for over 90% of interest risk bearing assets. 90% of the loans are secured by a mortgage.

Currency risk

Currency risk means a potential loss caused by changes in currency exchange rates.

No separate measures are applied to hedge currency exchange rate risks, as premiums received in other currencies for a relatively marginal share of the receipts, and the time when they are held by the company is short. The company has managed the currency risk by keeping the majority of the financial investments in Estonian kroons and currencies fixed to the euro – their share being 98%. We deem the currency risk between the Estonian kroon and euro insignificant.

Inflation risk

Inflation risk is inherent in long-term pension reserves. As the share of pension reserves in the insurance contracts related liabilities is insignificant as at the year-end date, constituting 5% thereof, it is the management's opinion that the impact of the inflation risk is irrelevant.

Liquidity risk

In order to indemnify for losses the company experiences a daily need for financial resources. The assets of the company have been placed with an extremely high degree of conservatism as regard to the liquidity risk. 80% of the Group's financial assets can be realised at most within seven days, without considerably loosing the current value of the position. Having regard to the fact that reinsurers are bound to the obligation of compensating for their share of the loss within 14 days, and the average time spent on loss adjustment and paying the reserve is between 20 to 40 days, it is the management's opinion that the liquidity risk has been sufficiently managed by the company.

Operational risk

The daily activities of the staff, like rendering services to policyholders, execution and drafting of agreements, management of the organisation, handling of usage rights, etc. involve various risks that can be referred to as operational risks. Data pertaining to executing significant transactions are stored in databases, and in order to do all that technology, supporting the business process is being used. Operational risk can thus stem from human errors or fraud, but also from the incorrect recording caused by reliability of systems, and monitoring of the same, in relation with transactions and positions. Moreover, this can stem from inadequately composed information system or internal checks that could result on unpredicted loss. Such risks originate from the company itself and are directly controlled by the management.

Strategic operational risk means a risk that is connected with dramatic policy changes, changes in the needs of members of the society, legislative changes or changes in government policy, changes in taxation, etc. A strategic operational risk originates from outside the company, and being directly caused by external reasons it is not directly controlled by the company.

The body co-ordinating the management and control of operational risks is the Operational Risks Committee. The principal objective of the operational risks management of the company is risk prevention. Guidelines describing operational risks, i.e. an operational risks management manual has been compiled. Evaluation and measuring of operational risks help to create relevant attitudes, which constitute the foundation of a strong risk management culture within an organisation.

Once a year an operational risks assessment is performed. Assessment is just one of the parts of the management process. The main emphasis is placed on disclosure and thus continuous exchange of information, and the processes supporting the same – with the intent of generating a strong risk management culture directed from top to bottom. Incidents are being recorded on a current basis; recorded incidents are reported to the head of the department, and are resolved. Additionally training courses and training days are organised on an annual basis for key staff of individual divisions. At these events the incidents are being discussed, and the reasons for their emergence are being analysed. Through such instruction/mentoring process the relevant know-how and skills are taken to individual staff members. Discussions and valuations are recorded in minutes, and they are available to all key staff members; this facilitates formation of both the control environment as well as a strong organisational culture, which is based on carrying through any decisions taken.

Organisational risk management is not a separate process, instead it is linked to strategic management within the context of long-term planning. Where the environment requires, this is reviewed more frequently, i.e. as necessary.

Note 4. Formation of losses

The table representing formation of losses has been prepared with the intent to place the gross outstanding claims reserves into a context that would allow comparing the formation of losses with the historical data. As a result this table represents the company's ability to assess the aggregated value of losses, and estimate whether or not the historical reserves have been sufficient.

in thousand kroons	**First year of validity of the policy**								
Cumulative estimate of losses	earlier	2000	2001	2002	2003	2004	2005	2006	2007
1 year after the first year of validity of the policy	0	51 964	89 001	132 404	137 957	157 493	225 071	262 143	
2 years …	0	50 461	85 628	131 306	137 051	154 026	215 219		
3 years …	0	51 553	83 723	136 378	132 938	150 064			
4 years …	0	51 883	82 642	135 624	129 363				
5 years …	0	51 736	81 995	128 171					
6 years …	0	51 338	78 122						
7 years	0	50 220							
Cumulative estimate of losses	0	50 220	78 122	128 171	129 363	150 064	215 219	262 143	146 090
Total disbursements as at 31.12.2007	0	50 220	77 287	119 761	125 686	144 167	199 583	214 594	90 045
Outstanding claims reserve as at 31.12.2007	2 774	0	835	8 410	3 677	5 897	15 636	47 549	56 045

According to the opinion of the management the amounts of the technical reserves reported in the financial statements prepared as at the end of the year 2007 are accurate and sufficient to cover any future liabilities stemming from the insurance portfolio. Technical reserves have been calculated on the basis of the information available as at the report date regarding the risks involved in the insurance portfolio, and comply with the generally accepted actuarial principles, and internal guidelines of the company.

