Annual Report 2008

SALVA
KINDLUSTUS

SALVA KINDLUSTUSE AS
ANNUAL REPORT
2008

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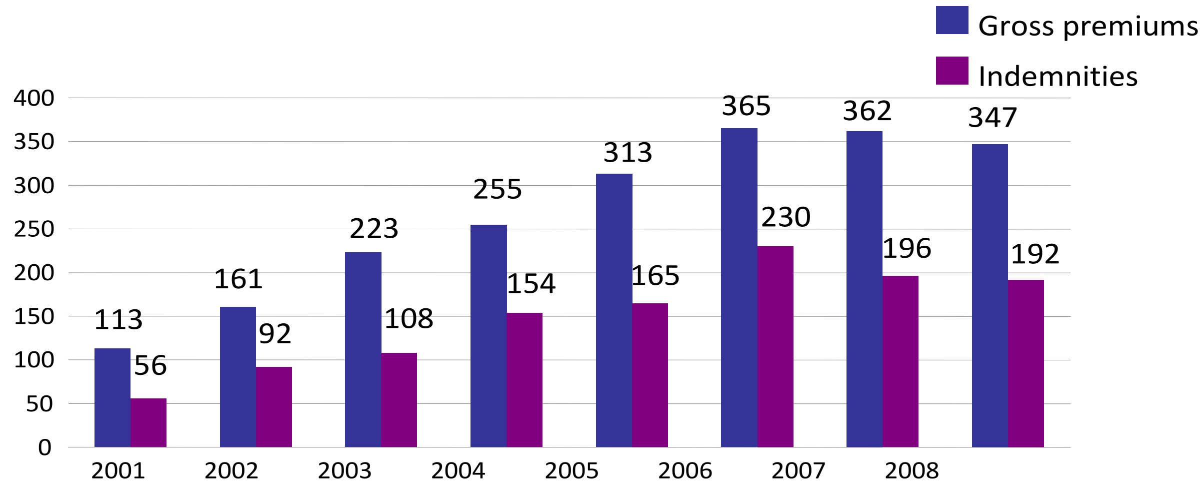
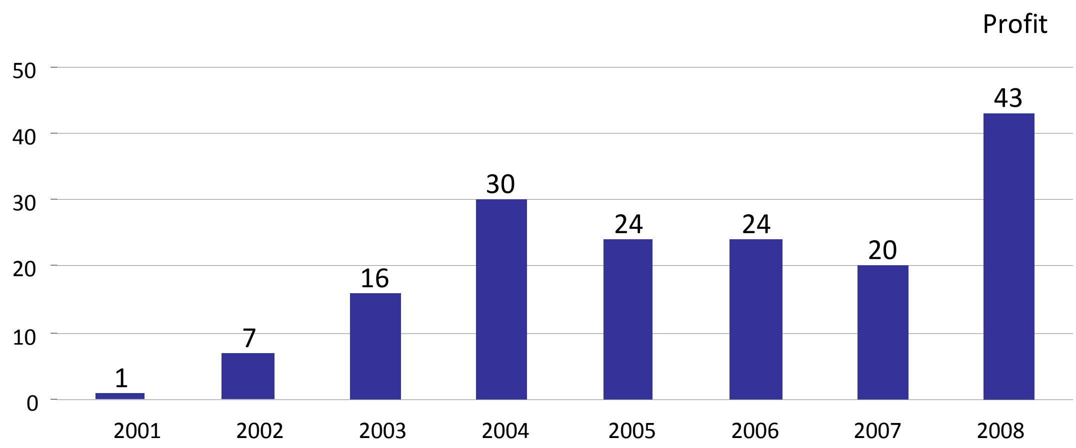
General information on Salva Kindlustuse AS

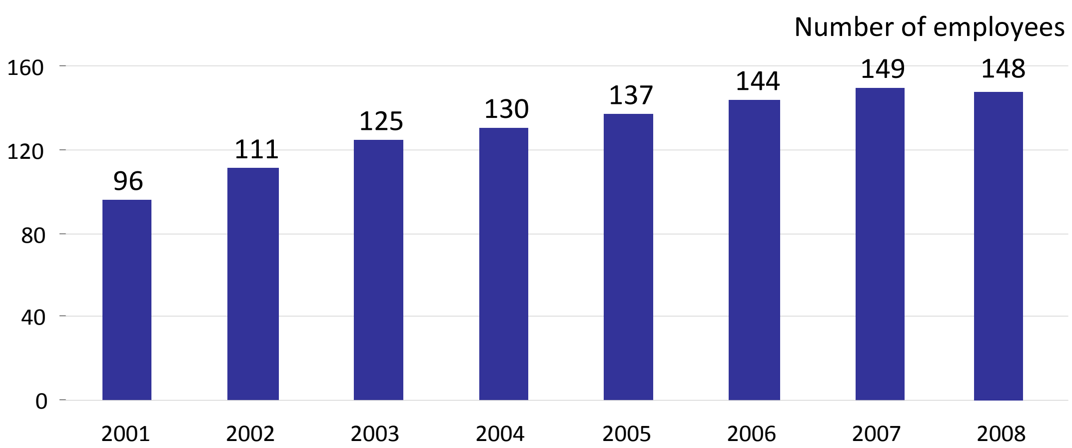
Business name:	Salva Kindlustuse AS
Address:	Pärnu mnt.16, 10141 Tallinn
Registry code:	10284984
Telephone:	6800 500
Fax:	6800 501
E-mail:	salva@salva.ee
Web page:	http://www.salva.ee
Main field of activity:	Non-life insurance
Beginning of financial year:	01.01.2008
End of financial year:	31.12.2008
Managing director:	Tiit Pahapill
Auditor:	Ernst & Young Baltic AS

Management report

Main financial indicators







Vision, mission and strategy

Vision

To be the epitome of a reliable insurance company for the customer.

Mission

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

Values

Strong mutual customer relations

We are easily and conveniently accessible through our representative offices all over Estonia, on our website or by telephone. Every client is special for us. All contacts between ourselves and our clients are always targeted at achieving a mutually satisfying result. Our greatest value lies in the trust placed by the clients in the company.

Motivating work environment

We offer our staff a modern and innovative environment that serves the needs of every individual, in addition to generating the team spirit required for achieving excellent results. We continuously train our staff, and maximize the value of their education and professional training. We consider the individual contribution of all staff members to the achievement of the common goals.

High-quality and reliable service

The high quality of our insurance services is guaranteed by our long-term experience, proper conduct of affairs, and a short response time. We pay considerable attention to risk management and continuous improvement of the services. We remain open and objective in any situation, and will not compromise quality for purposes of quantity. Customers can always rely on us.

General information

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

The Company's portfolio currently contains the most widely known non-life insurance products – a total of over 15 products. The Company's customer base includes private individuals and businesses as well as companies and agencies in the public sector.

The Company's representative offices (8) and sales offices (12) are spread around Estonia, with the head office located in Tallinn.

Salva Kindlustuse AS Group

Companies of the consolidation group

Business name	Register number	Date of registration	Address	Main activity	Partici-pation (%)
Salva Kindlustuse AS	10284984	March 1993	Pärnu mnt.16, Tallinn	Non-life insurance	100%
Salva Arenduse OÜ (liquidated on 09.12.2008)*	10430822	April 1998	Pärnu mnt.16, Tallinn	Asset management, advertising and consulting services	100%
Salva Kahjukäsitluse OÜ*	10259383	September 1997	Tammsaare tee 118B, Tallinn	Claims handling, rent of vehicles, asset management	100%
Safiirex Invest OÜ (liquidated on 15.12.2008)**	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

The global and EU economy was stricken by crisis in 2008. All forecasts are shrouded in uncertainty. Starting out on the credit and financial markets in 2007, the crisis soon spread to other branches of the economy in both the European Union and abroad. The cost of credit has rapidly increased, while offers of financing have decreased. Demand has decreased in practically all developed countries. This, in turn, is bound to further decelerate growth in the developing markets.

As a result, external demand for Estonian goods and services will, for a longer period of time, remain smaller than expected. One cannot therefore rule out the possibility of economic growth remaining lower than the potential for quite a few years.

We believe that the future of Estonia is determined by local companies’ ability to adapt to the new situation. This, in turn, will provide the foundation for another rise in productivity, and restored investment and economic growth in 2010.

The main task of the state in the current situation is to guarantee a stable macroeconomic environment, and help restore the investors’ confidence. The quick adoption of the euro, and a successful solution of the budget issues for 2009 will surely help achieve the goal. After the deficit of 2009, we also need to pursue budget balance and surplus restoration in 2010 and 2011.

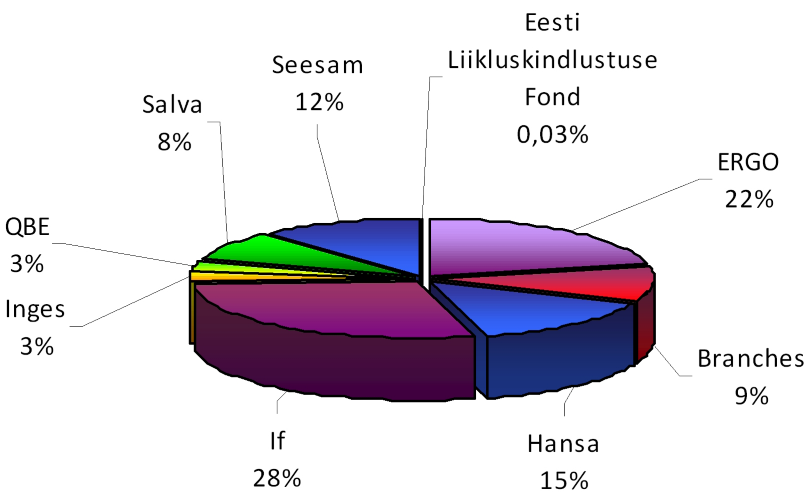
Non-life insurance market

In 2008, non-life insurance companies and branches collected a total of 4,233 million kroons in insurance premiums on the Estonian market. This constitutes a 8% increase from 2007. A total of 2,398 million kroons was disbursed in indemnities – a 11% increase from last year.