Note 5. Net insurance premium revenue from reinsurance

EMTAK code 65121

2007

in thousand kroons	Gross premiums	Changes in prepaid premium reservess	Reinsurance premiums	Reinsurance ratio of the changes in prepaid premium reserves	Net reinsurance premiums earned
Motor third party liability insurance	126 583	4 746	-89 707	-3 322	38 299
Short-term health insurance	37 372	-448	-4 762	205	32 367
Motor vehicle insurance	122 900	-3 158	-86 159	2 244	35 827
Railway rolling stock and small craft	2 544	54	-2 510	-51	38
Goods in transit insurance	899	43	-718	-35	189
Property insurance	65 541	-3 987	-40 213	2 377	23 718
Motor vehicle liabilitys	1 213	-115	-910	87	275
Liability insurance	2 207	291	-1 755	-233	511
Monetary damage	2 583	-357	-381	-15	1 831
Total	**361 842**	**-2 931**	**-227 115**	**1 258**	**133 055**

2006

in thousand kroons	Gross premiums	Changes in prepaid premium reservess	Reinsurance premiums	Reinsurance ratio of the changes in prepaid premium reserves	Net reinsurance premiums earned
Motor third party liability insurance	145 617	2 139	-102 628	-1 497	43 630
Short-term health insurance	24 670	-1 172	-4 023	153	19 628
Motor vehicle insurance	130 678	-8 164	-91 600	5 681	36 595
Railway rolling stock and small craft	4 383	606	-4 230	-566	194
Goods in transit insurance	502	-54	-387	43	104
Property insurance	54 530	-4 142	-33 643	2 585	19 330
Motor vehicle liabilitys	788	3	-678	-18	94
Liability insurance	1 398	-357	-1 095	287	232
Monetary damage	2 258	-25	-504	-14	1 715
Total	**364 823**	**-11 166**	**-238 788**	**6 654**	**121 523**

Note 6. Service and commission fee revenue

in thousand kroons	**2007**	**2006**
Reinsurer commission revenue	33 245	34 104
Reinsurer's profit sharing	108	121
Reinsurance ratio of changes in acquisition costs	-2 525	2 381
Total	**30 828**	**36 606**

Note 7. Net investment revenue

in thousand kroons	**Note**	**2007**	**2006**
Revenue/ expenses from real estate investments	**14**	626	-482
Dividend revenue		609	581
Interest revenue from term deposits		1 253	169
Other financial revenue, incl. interest revenue from loans given		1 145	1 455
Trade portfolio revenue		1 436	4 162
Revenue from bonds held until maturity		2 860	593
Total		**7 929**	**6 478**

Note 8. Other business revenue

in thousand kroons	**2007**	**2006**
Income from rent	5	11
Other	2 136	1 308
Total	**2 141**	**1 319**

Note 9. Loss claims submitted

in thousand kroons	Note	2007	2006
Indemnified losses		-193 850	-204 027
Loss adjustment expenses	10	-19 618	-17 557
Recoveries and amounts received from sale of salvaged assets		17 556	13 107
Estimated receivable recoveries and estimated receivables from sale of salvaged assets		113	6 926
Total gross loss claims		**-195 799**	**-201 551**
Changes in outstanding claims reserve		-10 616	-21 255
Gross submitted loss claims		**-206 415**	**-222 806**
Reinsurance ratio of loss claims	12	142 893	154 669
Reinsurance ratio of the change in outstanding claims reserve	12	3 653	14 459
Reinsurance ratio of the loss claims	12	**146 546**	**169 128**
Total		**-59 869**	**-53 678**

Note 10. Operating expenses

in thousand kroons	Note	2007	2006
Loss adjustment expenses	9	**-19 618**	**-17 557**
Insurance contract acquisition costs		-70 157	-66 237
Administrative expenses		-20 384	-19 396
Financial expenses		-1 600	-822
Total operating expenses		**-92 141**	**-86 455**
Total expenses		**-111 759**	**-104 012**

in thousand kroons	2007	2006
Payroll expenses	-44 825	-38 618
Brokers’ commission fees	-28 469	-32 314
Outsourced services	-7 719	-7 396
Depreciation and impairment of tangible and intangible assets	-2 345	-2 071
Other operating expenses	-26 563	-24 048
Change in deferred acquisition costs	-1 837	434
Total	**-111 759**	**-104 012**