The largest share of all insurance categories offered on the insurance market is held by various motor-vehicle-related insurance categories – the mandatory motor third-party liability insurance (28%) and the motor own damage (41%). The share of property insurance amounts to 22%, and the aggregated share of all the remaining insurance categories make up 9% of the market. The structure has not significantly changed in recent years.

The same structure is evident in insurance indemnity disbursements, with the indemnity discharge amounting to 57% as of the end of 2008.

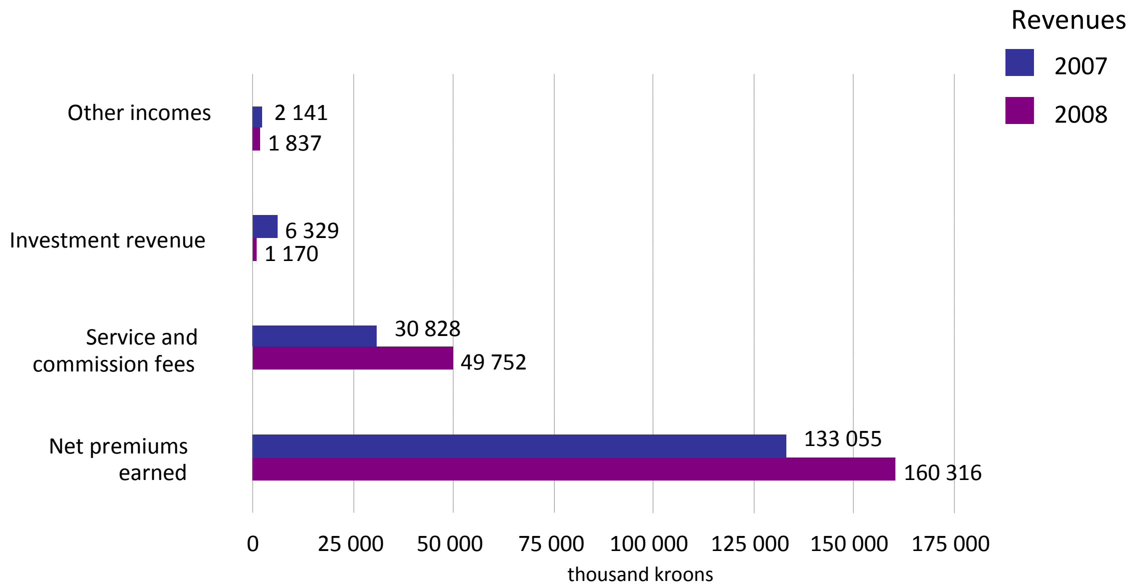
Market shares of non-life insurance companies expressed in premiums received by the end of 2008:



Competition on the non-life insurance market remains tight, with the price pressure evident in all insurance categories. Market participants and branches of foreign insurance companies operating on the Estonian market (AAS Gjensidige - the former Parex Kindlustus, BTA, Codan, Fennia) are fighting for their market share, while the Estonian economy, along with the non-life insurance market, is cooling.

Financial results

The consolidated net profit of Salva Kindlustuse AS for 2008 amounted to 43 million kroons (2007: 20 million kroons). The year can be considered highly successful, as the estimates at the beginning of the year were somewhat pessimistic.



Total revenues increased by 23% compared to last year. This figure consists of a 20% increase in premiums earned, a 61% increase in service and commission fees and a 66% decrease in investment revenues.

In 2008, Salva Kindlustuse AS collected 347 million kroons in gross insurance premiums. This is 4% less than the 362 million kroons collected in 2007.

The biggest growth in insurance premiums was seen in the liability insurance and travel insurance segments, amounting to 10% and 46%, respectively. Motor third party liability insurance premiums decreased by -9% and motor own damage insurance premiums by -21%.

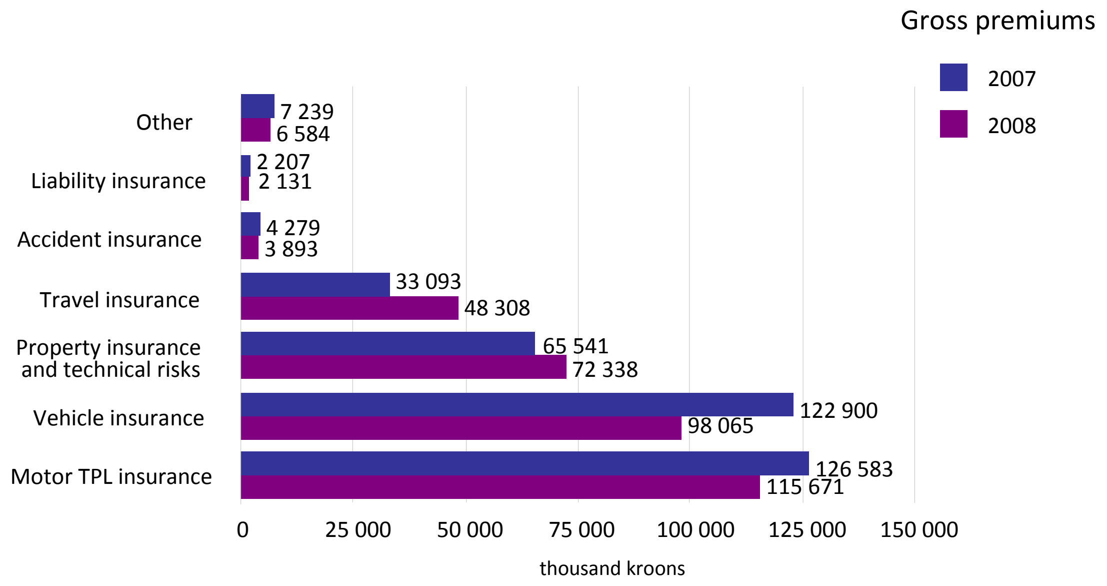
Premiums earned increased by 1% and net premiums earned by 20%. The increase in net premiums was conditioned by the decrease in reinsurance volumes. The net profit posted from insurance activities in 2008 amounted to 46.3 million kroons. The corresponding indicator for the previous year is 16.4 million kroons.

This result was conditioned by a deceleration in the growth of premiums, and a decrease in the reinsurance share in gross premiums. The decrease in damage frequency on the insurance market has improved the loss ratio indicator, conditioning an increase in service and commission fees, compared to last year.

The consolidated loss ratio, net of reinsurance, was 45%, which remains on par with last year.

The ratio of consolidated expenses to premiums earned, net of reinsurance was 29% as of the end of 2008. The corresponding indicator for the previous period is 46%.

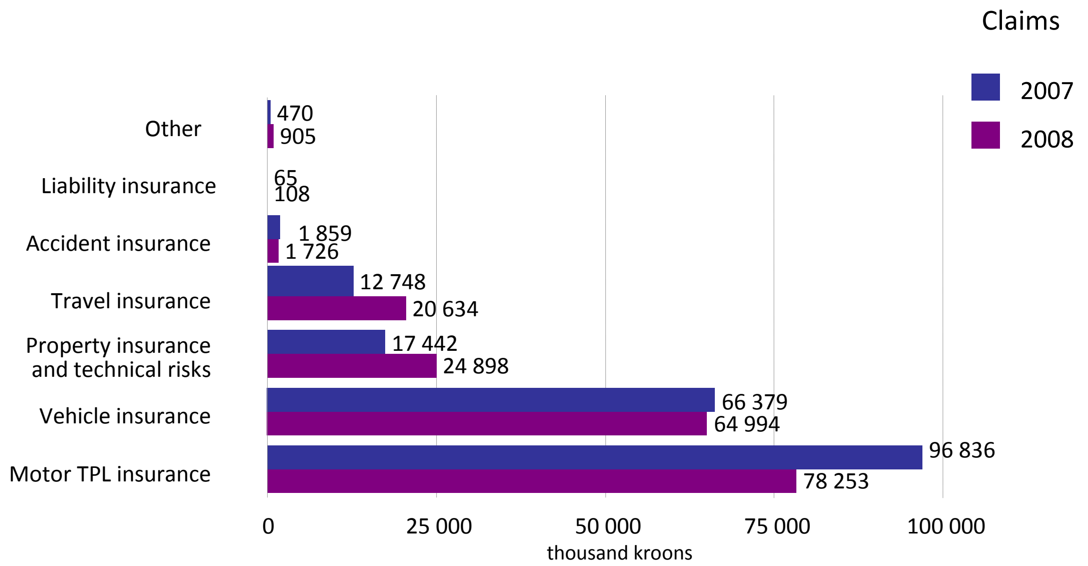
Insurance premiums of Salva Kindlustus AS, by type, 2007-2008



Claims

In 2008, claims disbursements amounted to 192 million kroons. Compared to last year, total claims decreased by 2%. Claims incurred, net of reinsurance increased by 22%.

Insurance indemnities of Salva Kindlustuse AS, by type, 2007-2008



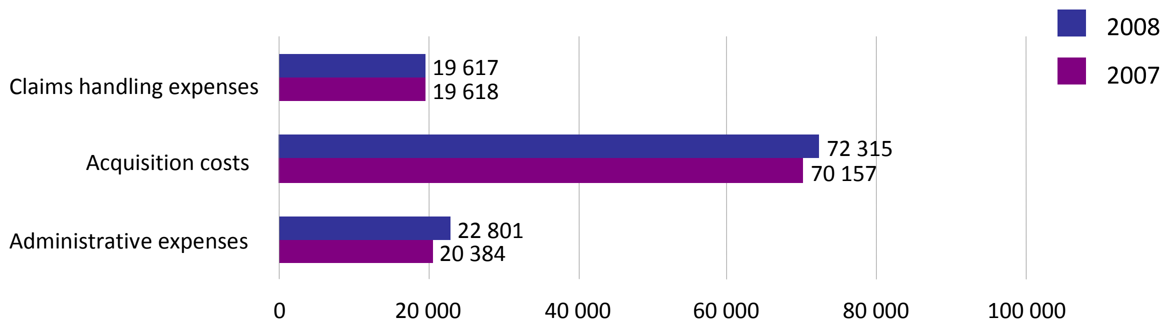
The number of loss claims satisfied in 2008 amounted to 11.4 thousand, showing a 7% decrease from last year.

The largest share of the losses (63%) consisted of motor third party liability and motor own damage insurance losses. In 2007, the corresponding share was 77%. The share of travel insurance losses in total losses has increased from 18% to 30%.

Operating expenses

In 2008, operating expenses increased by 4%, compared to 2007, with claims handling expenses remaining on par with last year, acquisition costs and administrative expenses increasing by 3% and 12%, respectively.

Compared to last year, payroll expenses, included in acquisition cost, increased by 10% and commission fees paid to brokers rose by 1%.



Balance sheet

The consolidated value of the assets of Salva Kindlustuse AS amounted to 440 million kroons as of the end of 2008.

Insurance receivables decreased by 20% in 2008, with their share in total assets being 5%.

As a result of the positive cash flow from insurance activities, the investment volume has increased by 1%, amounting to 223 million kroons. The share of investments in total assets amounts to 51%.

Liabilities arising from insurance contracts made up 52% of total assets as of the end of the year, having decreased by 8%, compared to the end of last year, amounting to 230 million kroons.

Prepayments from customers and liabilities to reinsurers decreased by 50%, making up 8% of total assets.

Owner's equity

In 2008, Salva Kindlustuse AS's shareholders' equity increased by 28%, and amounted to 159 million kroons. Eight million kroons was paid as dividends to owners.

Investing activities

On the strategic level, the investment activities of Salva Kindlustuse AS are controlled by the financial risk management committee, with the day-to-day activities delegated to a somewhat smaller group of people. The structure of liabilities and responsibilities has completely justified itself so far, guaranteeing sufficient control and prompt decision-making capability.

The year 2008 was challenging with respect to investing activity. Regardless of the unexpected market behaviour, Salva Kindlustuse AS succeeded in maintaining the value and sufficient diversification of the invested assets, and produced a positive return on investments for the year.

Our strategy prescribes preparation and management of a low-risk portfolio, which is based on liabilities.

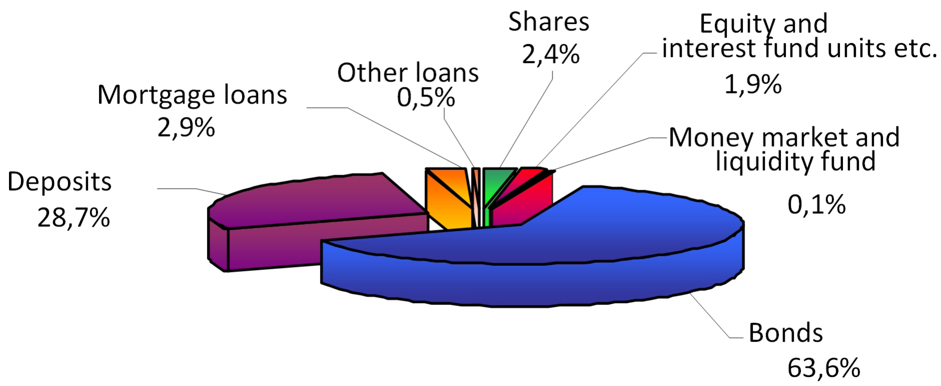
The consolidated profit earned by Salva Kindlustuse AS from investment activities in 2008 amounted to 1.1 million kroons. The revenue for the same period last year amounted to 6.3 million kroons. The consolidated annual rate of return on investment was 0.5%. The average rate of return of the bond portfolio was 4.2%.

The division of credit risk in the bond portfolio was the following: 52% of the bonds were rated AAA (S&P) or Aaa (Moody's), 35% had a rating of AA or Aa.

A total of 70% of the investments are held in euros; 29%, in Estonian kroons. The management considers the currency risk to be minimum.

As of the end of the year, financial investments exceed the net technical reserves by 147 million kroons, securing a sufficient liquidity reserve for the Company.

Structure of financial investments as of 31.12.2008



Organisation and management

Salva Kindlustuse AS (hereinafter the Company) has been operating on the Estonian insurance market since 1993. In its fifteen years of business, Salva Kindlustuse AS has become one of the leading non-life insurance companies in Estonia, offering a full range of services. The Company's portfolio currently contains the most widely known non-life insurance products – a total of over 15 products. The Company's customer base includes private individuals and businesses as well as companies and agencies of the public sector.

The Company's representative offices (8) and sales offices (12) are spread around Estonia, with the head office located in Tallinn.

The Company's supervisory board has six members, with the total remuneration paid to members of the supervisory board amounting to 461 thousand kroons (2007: 460 thousand kroons).

The Company's management board has five members, with the remuneration amounting to 6.7 million kroons (2007: 4.8 million kroons).

As of the end of 2008, the Group had 148 employees, including 81 sales employees. The full-time staff of Salva Kindlustuse AS is young and well-educated, with an average age of 39 years. Of the staff, 35% have acquired higher education; and 39%, secondary special education.

The Group has a very stable staff. This is supported by a competitive background system, a modern working environment and a strong organisational culture. Internal resources are used where possible for establishment of new positions supporting organisational development, with the current employees offered a career opportunity.

Staff training is organised on the basis of the established training policies. The Company co-operates with consulting and training companies in management and sales issues. Product training of the sales staff is carried out by product managers and loss adjusters.

Total payroll expenses (including wages and salaries) amounted to 49.3 million kroons in 2008. Payroll expenses have increased by 10% from last year (2007: 44.8 million kroons).

The Group's development in the financial year and goals for 2009

The year 2008 was the 15th year of operation for Salva Kindlustuse AS. The Company is thus among the oldest consistently operating insurance companies on the Estonian non-life insurance market, providing services under the same business name from day one.

In 2008 – a year which proved to be one of the most complicated years in the Company's history, due to the ever-tightening market competition and general cooling of the economy – loyalty of customers and co-operation partners, and long-term experience of staff members were the key words for Salva Kindlustuse AS.

The sudden deceleration of the economic growth also had an effect on the non-life insurance sector. The growth, which had been stable in previous periods, decelerated month after month, and was much lower than in 2006 or 2007. At the same time, market competition tightened, with the insurance companies and branches who had entered the Estonian market in the last few years pursuing quite an aggressive price policy to find new customers.

Salva Kindlustuse AS has responded to the market competition by enhancing efficiency: continual product development, enhancement of the sales network and improvement of the loss adjustment process.

The Company has focused its attention on the development of the new-generation information and sales system, which is quicker, more efficient, and more flexible than its predecessor in its provision of solutions to customers and partners.

The ever-tightening market competition has also forced Salva Kindlustuse AS to pay special attention on enhancing the sales network. On the one hand, the Company has optimised the sales network by exploiting new electronic channels and systematising contract management. On the other hand, the Company still lays importance on its pan-Estonian sales network and the professionalism of the staff.

In 2008, Salva Kindlustuse AS showed excellent results in two independent surveys assessing the quality of customer service. The survey conducted by Dive among insurance companies ranked Salva Kindlustuse AS second, and the comparative survey conducted by TNS Emor among a larger number of companies and establishments showed Salva Kindlustuse AS leading most major telecommunication and financial companies, who have so far garnered the highest customer service quality ratings.

To enhance Group efficiency and customer satisfaction, the Company has continually improved the claims handling process, laying emphasis on speed, simplicity and convenience. More and more claims are solved without the customer needing to show up in person. Claims may be reported by phone or online. Claims handling also takes place in vehicle dealerships and workshops, simplifying the entire process.

To simplify claims handling associated with damage to motor vehicles, Salva Kindlustuse developed a new service – Salva Autoabi – in 2008. From December, the Company's motor own damage insurance and motor third party liability insurance provides an additional value – the Salva Autoabi package, which provides convenient solution to those who have car troubles. Both motor own damage insurance and motor third party liability insurance customers can call the emergency hotline for around-the-clock consulting regarding further action, and, if necessary, call upon the Salva Autoabi specialists to inspect the site. The service guarantees appropriate performance of all operations required for claims handling, as well as customer convenience, as the collected materials are forwarded directly to the claim handlers.

Regardless of the tightening market competition in 2008, Salva Kindlustuse AS has continued to make its contribution to the community, supporting both sports and culture. The biggest co-operation projects involved the volleyball team Tartu Pere Leib, the junior basketball teams Salva Tartu, and the Estonian Judo Association.

The three-year co-operation with Salva Tartu basketball teams has shown that the choice made by the Company to support the base of the sports pyramid — the junior class with long-term perspective — has proved to be wise. First places in different age categories and the performance of the junior team established on the basis of the club system in the Estonian 2nd league provided sufficient grounds for renewing the co-operation agreement for another three years.

In the autumn of 2009, the first scholarships will be awarded within the framework of the Salva Kindlustuse AS sub-fund established under the Estonian National Culture Foundation, aiming at supporting the participation of young musicians at international competitions.

Salva Kindlustuse AS's goals for 2009 are based, above all, on the overall economic situation. The insurance sector cannot escape the effect of negative economic growth which, according to different estimates, may reach 7-10% for 2009. The second half of 2008 has clearly shown that, due to the cooling of the real estate and vehicle sales market, the number of new customers entering the property and motor vehicle insurance market is marginal. Thus, the competition for the existing customer base will increase – especially considering that these categories make up over 90% of the non-life insurance market.

As the reversal of the economic cycle is no longer a surprise, we can rely on Salva Kindlustus continuing to respond to the economic changes by following the path taken in 2008. Enhancement of efficiency, optimation of sales work, continuation of product development, and improvement of loss adjustment are the activities included in our strategy for 2009.