Note 11. Income tax

in thousand kroons	2007	2006
Profit before taxes	21 943	25 793
Dividend income tax	-1 712	- 1 629
Net profit of the reporting period	**20 231**	**24 165**

Note 12. Reinsurance result

in thousand kroons	Notes:	2007	2006
Reinsurance premiums		-227 600	-238 788
Reinsurance ratio of the changes in prepaid premium reserves		1 258	6 654
Reinsurance ratio of the indemnities paid		142 893	154 669
Reinsurance ratio of the change in outstanding claims reserve		3 653	14 459
Reinsurance commission fees and profit sharing	6	30 828	36 606
Total		**-48 968**	**-26 400**

Note 13. Tangible assets

in thousand kroons	Land and buildings	Other capital assets	Total
Acquisition cost			
31.12.2005	**9 602**	**9 052**	**18 654**
Acquired capital assets	0	4 024	4 024
Change in proportion of real estate investment and tangible assets	1 500	0	1 500
Capital assets sold	0	-2 871	-2 871
Written-off capital assets	0	-1 190	-1 190
31.12.2006	**11 102**	**9 015**	**20 117**
Acquired capital assets	0	1 845	1 845
Capital assets sold	0	-1 588	-1 588
Written-off capital assets	0	-97	-97
31.12.2007	**11 102**	**9 175**	**20 277**
Accrued depreciation			
31.12.2005	**-3 302**	**-5 243**	**-8 545**
Calculated depreciation	-444	-1 548	-1 992
Calculated depreciation of capital assets sold	0	1 380	1 380
Calculated depreciation of written-off capital assets	0	1 190	1 190
31.12.2006	**-3 746**	**-4 222**	**-7 968**
Calculated depreciation	-444	-1 584	-2 028
Calculated depreciation of capital assets sold	0	1 175	1 175
Calculated depreciation of written-off capital assets	0	97	97
31.12.2007	**-4 190**	**-4 534**	**-8 724**
Residual value			
31.12.2006	**7 356**	**4 793**	**12 149**
31.12.2007	**6 912**	**4 641**	**11 553**

In 2007 a total of 176 thousand kroons was received from sale of capital assets.

Note 14. Real estate investments

The Group owns a registered property in the centre of Tallinn, 50% of which is leased out, and the remaining part thereof is used by the companies of the Group. As the registered property can be transferred in parts, the leased out part thereof is reported as a real estate investment. The part of the registered property used by the Group itself is reported as a tangible asset. The real estate investment has been estimated in the balance sheet in its fair value. For the purpose of finding the fair value the discounted future cash flow method is used, and based thereon the fair value of the entire registered property was valuated as 25 million kroons.

in thousand kroons	2007	2006
Book value of real estate investment		
At the beginning of the year	12 500	14 000
Change in proportion	0	-1 500
At the end of the year	**12 500**	**12 500**

in thousand kroons	2007	2006
Revenue and expense from real estate investments		
Revenues	1 487	1 172
Real estate management costs	-861	-1 654
Total	**626**	**-482**

Note 15. Intangible assets

Other intangible assets

in thousand kroons	
Acquisition cost	
31.12.2005	**2 868**
Purchased	701
Written-off capital assets	-437
31.12.2006	**3 132**
Acquired capital assets	1 106
31.12.2007	**4 238**
Accrued depreciation	
31.12.2005	**-1 370**
Calculated depreciation	-568
Depreciation of written-off capital assets	433
31.12.2006	**-1 505**
Calculated depreciation	-800
31.12.2007	**-2 305**
Residual value	
31.12.2006	**1 626**
31.12.2007	**1 933**

Expenses connected with of software acquisition are reported as intangible assets.

Deferred acquisition costs

in thousand kroons	
31.12.2005	**11 932**
Deferred	40 737
Amortised	-41 303
31.12.2006	**11 366**
Deferred	35 577
Amortised	-37 414
31.12.2007	**9 529**
Residual value	
31.12.2006	**11 366**
31.12.2007	**9 529**

Note 16. Financial investments

in thousand kroons	**Note**	**31.12.2007**	**31.12.2006**
Shares, share and debenture funds	**16.1**	21 740	26 100
Debentures and other fixed-rate securities	**16.2**	154 088	96 498
Loans	**16.3**	8 138	11 950
Term deposits	**16.4**	23 000	35 678
Total		**206 966**	**170 226**

in thousand kroons	**31.12.2007**	**31.12.2006**
Financial investments at fair value in income statement		
Shares, share and debenture funds	21 740	26 100
Debentures and other fixed-rate securities	154 088	40 864
Loans and deposits	31 138	47 628
Held until maturity		
Debentures and other fixed-rate securities	0	55 634
Total	**206 966**	**170 226**

Note 16.1. Shares and participations

in thousand kroons	31.12.2007	31.12.2006
Listed shares	5 790	8 979
Unlisted		
Debenture and share funds	5 882	9 853
Liquidity funds	10 068	7 268
Total	**21 740**	**26 100**

Shares and units of investment funds constitute a part of the trading portfolio and are reported at their fair value. Estimates of the fair value of securities are based on the quotations of the respective depositary banks.