Tiit Pahapill

Chairman of the Management Board

Main financial indicators

Group	2008	2007	2006
in thousands of kroons			
For the financial period			
Gross premiums	346 990	361 842	364 823
Premiums earned, net of reinsurance	160 316	133 055	121 523
Gross claims incurred	187 283	206 415	222 806
Claims incurred, net of reinsurance	72 810	59 869	53 678
Total operating expenses	96 647	92 141	87 774
Net operating expenses	46 895	61 313	51 168
Net loss ratio	45%	45%	44%
Net expense ratio	29%	46%	42%
Net combined ratio	74%	91%	86%
As of the end of the reporting period			
Total assets	439 961	450 398	413 827
Financial investments	222 534	207 078	170 226
Investment property		12 500	12 500
Efficiency indicators			
Technical result	46 334	16 369	21 509
Investment result	1 170	6 329	5 656
Profit for the period	43 022	20 231	24 165
Return on equity	30%	17%	24%
Annual return on investments	0,5%	3,1%	3,4%
Per share			
Earnings per share (in kroons)	43,02	20,23	24,16

Explanations on financial indicators:

Gross premiums earned	Gross premiums + change in provision for unearned premiums
Gross claims incurred	Total claims amount + change in provision for claims outstanding
Net operating expenses	Operating expenses – service and commission fees
Net loss ratio	(net claims from reinsurance + change in net technical reserve from reinsurance) / (premiums earned, net of reinsurance + other net technical revenues from reinsurance)
Net expense ratio	(net operating expenses – service and commission fee revenue) / (premiums earned, net of reinsurance)
Net combined ratio	Net loss ratio + net expense ratio
Return on equity (ROE)	profit / average equity for the period
Return on assets (ROA)	profit / average assets for the period
Return on investments (ROI)	investment result / average investments for the period

Consolidated financial statements

Management representation and signatures to the Annual Report 2008

The Management Board takes responsibility for the preparation of the consolidated financial statements of Salva Kindlustuse AS, and confirms that:

- the accounting principles used in preparing the financial statements are in conformity with the International Financial Reporting Standards (IFRS), as adopted by the European Union;
- the financial statements give a true and fair view of the financial position of Salva Kindlustuse AS and the group, as well as the results of its operations and cash flows;
- material circumstances, which became evident before the date of preparation of the financial statements (9 March 2009) have been appropriately accounted for and presented in the financial statements;
- Salva Kindlustuse AS and the group companies are able to continue as a going concern, except for Salva Arenduse OÜ, which was deleted from the commercial register on 9 December 2008, and Safiireks Invest OÜ, which was deleted from the commercial register on 15 December 2008.

Tiit Pahapill	Chairman of the Management Board	________________________	24.03.2009
Irja Elias	Member of the Management Board	________________________	24.03.2009
Urmas Kivirüüt	Member of the Management Board	________________________	24.03.2009
Andres Lõhmus	Member of the Management Board	________________________	24.03.2009
Algor Orav	Member of the Management Board	________________________	24.03.2009

Consolidated income statement

in thousands of kroons	Note	2008	2007
REVENUE			
Gross premiums	5	346 990	361 842
Reinsurance premiums	13	-185 099	-227 115
Change in the provision for unearned premiums	5	15 654	-2 931
Reinsurer`s share of the change in provision for unearned premiums	13	-17 229	1 258
Premiums earned, net of reinsurance	5	**160 316**	**133 054**
Service and commission fee revenue	7	49 752	30 828
Net investment revenue	8	2 701	7 929
Other income	9	1 837	2 141
Total revenue		**214 606**	**173 952**
EXPENSES			
Claims incurred	10	-187 283	-206 415
Reinsurer`s share in claims incurred	10	114 473	146 546
Claims incurred, net of reinsurance	10	**-72 810**	**-59 869**
Acquisition costs	11	-72 315	-70 157
Administrative expenses	11	-22 801	-20 384
Financial expenses	11	-1 531	-1 600
Total operating expenses		**-96 647**	**-92 141**
Income tax	12	2 127	1 712
Profit for the financial year		**43 022**	**20 231**

Consolidated balance sheet

in thousands of kroons	Note	31.12.2008	31.12.2007
ASSETS			
Property, plant and equipment	14	23 530	11 553
Investment property	15	0	12 500
Intangible assets	16	9 365	11 462
Financial investments	17	222 534	207 078
Receivables under reinsurance contracts	18	147 223	172 694
Receivables from insurance activities and other receivables	19	24 303	29 797
Cash and cash equivalents	20	13 006	5 314
TOTAL ASSETS		439 961	450 398
LIABILITIES AND OWNER'S EQUITY			
Share capital		50 000	50 000
Reserve capital		4 996	5 000
Other reserves		1 008	1 008
Retained earnings		59 714	47 507
Profit for the financial year		43 022	20 231
Total owner's equity	21	**158 740**	**123 746**
Liabilities under insurance contracts	22	230 227	250 116
Liabilities from reinsurance	23	34 260	60 523
Liabilities from direct insurance activities	24	6 446	6 078
Accrued expenses and prepaid revenue	25	10 288	9 935
Total liabilities		**281 221**	**326 652**
TOTAL LIABILITIES AND OWNER'S EQUITY		439 961	450 398

Consolidated statement of changes in equity

in thousands of kroons	Share capital	Reserve capital	Other reserves	Retained earnings	Total
Balance as of 31.12.2006	50 000	5 000	1 008	53 507	109 515
Profit for the financial period	0	0	0	20 231	20 231
Dividends paid	0	0	0	-6 000	-6 000
Total recognised income and expense for the year	0	0	0	14 231	14 231
Balance as of 31.12.2007	50 000	50 000	1 008	67 738	123 746
Change in reserve capital	0	-4	0	4	0
Retained earnings	0	0	0	-28	-28
Profit for the financial period	0	0	0	43 022	43 022
Dividends paid	0	0	0	-8 000	-8 000
Total recognised income and expense for the year	0	-4	0	34 998	34 994
Balance as of 31.12.2008	50 000	4 996	1 008	102 736	158 740

See Note 21 for additional information.

Consolidated cash flow statement

in thousands of kroons	Note	2008	2007
Cash flow from operating activities		**18 204**	**5 231**
Insurance premiums received		350 498	363 065
Claims paid and claims handling expenses		-178 598	-170 261
Paid to reinsurers		-39 529	-48 933
Paid as operating expenses		-102 998	-100 495
Other revenue and expense		6 337	-4 495
Income tax paid		-2 127	-1 698
Acquisition of shares and other securities		-15 903	-22 467
Disposal of shares and other securities		19 239	26 259
Acquired fixed rate securities		-161 784	-120 360
Proceeds from disposals of fixed rate securities		174 237	64 040
Loans granted		-2 041	-2 134
Repayments of loans granted		2 693	5 887
Investments in term deposits		-161 943	-55 604
Return on term deposits		121 678	68 282
Interest received		10 124	6 296
Dividends received		545	309
Investment expenses paid		-2 225	-2 461
Cash flow from investing activities		**-2 512**	**-1 363**
Acquisition of property, plant and equipment, and intangible assets	14,16	-2 522	-2 951
Disposals of property, plant and equipment, and intangible assets	14,16	10	1 588
Cash flow from financing activities		**-8 000**	**-6 000**
Dividends paid	21	-8 000	-6 000
Total cash flow		**7 692**	**-2 132**
Cash and cash equivalents at the beginning of the period	20	5 314	7 446
Cash and cash equivalents at the end of the period	20	13 006	5 314

Notes to the financial statements

Note 1 General information on the Company

Salva Kindlustuse AS (hereinafter also referred to as the Company) is a non-life insurance company registered in Estonia. The consolidated financial statements prepared as of 31 December 2008 include the data on Salva Kindlustuse AS and its 100% subsidiary (jointly referred to as the Group) Salva Kahjukäsitluse OÜ.

In 2008, Salva Kindlustuse AS's subsidiary Salva Arenduse OÜ and Salva Kahjukäsitluse OÜ's subsidiary Safiireks Invest OÜ were liquidated.

The management board approved the disclosure of the financial statements with its resolution of 13 March 2009. Shareholders have the right to decline the Annual Report prepared and submitted by the Management Board, and demand preparation of a new Annual Report.

Note 2 Accounting estimates and assumptions used in the preparation of the financial statements

Basis of preparation

The consolidated financial statements have been prepared in thousands of kroons, unless explicitly stated otherwise. The consolidated financial statements have been prepared on the basis of the acquisition cost principle, with the exception of investment property, financial instruments and financial liabilities which are measured at fair value. The companies of the Group have adopted common accounting principles, which are applied consistently for all periods referred to in the financial statements.

Declaration of comformity

The consolidated financial statements have been prepared in accordance 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 force for the year 2008.

Estimates and assumptions

The preparation of the consolidated financial statements in accordance with the International Financial Reporting Standards presumes presentation of the management's estimates as well as resolutions and assumptions that may influence the balance of revenue, expenses, assets and liabilities as of the date of the financial statements, and the presentation of contingent assets and liabilities. The estimates and assumption based thereon stem from the experiences of the preceding periods and various other factors that are deemed reasonable in the current circumstances. On the basis of the results obtained, decisions are made with respect to the book value of assets and liabilities, unless the value has become evident on the basis of other sources. Even though these estimates are made to the management's best knowledge, actual results may differ from the estimates.

The estimates, and the assumptions providing the basis for the estimates, are regularly reviewed. Any changes caused by the accounting estimates are recorded in the data for the year when the estimates were changed, provided that the changes pertained only to the particular reporting year. If these changes also pertain to subsequent periods, they shall be recorded both in the reporting period and the subsequent periods.

The main estimates and assumptions which are made in applying the accounting principles and have an effect on the assets and liabilities have been provided below:

(a) 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 (IBNR) and provisions of unearned premiums by the balance sheet date.

The estimation of the provisions for losses which have been incurred but are not yet reported is based on historical experience where the actual incurred losses of the previous periods have been applied to estimate the future claims provisions. The estimates and the changes of the preceding period are reviewed, and the provisions revaluated, on every reporting date. The changes are reported in the income statement.