The shares and the investment fund units are divided by individual currencies as follows:

in thousand kroons	31.12.2007	31.12.2006
EEK	11 956	16 355
USD	1 239	0
SEK	304	92
EUR	6 074	6 368
LTL	1 919	3 052
LVL	249	235
Total	**21 741**	**26 100**

The shares and the share fund portfolios are open to market risk.

Change in interest rate	Change in fair portfolio value
Share prices +10%	579
Share prices +20%	1 158
Share prices -10%	-579
Share prices -20%	-1 158
Fair value 31.12.2007	**5 790**

Note 16.2. Debentures

Debentures are classified as those held until maturity (at adjusted acquisition cost) and trading portfolio (at fair value in income statement, as adjusted).

As at 31.12.2007 there were no debentures held until maturity.

in thousand kroons	31.12.2007 At fair value	31.12.2007 At adjusted acquisition cost	31.12.2007 Total	31.12.2006 At fair value	31.12.2006 At adjusted acquisition cost	31.12.2006 Total
Fixed-rate debentures						
Government bonds	22 971	0	22 971	7 236	23 977	31 213
Bonds of financial institutions	88 423	0	88 423	32 456	31 657	64 113
Other debentures	41 120		41 120	517		517
Total	**152 514**	**0**	**152 514**	**40 209**	**55 634**	**95 843**
Variable-rate debentures						
Other debentures	1 574	0	1 574	655	0	655
Total	**1 574**	**0**	**1 574**	**655**	**0**	**655**
Total debentures	**154 088**	**0**	**154 088**	**40 864**	**55 634**	**96 498**

Based on the rating of issuer of the debentures the debenture portfolio is divided as follows:

Standard & Poor's	Moody's	31.12.2007	31.12.2006
Held until maturity			
AAA	Aaa	0	47 939
AA	Aa	0	5 917
Trading portfolio			
AAA	Aaa	80 337	32 216
AA	Aa	30 613	8 467
A	A	28 930	0
Below A	Below A	14 208	1 959
Total		**154 088**	**96 498**

The debentures are divided by individual currencies as follows:

in thousand kroons	31.12.2007	31.12.2006
Held until maturity		
EEK	0	0
EUR	0	55 634
Trading portfolio		
EEK	13 537	1 172
EUR	140 004	39 127
LVL	547	565
Total	**154 088**	**96 498**

The debenture portfolio is divided by maturity dates as follows:

in thousand kroons	**31.12.2007**	**31.12.2006**
Held until maturity		
Up to six months	0	15 857
Six months to one year	0	39 777
Trading portfolio		
Up to six months	119 072	517
Six months to one year	27 627	38 905
One year to three years	5 266	222
Over three years	2 122	1 220
Total	**154 088**	**96 498**

The debenture portfolio is divided by interest rates as follows:

in thousand kroons	**31.12.2007**	**31.12.2006**
Held until maturity		
Interest rate 2.0–2.9%	0	23 655
Interest rate 4.0-4.9%	0	15 914
Interest rate 5.0-5.9%	0	16 065
Trading portfolio		
Interest rate 2.0-2.9%	6 394	6 313
Interest rate 3.0-3.9%	83 135	19 282
Interest rate 4.0-4.9%	18 912	654
Interest rate 5.0-5.9%	33 397	13 876
Interest rate 6.0-6.9%	8 372	739
Interest rate 7.0-7.9%	3 878	0
Total	**154 088**	**96 498**

Fixed interest rate financial investments at fair value in income statement, as adjusted, are opened to any potential interest rate risk. An overview of the potential impact is shown in the following table. The figures in the Table are given in thousand Estonian kroons.