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

The RBNS provision is calculated on the case-by-case basis in accordance with the available information and claim.

The provision for claims is not discounted, except for the motor third party liability pension, which is calculated as annuities. 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 for 2007. The real interest rate estimate is 0.75%.

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

Motor third party liability and motor own damage insurance: 19% of the loss amount, a minimum of 1 thousand kroons and a maximum of 100 thousand kroons.
Property insurance: 15% of the loss amount, a minimum of 1 thousand kroons and a maximum of 100 thousand kroons.
Handling expenses are not reported in the provision for other insurance classes, as the amount is insignificant.

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

in thousands of kroons	up to 1	1-4	5-10	11+	Total
Liabilities under insurance contracts	162 462	50 055	5 155	12 555	230 227

The applied discount rate for the motor third party liability was 0.75%

The accounting principles regarding liabilities under insurance contracts are disclosed in subsections (e) and (f) of Note 3.

As of the end of 2008, the technical provision amounted to 230.227 thousand kroons (2007: 250.116 thousand kroons).

(b) Recoveries and salvages

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

Pursuant to the historical statistics of the portfolio, an average of 19% of the total receivables are estimated to be collected in the next seven years. As of the end of 2008, receivables amounted to 30.106 thousand kroons. The management has estimated that 8.737 thousand kroons of these receivables are recoverable (2007: 11.882 thousand kroons).

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

in thousands of kroons	up to 1	1-4	5-10	Total
Salvages and recoveries	4 572	3 879	286	8 737

The applied discount rate was 5%.

The reinsurer`s share matches the fair ratio of the reinsurer in the receivables, and the relevant amounts are reported as a liability from insurance activity.

(c) Assessment of financial assets

The fair value of financial assets traded on the active market are determined based on the closing prices of stock exchanges or the quotes of commercial banks on the balance sheet date.

Financial instruments without an active market are measured at their fair value on the basis of generally accepted valuation techniques, such as arm's-length transactions, discounted cash flow analysis. Term deposits are valuated based on the discounted cash flow method.

Valuation of financial assets has been described in detail in subsection (p) of Note 3.

As of the end of 2008, the value of financial assets measured at fair value amounted to 207.276 thousand kroons (2007: 198.940 thousand kroons).

(d) Subsidiaries

Subsidiaries are initially measured at cost in the unconsolidated balance sheet of the parent company. The subsidiary is then measured at fair value in the balance sheet on each balance sheet date. Fair value is established using the discounted future cash flows from the subsidiary. The principal assumptions applied in valuation were the actual cash flows, the increase of sales by 0% in the first year and an average of 9% in subsequent years. The discount rate applied to valuation of the fair value of a subsidiary was 26.6%.

Note 3 Accounting principles used in the preparation of the financial statements

The accounting principles set out below have been consistently used for all periods presented in these consolidated financial statements.

(a) Functional currency. Transactions and entries denominated in foreign currency

The functional currency and reporting currency of the group is the Estonian kroon.

Foreign currency transactions are recorded on the basis of the foreign currency exchange rates of the Bank of Estonia officially valid on the transaction date. Monetary assets and liabilities denominated in foreign currency in the financial statements are translated on the basis of the foreign currency exchange rates of the Bank of Estonia officially valid on the balance sheet date. Foreign exchange gains and losses are recorded under revenue and expenses in the income statement of the reporting period.

(b) Basis of consolidation

Consolidated financial statements include the financial data of subsidiaries controlled by the parent company. Control is presumed to exist if the parent company holds over 50% of the voting shares of the subsidiary or is otherwise able to control the operating or financial policies of the subsidiary, or if the parent company has the right to appoint or remove a majority of the members of the Supervisory Board of the subsidiary.

In the consolidated financial statements, any transactions between group companies, as well as mutual balances and unrealised profit, have been eliminated.

Subsidiaries prepare financial statements on the same period, materially using the same accounting principles.

Supplementary disclosures on the parent entity of the group

Pursuant to the Accounting Act of the Republic of Estonia, the notes to the consolidated financial statements of the consolidating entity shall contain information on the main statements of the consolidating entity. The parent company's main financial statements have been prepared using the same accounting principles and basis of estimations used in preparing the consolidated financial statements.

The bases for accounting for subsidiaries in the parent entity's unconsolidated balance sheet are provided in subsection (d) of Note 2.

(c) Insurance contracts

A non-life insurance contract is a contact 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 is a risk, where subsequent changes in 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 the variable is not inherent in the party to the contract. Insurance contracts may also involve some financial risk.

Insurance contracts are generally concluded for a period of one year. The motor third party liability insurance contracts, concluded for an indefinite period of time, constitute an exception to the rule, with the policies issued thereunder being valid for a maximum term of one year.

(d) Recording and assessment of insurance contracts

Insurance premiums

Gross insurance premiums are premiums and 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. Insurance premiums for contracts or instalments the due date of which falls after the balance sheet date are recorded in the balance sheet as a unearned premiums.

Reinsurance premiums are the share of gross premium under reinsurance contracts which is transferred or is subject to transfer to a reinsurer.

A reinsurance premium shall be deemed received upon expiry of the insurance cover. Premiums which are earned after the reporting date are recorded in the balance sheet under provision for unearned premiums.

Provision for unearned premiums

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

The provision for unearned premiums is recorded on the balance sheet line "Liabilities under insurance contracts".

The reinsurer`s share of the provision for unearned premiums equals the same percentage of the provision for unearned premiums as the pro rata share of the reinsurance premiums of the gross premiums. The reinsurer`s share of the provision for unearned premiums has been recorded on the balance sheet line "Reinsurer's assets".

(e) Claims

Expenses incurred in the insurance business consist of indemnities paid during the reporting period, claims handling expenses, recoveries received and receivable, and changes in outstanding claims reserves.

The reinsurance share of the claims expense is the extent of the reinsurer's liability within that expense, and which arises from the terms and conditions of the reinsurance contract.

Provision for claims outstanding

The provision for claims outstanding is formed to cover losses and claims handling expenses which have already been incurred but are outstanding as at the balance sheet date.

The outstanding claims reserve includes:

- handled but outstanding losses;
- reported and registered losses which have not been fully settled (RBNS);
- losses which have been incurred but not yet reported (IBNR).

Outstanding claims are assessed by analysing each claim separately, considering the incurred and not yet reported losses, and the impact of both internal and external predictable events (e.g. changes in claims handling proceedings, inflation, legal development tendencies, and legislative amendments, as well as past experience and trends). The provision for claims outstanding includes claims handling expenses.

The RBNS is estimated in the course of the claims handling process separately for each individual's loss file, on the basis of the information available to the claims handler. If no information is available, estimates based on previous experience will be used. RBNS is terminated by full discharge of the claim.

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

Provisions for claims outstanding are not discounted, except for the motor third party liability annuity reserves, which are discounted into the discounted value using standard actuarial methods, and the 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 salvages and recoveries are recorded as separate assets and the provision for claims outstanding is not reduced by these amounts. Any amounts received from reinsurance and other recoverable amounts are assessed in the same way as outstanding claims.

The provision for claims outstanding is recorded on the balance sheet line "Liabilities under insurance contracts".

(f) 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 corresponding insurance contracts, since no reinsurance agreements relieve the Group from its direct liabilities to the policyholders.

Only the 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 reinsurer's share of the technical reserve which are outstanding on the reporting date, are recorded in the balance sheet as reinsurer's assets.

The value of the reinsurer's assets is measured on every balance sheet date. Any impairment of reinsurance assets are recorded in the income statement.

Liabilities from reinsurance

Liabilities from reinsurance include amounts payable to reinsurers under reinsurance contracts.

Liabilities from reinsurance also comprise the reinsurance share of the acquisition costs, the calculation principles of which are set forth in subsection (g), and the reinsurer's share of the recoveries and salvages (see subsection (b) of Note 2).

(g) Deferred acquisition costs and the reinsurance share

Acquisition costs that are directly associated with the premiums carried forward to the subsequent reporting period are capitalised as prepaid expenses. The calculations of such deferred acquisition costs are based on gross premiums and expenses according to type. The percentage share of the deferred acquisition costs in the direct acquisition costs equals the percentage share of the total amount of prepaid premiums of the aggregate gross premiums amount.

The reinsurance share of the deferred acquisition costs forms the same percentage of the commission fees deriving from reinsurance contracts, as the reinsurance share of the prepaid premiums reserve forms of the reinsurance premiums. The calculations are based on the reinsurer's share of the premiums by insurance year, and the commission fees deriving from reinsurance contracts by type.

(h) Liabilities and adequacy of committed assets test

The adequacy of insurance liabilities is tested on the reporting date, using current estimates pertaining to future cash flows of the insurance contracts. If an estimate shows that the book value of insurance liabilities minus deferred acquisition costs and intangible assets is inadequate with respect 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.

The test conducted for 2008 indicated no deficit.

(i) Revenue

Insurance premium revenue

The principles for recording insurance premium revenue are described in subsection (d).

Revenue from service and commission fees

The revenue from service and commission fees is inclusive of reinsurance commission fees and other service fees associated with conclusion 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. Reinsurance contracts' commission fees are recorded by applying the same principles as those applied to the acquisition costs of insurance contracts (see subsection (g) of the accounting principles). The fee for participating in the profit of a reinsurer is recorded on the accrual basis.

Investment revenues

IInvestment revenues include revenues earned from financial investments and rental revenue from investment property.

Revenue from financial investments includes interest and dividend revenue, net revenue from revaluation and realisation of financial assets measured at fair value through profit and loss.

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

(j) Expenses

Claims incurred

The accounting principles applied for recording claims incurred are described in subsection (e).

Claims handling expenses

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

Administrative expenses

Administrative expenses are expenses which are associated 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 include fees and compensations paid to auditors, experts, legal and tax consultants, supervisory fees, and membership fees paid to the Insurance Association.