Change in interest rate	Change in fair portfolio value
Change in yield curve +100 basis points	-618,3
Change in yield curve -100 basis points	+626,7
Change in yield curve +200 basis points	-1 228,3
Change in yield curve -200 basis points	+1 262,1
Fair value 31.12.2007	154 088

Note 16.3. Loans

in thousand kroons	31.12.2007	31.12.2006
Mortgage loans		
Loans with the term from 3 months to 1 year	6 750	8 200
Loans with the term of 1 to 3 years	500	1 000
Loans with the term of 3 to 5 years	0	2 300
Total	**7 250**	**11 500**
Other loans		
Loans with the term up to 3 months	0	59
Loans with the term from 3 months to 1 year	391	70
Loans with the term of 1 to 3 years	232	321
Loans with the term of 3 to 5 years	265	0
Total	**888**	**450**
Total loans	**8 138**	**11 950**

Interest rates applied to loans given: from 4.92 to 7.5% per annum.

Note 16.4. Term deposits

Term deposits with credit institutions by terms:

in thousand kroons	31.12.2007	31.12.2006
Term up to 3 months	2 000	25 678
Term from 3 months to 1 year	**21 000**	**10 000**
Total	**23 000**	**35 678**

The interest rates applied to term deposits are from 5 to 6.5% per annum.

The deposits are divided by individual currencies as follows:

in thousand kroons	31.12.2007	31.12.2006
EEK	23 000	35 509
EUR	0	169
Total	**23 000**	**35 678**

Note 17. Receivables under reinsurance contracts

in thousand kroons	Note	31.12.2007	31.12.2006
Receivables from reinsurance		2 769	4 702
Reinsurer's share in the prepaid premiums reserve	**21**	**70 991**	**69 733**
Reinsurer's share in the outstanding claims reserve	**21**	**98 934**	**95 281**
Total		**172 694**	**169 716**

Note 18. Receivables from insurance business and other receivables

in thousand kroons	**31.12.2007**	**31.12.2006**
Policyholders	8 404	7 885
Insurance brokers	8 016	7 830
Recoveries and salvaged assets	11 882	11 778
Interest receivables	123	116
Prepaid taxes	2	0
Other deferred receivables	42	81
Other prepaid expenses	1 440	1 107
incl. Financial Supervisory Authority's operation and maintenance costs	*786*	*557*
Total	**29 909**	**28 797**

Spread of receivables by term:

in thousand kroons	**31.12.2007**	**31.12.2006**
- the term not expired yet	18 379	16 203
- up to 3 months	2 015	2 438
- 3 to 6 months	753	884
- 6 to 12 months	1 171	985
- over 1 year	7 591	8 291
Total	**29 909**	**28 797**

Impairment of receivable value:

in thousand kroons	**31.12.2007**	**31.12.2006**
Doubtful receivables at the beginning of the period	**-432**	**-394**
Receivables of the reporting period, recognised as doubtful	42	40
Receivables recognised as doubtful during the reporting period	-16	-120
Receivables recognised as irrecoverable during the reporting period	136	43
Doubtful receivables at the end of the period	**-270**	**-432**

Note 19. Cash and equivalents

in thousand kroons	31.12.2007	31.12.2006
Cash in hand	645	3 625
Bank	4 669	3 821
Total	**5 314**	**7 446**

Cash and equivalents by individual currencies:

in thousand kroons	31.12.2007	31.12.2006
EEK	3 510	4 710
EUR	970	895
USD	421	160
PLN	108	172
LVL	181	1 118
LTL	97	312
NOK,DKK,CHF,RUR,SEK	27	79
Total	**5 314**	**7 446**

Note 20. Shareholders' equity and required solvency margin

The Insurance Activities Act lays down the requirements set to the non-life insurance undertakings as regards the shareholders' equity and the solvency margin. To ensure that an insurance undertaking is capable of meeting the obligations arising from insurance contracts, the insurance undertaking shall have an adequate available solvency margin, which shall be at least equal to the requirements and conforming to the structure provided by the said Act. The total amount of the assets of an insurance undertaking shall not at any time be less than the minimum solvency margin or the required solvency margin.

The minimum solvency margin of an insurance undertaking is 3.2 million euros (50 million kroons). The Group has met the solvency margin requirements by the value of the share capital.

Share capital

The registered share capital of the Company as at 31.12.2007 amounted to 50 000 000 kroons, which was divided into 1 million shares with the nominal value of 50 kroons. Every share gives its holder the right to receive dividends, if declared, and one vote at general meetings of shareholders. No transactions involving the shares of the company were carried out in the reporting period.

Dividends

In 2007 the total amount of 6 million kroons was paid out as dividends, i.e. 6 kroons per share. The management board has proposed the general meeting to pay out 8 million kroons, i.e. 8 kroons per share, as dividends.

Reserve capital

The insurance company forms the mandatory reserve capital in line with the requirements provided by the Commercial Code, and the Articles of Association. Reserve capital represents a mandatory reserve, prescribed by the Commercial Code, which can be used by a decision of the general meeting to cover any losses, if the same cannot be covered on the account of the available shareholders' equity, and to increase the share capital. The minimum amount of the reserve capital is 10% of the share capital, it is formed by profit provisions, and it may not be distributed to the shareholders.