Acquisition costs

Based on their nature, acquisition costs are divided into direct and indirect acquisition costs. Direct acquisition costs include costs of variable nature which arise from the conclusion of insurance contracts, including commission fees to brokers, expenses associated with the preparation and printing of insurance documents, transport and communication expenses. Indirect acquisition costs are fixed costs, including 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) handling costs or investment costs.

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

Financial expenses

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

(k) Corporate income tax

Pursuant to the applicable laws, Estonian companies are not required to pay income tax on the profit. Therefore, all temporary differences between the tax basis and carrying values of assets and liabilities cease to exist. Rather than being subjected to income tax on the profit, Estonian companies are subjected to income tax on the dividends paid from retained earnings. Corporate income tax on the payment of dividends is recorded under income tax expense in the income statement at the moment that the dividends are announced, irrespective of the period for which the dividends were announced or when the dividends are actually paid.

The maximum possible income tax liability related to dividend payment is disclosed in Note 27.

(l) Property, plant and equipment

An item of PPE is carried in the balance sheet at its cost, less accumulated depreciation and any accumulated impairment losses. Essential asset items which are used for the Group's own enterprise and have a useful life exceeding one year are recorded as fixed assets.

The acquisition cost of property, plant and equipment consists of the purchase price paid and other direct expenses, and estimated subsequent expenditures that are required to keep the asset in proper working order or to replace its parts. In order to establish the depreciation rates of property, plant and equipment, the useful life of the essential parts of the asset item is assessed individually.

Depreciation of fixed assets is calculated on the acquisition cost based on the straight-line method, in accordance with the estimated useful life of the asset item. Calculation of depreciation starts from the month when the asset is taken into use. Calculation of depreciation is suspended when the item is either classified as "non-current assets held for sale" or derecognised.

Average useful lives by individual asset groups:

Buildings	25 years
Equipment	3-5 years
Hardware	3 years
Means of transport	3 years

Land and works of art are not depreciated.

The depreciation periods assigned to PPE shall be reviewed in the case of circumstances that may significantly change the useful life of the non-current asset item or group. The effect of changes in evaluations is recorded during the reporting period and subsequent periods.

Subsequent expenses associated with PPE are added to the book value of the assets when it is likely that this could generate economic benefits in the future. Other costs incurred with the aim of retaining the item's ability to generate profit are charged to the expenses of the period.

In the case of impairment of PPE, the item in question is discounted to its recoverable amount. If the value of the asset item has increased again, the expense generated by the impairment will be cancelled.

(m) Investment property

Investment property is property held by the Group either as an owner or as a lessee under finance lease terms for the purpose of earning rental revenue, capital appreciation or both. Investment properties are initially recognised in the balance sheet at cost, including the transaction fees directly related to the acquisition. Subsequent to initial recognition, investment properties are measured at fair value on each balance sheet date. Fair value is established using the discounted future cash flows from the investment property. Profit or loss stemming from change in value is recorded in the income statement of the reporting period. In December 2008 the purpose of investment property changed significantly. As a result investment property was reclassified to property, plant and equipment (Note 15).

(n) Intangible assets

Deferred acquisition costs

The principles applied to calculating acquisition costs have been provided in subsection (g).

Other intangible assets

Other intangible assets are recorded at their acquisition cost, consisting of the purchase price and expenses directly related to the acquisition. Subsequent recognition depends on whether the asset has a definite or indefinite useful life.

Intangible assets with a definite useful life are recorded in the balance sheet at their acquisition cost, less accrued depreciation and any accumulated impairment losses.

Licences and other 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 by 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 the income statement as expenses for the period, as a part of acquisition, administrative and loss adjustment expenses.

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

(o) Accounting for lease

Lease transactions, where all material risks and benefits related to the ownership of the asset are transferred to the lessee, are treated as finance lease. All other lease transactions are treated as operating lease.

The Group had no property leased under finance lease terms in the reporting period.

Company as the lessor

Assets leased out under operating lease are recorded in the balance sheet pursuant to standard procedure, similarly to other assets recorded in the balance sheet. Operating lease payments are recorded during the rental period as income based on the straight-line method.

Company as the lessee

Operating lease payments are recorded during the rental period as expenses based on the straight-line method.

Rental revenue is recorded under income over the term of lease based on the straight-line method.

(p) Financial assets

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

- financial assets measured at fair value through profit and loss;

- financial assets held to maturity;

- loans and other receivables;

- available-for-sale financial assets.

Acquisition and disposal of financial assets are recorded on the trade date, i.e. at the time when the Group incurs the obligation to acquire or dispose the assets.

Financial assets measured at fair value through profit and loss are financial assets acquired for trading, or assigned to this category by the Group from the very beginning. These include bonds, shares and other securities which are held for trading or which are not intended to be held to maturity. Also term deposits belongs to this category. The accrued interest of term deposits is part of fair value. The fair value of term deposits is calculated based on discounted cash flows. Subsequent to initial recognition, the fair value of securities measured at fair value through profit and loss is the 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 concluded by independent parties, references to other similar instruments, and discounted cash flow analysis and option valuation models. Realised gains and losses, and unrealised gains and losses stemming from changes in fair value of financial investments measured at fair value through profit and loss are recorded in the income statement pertaining to the period of their emergence.

Financial assets are classified as "financial assets recorded at fair value through profit and loss" on the basis of the following criteria:

- assets held for trading;
- assets classified as such, since this provides more relevant financial information.

Financial assets which are not held for trading may be classified under this group if:

- this serves the purpose of eliminating any differences in the recognition of income and expenses arising from measurement of assets and the related liabilities - i.e. helps to reduce the so-called accounting discrepancy; or
- the group of financial assets is managed together, and the results measured at fair value in accordance with documented risk management or investment strategy, and the corresponding information is forwarded to the top management.

The designation of financial assets at fair value through profit and loss statement is consistent with the Company's documented investment strategy.

"Financial assets held to maturity" means financial assets with established or establish able payments and establishable maturities, if the Group intends and is capable of holding such assets until their maturity. These financial assets are initially recognised at cost, plus transaction costs directly related to the acquisition. Subsequent to initial recognition, financial assets intended to be held to maturity are measured at amortised cost on the basis of the effective interest rate method, less any accumulated impairment losses. Gains and losses from changes in value of assets are recorded in the income statement.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These include loans, accounts receivable and other receivables. These assets are initially recognised at cost, subsequent to initial recognition, the assets are measured at amortised cost on the basis of the effective interest rate method, less any accumulated impairment losses. The receivables are assessed on an individual basis. Doubtful receivables are charged to expenses. Gains and losses from changes in the value of loans and receivables are recorded in the income statement.

Financial assets held for sale are financial assets classified as such, or financial assets which have not been categorised under other classes of financial assets. The Group had no such assets in the reporting period.

The derecognition of financial assets will take place when the contractual rights on the cash flows from the investments expire, or when the investments, together with all material risks and rewards associated with the ownership, have been transferred.

Derivative transactions are recorded in the balance sheet at fair value; contracts with a positive value are reported as assets and those with a negative value as liabilities. Any gains and losses stemming from the change in derivative values are recorded in the income statement. The Group had no such assets in the reporting period.

(q) Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash and which include no significant risk of changes in value, including cash in hand and cash at bank, as well as demand deposits. The cash flow statement has been prepared based on the direct method.

(r) Impairment of asset value

The Company's management assesses the circumstances referring to the need to impaire assets or any group of assets on each balance sheet date. If there are indicators that could refer to the reduction of the value of an individual asset item below its book value, a recoverable amount test is carried out. The recoverable amount of an asset item is equal to the higher of the fair value of the asset (less sales costs) or the value in use, calculated based on the discounted cash flows. If the test reveals that the recoverable amount of the asset item is lower than its carrying amount, the item will be written down to its recoverable amount. If the imapirment test cannot be conducted on a single asset item, the recoverable amount will be determined for the smallest group of assets (money generating unit) where the asset item belongs. The amount of impairment is charged to the expenses of the period.

If the test conducted in order to ascertain the recoverable amount of the asset item, which has been previously written down, reveals that the recoverable amount is higher than the net book value, the previous write-down will be annulled, and the balance sheet value of the asset item increased. The upper limit is the net book value of the asset, considering normal depreciation.

(s) Receivables from insurance business and other receivables

Receivables from policyholders and other outstanding receivables are reported as receivables at the end of the period. The balance sheet reports the receivables at amortised cost, i.e. less doubtful and uncollectible receivables. The receivables are assessed on an individual basis. Doubtful receivables are charged to expenses.

(t) Liabilities from direct insurance activities

Policyholders' prepayments and liabilities to brokers, outstanding on the reporting date, are reported as liabilities. Liabilities are reported at amortised cost.

(u) Provisions and contingent liabilities

The Company establishes provisions for liabilities, the time of realisation or amount of which cannot be reliably measured. The evaluation of the amount of the provision and estimation of the time of realisation is based on the estimates of the Management Board or experts in the relevant field.

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and the amount of obligation can be reliably determined.

Expenses incurred upon realisation of the provision are measured as of the balance sheet date, and the amount of the provision measured on each balance sheet date. If the provision is likely to be realised in a period longer than one year, the provision will be recognised at discounted net present value. The discount rate is established on the basis of the current market interest rate for similar liabilities.

Commitments which only have a lower than 50% probability of becoming liabilities, or the amount of which cannot be reliably determined, are disclosed as contingent liabilities. Contingent liabilities are accounted for off-balance sheet.

(v) Events after the balance sheet date

Material circumstances that have an effect on the valuation of assets and liabilities and became evident between the balance sheet date (31.12.2008) and the date of preparation of the financial statements, but are related to transactions that took place in the reporting period or earlier periods, are recorded in the financial statements.

Subsequent events that have not been taken into consideration when valuating the assets and liabilities but have a material effect on the result of the next financial year, are disclosed in the financial statements.