The reserve capital includes the mandatory reserve capital of Salva Kindlustuse AS, pursuant to § 336 (2) of the Commercial Code, in the amount of 4976 thousand kroons, the mandatory reserve capital of Salva Arenduse OÜ, pursuant to § 160 (2) of the Commercial Code, in the amount of 4 thousand kroons, and the mandatory reserve capital of Salva Kahjukäsitluse OÜ, pursuant to § 160 (2) of the Commercial Code, in the amount of 20 thousand kroons.

Other reserves

Other reserves represent a reserve formed on the account of net profit, and they are used to cover possible losses.

Note 21. Liabilities deriving from insurance contracts and reinsurance ratio

in thousand kroons	**31.12.2007**	**31.12.2006**
Gross		
Provisions for losses incurred in the previous years	45 671	42 997
Provisions for losses incurred in the current year	70 839	66 692
Provisions for losses, which were incurred in the previous year, but are not yet reported (IBNR)	3 145	7 539
Provisions for losses, which were incurred in the current year, but are not yet reported (IBNR)	7 937	1 750
Provision for pension under motor third party liability insurance incurred in the previous years	11 187	5 199
Provision for pension under motor third party liability insurance incurred in the current year	2 043	6 029
Prepaid premiums reserve	109 294	106 363
Total	**250 116**	**236 569**
Reinsurance ratio		
Provisions for losses incurred in the previous years	26 766	26 352
Provisions for losses incurred in the current year	55 516	54 657
Provisions for losses, which were incurred in the previous year, but are not yet reported (IBNR)	1 580	4 481
Provisions for losses, which were incurred in the current year, but are not yet reported (IBNR)	5 540	1 546
Provision for pension under motor third party liability insurance incurred in the previous years	8 101	4 411
Provision for pension under motor third party liability insurance incurred in the current year	1 431	3 834
Prepaid premiums reserve	70 991	69 733
Total	**169 925**	**165 014**

Net		
Provisions for losses incurred in the previous years	18 905	16 645
Provisions for losses incurred in the current year	15 323	12 035
Provisions for losses, which were incurred in the previous year, but are not yet reported (IBNR)	1 565	3 058
Provisions for losses, which were incurred in the current year, but are not yet reported (IBNR)	2 397	204
Provision for pension under motor third party liability insurance incurred in the previous years	3 086	788
Provision for pension under motor third party liability insurance incurred in the current year	612	2 195
Prepaid premiums reserve	38 303	36 630
Total	**80 191**	**71 555**

Note 22. Liabilities under reinsurance

in thousand kroons	**31.12.2007**	**31.12.2006**
Payables to reinsurers	40 996	38 370
Reinsurance ratio of the deferred acquisition costs	11 281	8 756
Total	**52 277**	**47 126**

Note 23. Liabilities from direct insurance activities

in thousand kroons	**31.12.2007**	**31.12.2006**
Policyholder prepayments	4 396	3 383
Payables to insurance brokers	1 499	981
Reinsurance ratio in recoveries and salvaged property	8 246	8 148
Other liabilities	183	300
Total	**14 324**	**12 812**

Note 24. Accrued expenses and other prepaid revenue

in thousand kroons	**31.12.2007**	**31.12.2006**
Payables to employees	2 718	1 656
Holiday pay liability	2 344	2 193
Value added tax	499	552
Individual income tax	643	569
Social tax	1 847	1 583
Unemployment insurance tax	29	24
Funded pension liability	50	43
Corporate income tax	246	206
Trade creditors	1 546	970
Prepaid rent	13	10
Total	**9 935**	**7 805**

Note 25. Operating lease

Assets used under operating lease

The consolidated accounts include the rental expenses borne in connection with leasing of cars, and renting of office premises

in thousand kroons	**2007**	**2006**
Car rental payments	192	432
Office premises rent	2 286	2 999

Consolidated rental expenses of next periods under contracts not subject to termination:

in thousand kroons	
Up to 1 year	1 332
1 to 5 years	2 990
Over 5 years	163

The lease contracts are executed for a set term, from 1 to 10 years.