(w) New International Financial Reporting Standards (IFRS) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC)

As of the preparation of this Annual Report, new IFRS standards and their interpretations had been issued or revised, becoming mandatory for the Company starting from financial years beginning on or after 1 January 2008. The opinion of the management of the Company regarding the potential impact of the new standards and interpretations on the financial statement, during the period of first application, has been provided below.

aa) Revised International Financial Reporting Standards (IFRS), new IFRS standards and interpretations of the International Financial Reporting Interpretation Committee (IFRIC)

IFRIC 11 IFRS 2: Group and Treasury Share Transactions. As the Group companies have no share-based payment plans, the revised IFRIC 11 has no effect on the financial statements.

IFRIC 12 Service Concession Agreements. As the Company has not entered into any service concession agreements, IFRIC 12 has no effect on the Company's financial statements.

IFRIC 13 Customer Loyalty Programmes (applied to reporting periods beginning on or after 1 July 2008). In the management's opinion, the interpretation has no effect on the consolidated financial statements.

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

IFRIC 16 Hedges of a Net Investment in a Foreign Operation. In the management's opinion, the interpretation has no effect on the consolidated financial statements.

Amendments to IAS 39 and IFRS 7 Reclassification of Financial Assets. In the management's opinion, the interpretation has no effect on the consolidated financial statements.

ab) New IFRS standards and interpretations issued but not yet effective

In the opinion of the management of the Group the new or revised IFRS standards and their interpretations issued by the time of preparing the current consolidated financial statements, but not effective yet, and not applied early by the Group, do not have any effect on the value of the assets and liabilities of the Group as of 31 December 2008. These standards and interpretations will be applied starting from their effective date and are as follows:

IAS 1 Revised Presentation of Financial Statements, effective for financial years beginning on or after 1 January 2009. This amendment introduces a number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements when they are restated retrospectively.

IFRS 8 Operating Segments, effective for financial years beginning on or after 1 January 2009. The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 replaces IAS 14 Segment Reporting.

IAS 23 Borrowing costs (revised), effective for annual periods beginning on or after 1 January 2009;

IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements, effective for financial years beginning on or after 1 January 2009;

IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements, effective for financial years beginning on or after 1 July 2009;

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation, effective for financial years beginning on or after 1 January 2009;

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items, effective for financial years beginning on or after 1 July 2009;

IFRS 2 Share-Based Payment (Amendments), effective for financial years beginning on or after 1 January 2009;

IFRIC 15 Agreement for the Construction of Real Estate, effective for financial years beginning on or after 1 January 2009;

IFRIC 17 Distribution of Non-cash Assets to Owners, effective for financial years beginning on or after 1 January 2009;

IFRIC 18 Transfers of Assets from Customers, effective for financial years beginning on or after 1 January 2009.

Note 4 Risk policy and risk management of Salva Kindlustuse AS

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

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

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

Operation and financial risk management committees have been established to assess the risk on a systematic basis; these committees handle most of the risk identification, analyses, disclosure and management processes. The risk committee meets on a quarterly basis, and is charged with the task of generating transparency of the entire risk situation, as well as identifying the 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 risk management model, participates in the work of various levels if required, reports to the supervisory board and 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 — the Company's main activity — involves the best efforts of the entire organisation.

For the purpose of securing liabilities arising from non-life insurance contracts, it is essential to select assets which, by their durability and value at maturity date, match the estimated cash flows from damages arising from the portfolio. This allows to hedge the risk in the most natural way. A reference base is provided by the money and capital market.

Insurance risk management

Risk management principles and insurance risk management policy

The Group's insurance activities presume a risk of a loss event occurring to a person or company directly associated 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 Group as such is not fully protected against time-related uncertainties and gravity of losses stemming from insurance contracts. Moreover, we are also open to market risks arising from insurance and investment activities. Bearing risks is the main activity of an insurance company.

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

The Group applies various methods for assessing and monitoring the occurrence of insurance risks both at the single risk level and the general level. These methods involve internal risk measuring models and sensitivity analyses.

Models based on the probability theory are 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 dimensions can differ from the estimates calculated by applying statistical methods.

Underwriting strategy

The objective of the underwriting strategy is to achieve portfolio diversity in order to ensure portfolio balance in such a way as to provide the Group with sufficient resources for covering the risk in case of realisation of the insurance risks of the Group's customers. We believe that a large portfolio of similar risks ensures better predictability of the results, and that versatility of the various types of insurance risks allows us to create a balanced portfolio.

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 fixed with a decision of the underwriter in a format which can be reproduced in writing. Database inquiries are made in order to identify extraordinary risks. In the course of these inquiries, the risks diverging from the average within the portfolio are analysed. The foundation of the management of insurance risks lies in the improvement of the risk awareness of all staff members, as well as creation of a control environment.

The management reports are analysed on a monthly basis, by paying attention to collection of insurance premiums, and the loss ratio of underwriting years.

As a rule, insurance contracts are concluded for a period of one year, with the maximum term being five years.

An underwriting risk can derive from an insufficient insurance premium accepted for the risk assumed, or an incompetent risk evaluator who validates a non-insurable risk. Our insurance risk management process is mainly based on reasonable pricing, product development, risk selection and reinsurance. We therefore carefully monitor any changes in the economic environment, and respond accordingly.

Reinsurance strategy

Reinsurance is used for hedging the assumed insurance risks and protecting owner's equity. Under the Salva Kindlustuse AS insurance risk hedging principles, both proportional and non-proportional obligatory reinsurance contracts are applied. Underwriters shall have the right and, under the conditions set forth in the internal guidelines, the obligation to conclude facultative reinsurance contracts.

Reinsurance risk

In order to reduce its insurance risks, Salva Kindlustuse AS has concluded reinsurance contracts with different reinsurance partners. These reinsurance contracts spread the risks and minimise the impact of losses on the Group's net results. The reinsurance conditions include the reinsurer's obligation to indemnify an agreed part of the disbursed losses. The Company has adopted the minimum acceptable public credit rating for its reinsurers—Standard & Poor's "A" rating or higher. Any risks inherent in the reinsurance are associated both with insurance and investment activities.

Property insurance

Product features. Salva Kindlustus provides insurance cover to property objects located in Estonia, as well as property held by Estonian customers abroad. Property insurance protects, with certain limitations and restrictions specified in the insurance contract, the tangible assets of the policyholder against loss or damage. Revenue from this product is generated through insurance premiums, less any amounts required to satisfy the claim, and operating expenses. As a rule, any event that causes damage to property or building (e.g. fire or theft) comes unexpectedly, with the cause being easy to establish. The claim is therefore submitted promptly, and can be satisfied without delay. Property insurance is therefore classified as short-term, meaning that the risk of subsequent increase in expenses is immaterial.

Property insurance risk management. The main risks associated with property insurance include acquisition risk, competition risk, risk of insufficient experience in the claims segment, and risk of fraud. Acquisition risk involves the Company's failure 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 property insurance segment, risks are managed primarily through reasonable pricing and risk selection. In order to maintain acceptability of 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, or a vehicle associated with an Estonian-based customer in a foreign country. Motor vehicle insurance protects the policyholder, under certain limitations established in the insurance contract, against losses caused by possible damage, destruction or loss of the insured object.

Management of motor own damage insurance risks. Compared to other insurance classes, the motor vehicle insurance risk is characterised by high frequency of damage, and relatively non-fluctuating average losses. The risks are managed similarly to property insurance—through pricing and selective underwriting. In this category, the notification period is short, and the damage is relatively uncomplicated. Accuracy of assessment of claims associated with this class of insurance involves a relatively low risk level.

Frequency of damage depends on the weather conditions; the damage volume is higher in winter months. The Group monitors any changes in the causes, amounts and frequencies of the loss claims, and adjusts the pricing accordingly.

Motor third party liability insurance

Product features. Motor third party liability covers traffic losses incurred in the European Union member states and in member states covered by the Green Card agreement. In the case of indemnification of losses in an insurance case covered by a motor third party liability insurance contract, the liability limits effective in the country where the traffic accident occurred are applied; these limits are absent in some countries altogether. Motor third party liability insurance indemnifies property and personal damage caused to a third person. Pursuant to the laws of the Republic of 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 arise from motor third party liability insurance are hedged through pricing and reinsurance—by law, the Company may not refuse to serve an obligatory customer if the customer turns to the Company. The accuracy and adequacy of rates is continuously monitored, and modified in accordance with changes in the environment. Moreover, the motor third party liability insurance involves a highly long-term component, i.e. annuity payments.

The pricing of the motor third party liability insurance products takes into consideration the fact that personal damage expenses grow over time. Thus, the uncertainty level of annuity provision estimates is one of the highest.

In the motor third party liability insurance segment, the Company has limited the extent of its liability by applying reinsurance with an excess of loss of 3.9 million kroons, i.e. any expenses above this 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 may occur in certain areas, thus affecting the insured objects in the area and 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 the materiality and probability of the risk, and applies hedging measures if necessary.

The concentration of liabilities arising from insurance contracts has been brought out below, by insurance categories (in thousands of kroons).

31.12.2008

Type of insurance	Gross liabilities related to insurance contracts	Reinsurers’ share of liabilities	Net liabilities
Motor third party liability insurance	130 079	89 336	40 743
Motor vehicle insurance	43 672	26 547	17 125
Short-term health insurance	12 790	1 842	10 948
Household property insurance	15 042	8 434	6 608
Corporate property insurance	20 659	11 963	8 696
Railway transport insurance	4 616	4 161	455
Liability insurance	792	634	158
Other	2 577	755	1 822
Total	**230 227**	**143 672**	**86 555**

31.12.2007

Type of insurance	Gross liabilities related to insurance contracts	Reinsurers’ share of liabilities	Net liabilities
Motor third party liability insurance	133 471	97 241	36 230
Motor vehicle insurance	63 397	44 028	19 369
Short-term health insurance	10 544	1 923	8 621
Household property insurance	13 466	7 415	6 051
Corporate property insurance	21 324	13 735	7 589
Railway transport insurance	4 883	4 414	469
Liability insurance	541	433	108
Other	2 490	736	1 754
Total	**250 116**	**169 925**	**80 191**

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.