Property let out under operating lease

The consolidated account of the reporting year contains other rental revenue and revenue earned from leasing of premises.

in thousand kroons	**2007**	**2006**
Car rent received	5	11
Office premises rent received	1 083	792

Consolidated rent received in next periods under contracts not subject to termination:

in thousand kroons	
Up to 1 year	829
1 to 5 years	1 539

Note 26. Provisions and potential liabilities

Income tax

On 31.12.2007 the retained profit of the company amounted to 67 738 thousand kroons (last year – 53 507 thousand kroons). The maximum possible income tax liability that could result from paying the entire retained profit as dividends would be 18 006 thousand kroons (last year 15 092 thousand kroons) , thus it would be possible to pay 49 732 thousand kroons as net dividends. The calculation of the maximum potential income tax liability is based on the assumption, that the income tax expense stemming from the paid-out net dividends, and the income tax expense recorded in income statement of the year 2008 shall not exceed the distributable profit as at 31.12.2007.

Other

Claims of action in the amount of 3.0 million kroons have been submitted against Salva Kindlustuse AS in connection with insurance losses. The management board estimates that the amount of claims likely to be satisfied is 2.3 million kroons, and this amount has been recorded in the outstanding claims reserve.

Note 27. Transactions with related parties

Related parties

The Company's shareholders, traders controlled by the Company, members of the management and the supervisory board of the Company, their closed relatives and other persons who are under significant dominance of the said persons are deemed related parties.

Transactions with members of the management board and the supervisory board

In 2007 insurance contracts, with the aggregate premiums amount of 60 thousand kroons, have been entered into with members of the management. The payroll expenses of the members of the management board amounted to 4.8 million kroons, and fees paid to the members of the supervisory board amounted to 319 thousand kroons. The members of the management board and supervisory board are not entitled to any compensation in the case of their resignation.

Transactions with other related parties

Companies related to members of the management board are rendering services connected with acquisition of investments and management.

Services purchasing and sales transactions

in thousand kroons	2007	2006
Companies related to a member of the management board	405	405

On 31.12.1007 the balance of loans given to the staff of the Company and the related persons amounted to 2 150 538 kroons. (On 31.12.2006 – 1 450 404 kroons).
Transactions between companies, incl. subsidiaries, of the consolidation group have been eliminated from the consolidated accounts.

In the opinion of the company's management no prices significantly different from market prices have been applied in transactions executed with the above mentioned related parties.

Note 28. Subsidiaries

in thousand kroons	Salva Kahjukäsitluse OÜ	Salva Arenduse OÜ	Total
Field of activity	adjustment of loss events, leasing and repairing of vehicles, real property management	asset management	
Founded	September 1997	April 1998	
Shareholding %	100	100	
Number of shares	1	1	
Share capital EEK	40	41	81
Acquisition cost EEK	40	210	250
Historical result of participating interest recorded in the balance sheet as at 31.12.2004			

Note 29. Main statements of parent undertaking

Income statement of Salva Kindlustuse AS

in thousand kroons	Notes	2 007	2 006
REVENUE			
Gross premiums	5	362 102	365 054
Reinsurance premiums	5	-227 115	-238 788
Changes in prepaid premium reserves	5	-2 931	-11 166
Reinsurance ratio of the changes in prepaid premium reserves	5	1 258	6 654
Net reinsurance premiums earned	5	**133 314**	**121 754**
Service and commission fee revenue	6	30 828	36 606
Net investment revenue	7	24 453	15 237
Other operating revenue	8	2 527	1 695
Total revenue		**191 122**	**175 292**
EXPENSES			
Loss claims incurred	9	-226 416	-244 062
Reinsurance ratio of the loss claims	9	146 546	169 128
Net loss claims from reinsurance	9	**-79 871**	**-74 934**
Acquisition costs	10	-70 157	-66 237
Administrative expenses	10	-20 791	-19 653
Financial expenses	10	-1 600	-822
Total operating expenses		**-92 547**	**-86 712**
Income tax	11	0	18
Profit of the reporting year		**18 704**	**13 627**

Balance sheet of Salva Kindlustuse AS

in thousand kroons	31.12.2007	31.12.2006
ASSETS		
Tangible assets	593	910
Intangible assets	11 462	12 993
Subsidiaries	90 297	79 101
Financial investments	206 929	170 105
Receivables under reinsurance contracts	172 694	169 716
Receivables from insurance business and other receivables	29 677	28 497
Cash and equivalents	3 152	5 057
TOTAL ASSETS	**514 804**	**466 378**
LIABILITIES AND OWNERS EQUITY		
Share capital	50 000	50 000
Reserve capital	4 976	4 976
Other reserves	1 008	1 008
Retained profit	76 238	68 611
Profit for the current year	18 704	13 627
Total owners equity	**150 926**	**138 222**
Liabilities under insurance contracts	250 116	236 569
Liabilities from reinsurance	52 277	47 126
Liabilities explicitly from insurance business	14 324	12 812
Other liabilities	39 535	25 354
Accrued expenses and prepaid revenue	7 626	6 295
Total liabilities	**363 878**	**328 156**
TOTAL LIABILITIES AND OWNERS EQUITY	**514 804**	**466 378**

Cash flow statement of Salva Kindlustuse AS

in thousand kroons	**2007**	**2006**
Cash flow from business activities	**5 400**	**8 767**
Insurance premiums received	363 318	363 903
Paid indemnities and loss adjustment expenses	-195 489	-209 899
Paid to reinsurers	-48 933	-39 112
Paid as operating expenses	-88 754	-84 548
Other revenue and expense	419	91
Income tax paid	0	-18
Acquisition of shares and other interest	-22 467	-54 440
Sale of shares and other interest	26 259	130 820
Securities with fixed rate of return acquired	-120 360	-95 961
Revenue from sale of securities with fixed rate of return	64 040	7 206
Loans granted and repayment thereof	3 729	-4 702
Cash flow from term deposits	12 678	-12 074
Interest received	6 250	2 481
Dividends received	6 309	5 842
Investment expenses paid	-1 600	-822
Cash flow from investments in capital assets	**-1 304**	**-1 000**
Acquisition of tangible and intangible capital stocks	-1 304	-1 000
Sale of tangible and intangible capital stocks	0	0
Cash flow from financing activities	**-6 000**	**-6 000**
Dividends paid	-6 000	-6 000
Total cash flow	**-1 905**	**1 767**
Cash and equivalents at the beginning of the period	**5 057**	**3 290**
Cash and equivalents at the end of the period	**3 152**	**5 057**

Statement of changes in shareholders' equity of Salva Kindlustuse AS

in thousand kroons	Share capital	Reserve capital	Other reserves	Retained profit	Total
As at 31.12.2005	**10 000**	**4 185**	**1 008**	**115 401**	**130 595**
Increase of share capital by bonus issue	40 000	0	0	-40 791	0
Increase of reserve capital	0	791	0	-791	0
Profit of the reporting period	0	0	0	13 627	13 627
Dividends paid	0	0	0	-6 000	-6 000
As at 31.12.2006	**50 000**	**4 976**	**1 008**	**82 238**	**138 222**
Profit of the reporting period	0	0	0	18 704	18 704
Dividends paid	0	0	0	-6 000	-6 000
As at 31.12.2007	**50 000**	**4 976**	**1 008**	**94 942**	**150 926**

See also Note 20.

Signatures of the members of the management board and supervisory board on the annual report of 2007

The management board of Salva Kindlustuse AS has prepared the management report and the annual accounts of the company for 2007.

Management board:

Tiit Pahapill	Chair of the management board	....	15.03.2008
Irja Elias	member of the management board	....	15.03.2008
Urmas Kivirüüt	member of the management board	....	15.03.2008
Andres Lõhmus	member of the management board	....	15.03.2008

The supervisory board has reviewed the annual report submitted by the management board, consisting of the management report and the annual accounts, and approved the same for presentation to the general meeting.

Supervisory board:

Leho Siimsen	chair of the supervisory board	………………………	15.03.2008
Reigo Kala	member of the supervisory board	……………………..	15.03.2008
Peep Kütt	member of the supervisory board	……………………..	15.03.2008
Marje Hansar	member of the supervisory board	……………………..	15.03.2008
Indrek Kasela	member of the supervisory board	……………………..	15.03.2008
Kustaa Äimä	member of the supervisory board	……………………..	15.03.2008

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Auditor's conclusion

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Salva Kindlustuse AS

We have audited pages 17 to 63 of the consolidated annual statement of Salva Kindlustuse AS (hereinafter "company") and the consolidation group of Salva Kindlustuse AS (hereinafter "the concern"), including a consolidated balance sheet as at 31 December 2007, 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 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 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 2007 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, 15.03.2008
KPMG Baltics AS

Taivo Epner
Vannutatud audiitor

Eero Kaup
Vannutatud audiitor

Profit distribution proposal

Retained profit	47 507 104
Net profit of 2007	20 230 707
Book value of intangible assets	- 11 462 462
(Insurance activities act § 59 (2))	
Total distributable profit as at 31.12.2007	56 275 349
The management board proposes to distribute the profit as follows:	
Dividends	8 000 000
Distributable profit balance after distribution of profit	**48 275 349**

Tiit Pahapill	Chair of the management board	………………………	15.03.2008
Irja Elias	member of the management board	………………….........	15.03.2008
Urmas Kivirüüt	member of the management board	………………….........	15.03.2008
Andres Lõhmus	member of the management board	………………….........	15.03.2008