31.12.2008				
Factors	Value	Potential change	Effect on equity, thousands of kroons	Effect on equity, %
Net claims incurred	72 810	+5%	-3 641	-2,3
High net loss of motor third party liability insurance			-1170	-2,7%
High net loss of property insurance			-500	-1,2%
Operating expenses	96 647	+5%	-4 832	-3,0%

31.12.2007				
Factors	Value	Potential change	Effect on equity, thousands of kroons	Effect on equity, %
Net claims incurred	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 risk management

Insurance activities and investment activities may involve financial risks. Financial risk management in the Group is based on hedging the risks in a natural way, rather than by way of structured financial instruments. Financial risks are managed on the basis of the substitute portfolio method. The substitute portfolio is made up of incoming and outgoing cash flows associated with insurance activities. Cash flows cause financial risks, mainly due to the time difference between the insured event and payment of indemnity, or currency difference. Financial risks may include market risk, credit risk (including claims against reinsurers) and liquidity risk. As regards volume, the biggest risk is the interest risk deriving from the time difference between the insured event and payment of indemnity, which is a part of the market risk. The interest rates which form the basis for measurement of the interest risk are based on the EUR Sovereign Benchmark yield curve, which is a material input in the assessment of the value of the substitute portfolio. Due to the randomness of the cash flows associated with insurance activities, we consider liquidity risk to be a material financial risk.

Market risk

Market risk stems from the placement of the Group's assets in financial instruments which are sensitive to market risk with respect to the substitute portfolio. A market risk can be described as a risk of the fair value of the financial instrument changing, above all, due to changes in interest rates, price of securities or currency exchange rate with respect to the substitute portfolio which has been created on the basis of the comparative base of cash flows which serve as the basis for the liabilities.

A policy defining the approved investments and investment-making (i.e. management) has been established in order to manage the market risks. This policy governs the selection of various asset classes and the method of their acquisition (including the terms and conditions for the transactions).

The above asset distribution policy or strategic asset distribution hedges the financial risk associated with the liabilities deriving from insurance activities, rather than increasing the risk. The asset distribution focuses, in the extent of the liabilities arising from insurance activities, on fixed-income and highly liquid debt instruments or instruments containing such debt instruments.

The Group systematically handled asset-liability matching tests (Lar-M-tests), stress tests and other tests in the previous period. 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. The Company monitors the situation and trends on the money and capital markets.

Credit risk

The credit risk impacting the assets of the Company derives from the counterparty's inability to comply with its contractual obligations. These assets may, for instance, include bonds and loans or claims. Receivables with the highest risk include claims related to insurance activities, such as receivables from reinsurers and insurance brokers. Compliance of the receivables with the contract is monitored on a daily basis. The credit risk related to the Group's financial investments is sufficiently diversified between the various counterparties, and 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 95% of risk-bearing assets. The loans granted have been secured, except for loans granted to the Company's own employees.

The below table provides an overview of the maximum exposure of the balance sheet lines and future liabilities to different financial risks:

in thousands of kroons	Note	31.12.2008	31.12.2007
Financial assets measured at fair value through profit and loss			
Shares, equity funds and bond funds	17.1	9 606	21 740
Bonds and other fixed income securities	17.2	132 487	154 088
Financial assets held to maturity			
Bonds	17.2	7 772	0
Loans and term deposits	17.3,17.4	72 669	31 250
Receivables under reinsurance contracts	18	93 462	101 703
Receivables from insurance activities and other receivables	19	24 303	29 797
Cash and cash equivalents	20	13 006	5 314
Total exposure to financial risk		**353 305**	**343 892**

Receivables under reinsurance contracts do not include the reinsurance share of the prepaid premiums reserve, as this does not form a part of financial assets.

Currency risk

Currency risk involves the possibility of foreign exchange losses.

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

Interest risk

Interest risks are borne by long-term financial assets and liabilities sensitive to changes in interest rates. To hedge the interest risk, the Company monitors the duration of the positions exposed to the interest risk in the investment portfolio. Replication of the weighted average duration between the liabilities and assets has a material effect on the exposure to interest risk. The difference between the weighted average duration of liabilities arising from insurance activities and the weighted average duration of the volume of assets exposed to interest risk is an important indicator of the sensitivity of the value change.

Liquidity risk

The company experiences a daily need for financial resources in order to indemnify losses. The assets of the Group have been placed with an extremely high degree of conservatism as regards the liquidity risk. Nearly 80% of the Group's financial assets can be realised within seven days, without considerably losing the current value of the position. Considering that reinsurers are obliged to compensate their share of the loss within 14 days, and that the average time spent on claims handling and reserve payment falls between 20 and 40 days, the management believes that the liquidity risk has been sufficiently managed by the Company.

Operational risk

Daily activities, such as provision of services to policyholders, conclusion and drafting of agreements, management of the organisation, administration of user rights, etc. involve various risks that can be referred to as operational risks. Data pertaining to conclusion of significant transactions are stored in databases. This process is enabled by business-supporting technology. Operational risk can thus stem from human errors or fraud, but also from registration or monitoring errors associated with transactions and positions, conditioned by system reliability. Operational risk may also stem from inadequately composed data system or internal inspection that result in unpredictable losses. Such risks originate from within the Company, and can be directly controlled by the management.

Strategic operational risk is a risk associated with dramatic policy changes, the changing needs of the members of society, legislative changes or changes in government policy, taxation, etc. A strategic operational risk originates from outside the Company. Being directly caused by external circumstances, the risk cannot be directly controlled by the Company.

The principal objective of the management of operational risks within the Group is the prevention of risks. We base risk prevention on the proactive behaviour on behalf of both management and staff. We have launched internal training to enhance our understanding of the operational risks. Evaluation and measurement of operational risk is of secondary importance. Evaluation and measurement of operational risks help create the relevant attitudes, which form the basis for a strong risk management culture within an organisation.

Once a year, an operational risk assessment is performed, involving all key employees. Yet assessment is only one part of the management. The main emphasis is placed on disclosure and consistent exchange of information, and the processes supporting the same—with the aim of generating a strong risk management culture from top to bottom. In addition, training courses and training days are organised on an annual basis for the key staff of the risk-bearing divisions. The training involves analysis of different cases and their causes. The instruction or mentoring process is designed to communicate the know-how and skills to the staff. Minutes are taken of the discussions and valuations, and made available to all key employees, thus creating a control environment as well as a strong organisational culture which is based on executing the decisions passed.

The process is carried out at least once a year, drawing conclusions from the past and setting goals for the future. Operational risk management is not a separate process—it is a part of strategic management within the context of long-term planning. These issues are handled more frequently, if the environment so requires.

Goals, strategy and processes of capital management

The company proceeds from following goals, strategies and processes, in order to manage risks, which take effect on company's capital condition.

The goal of capital management is to manage capital in the way to guranatee the company's resilience and stability and concurrently the insurants, creditors and shareholders interest protection is insured. The group capital management contains simultaneouesly the management of assets, liabilities and risks and regulary observance of capital requirements in order to be financially strong and liquid.

Consequently the group's business is considered as a subject of supervision. The insurance supervision is mainly interested in defending insurants rights and supervises that group is managed in view of their interests. At the same time supervision observes whether the group is maintaining sufficient solvency in order to manage unexpected liabilities arising from economical or enviromental catastrophes.

The requirements of solvency are prescribed by Insurance Act. According to Insurance Act &56 lg 1 the minimum solvency margin is 3,2 million euros or 50 million kroons. Correspondingly to equity principles presented in Insurance Act the group total equity at the end of year 2008 amounted to 141,86 million kroons. Consolidated minimum solvency requirement was 31,44 million kroons.

Note 5 Premiums earned, net of reinsurance

2008

in thousands of kroons	Gross premiums	Change in provision for unearned premiums	Reinsurance premiums	Reinsurance share in change of unearned premiums	Premiums earned, net of reinsurance
Motor third party liability insurance	115 671	2 617	-70 915	-5 437	41 936
Short-term health insurance	52 201	291	-4 787	-377	47 328
Motor vehicle insurance	98 065	12 703	-60 931	-11 773	38 063
Railway rolling stock and small craft	1 399	267	-1 277	-253	135
Goods in transit insurance	1 112	26	-890	-21	228
Property insurance	72 338	233	-43 125	139	29 585
Motor vehicle liabilitys	1 629	-77	-1 178	54	428
Liability insurance	2 131	-447	-1 709	357	332
Monetary damage	2 444	41	-287	82	2 280
Total	**346 990**	**15 654**	**-185 099**	**-17 229**	**160 316**

2007

in thousands of kroons	Gross premiums	Change in provision for unearned premiums	Reinsurance premiums	Reinsurance share in change of unearned premiums	Premiums earned, net of reinsurance
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**

Note 6 Development of claims

The table representing formation of losses has been prepared with the intent of placing the gross outstanding claims reserves into a context that would allow to compare the formation of losses with 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 thousands of kroons	First year of validity of the policy								
Cumulative estimate of losses	2000	2001	2002	2003	2004	2005	2006	2007	2008
1 year after the first year of validity of the policy	51 964	89 001	132 404	137 957	157 493	225 071	262 143	224 742	
2 years...	50 461	85 628	131 306	137 051	154 026	215 219	255 954		
3 years...	51 553	83 723	136 378	132 938	150 064	210 380			
4 years..	51 883	82 642	135 624	129 363	150 380				
5 years...	51 736	81 995	128 171	128 543					
6 years...	51 338	78 122	127 404						
7 years	50 220	77 773							
8 years	50 190								
Cumulative estimate of claims	50 190	77 773	127 404	128 543	150 380	210 380	255 954	224 742	130 243
Total disbursements as of 31.12.2008	50 190	77 161	119 644	125 709	145 922	201 550	223 885	195 141	82 124
Provision for outstanding claims as of 31.12.2008		612	7 760	2 834	4 458	8 830	32 069	29 601	48 059

In the management's opinion, the amounts of technical reserves reported in the financial statements prepared as of the end of 2008 are accurate and sufficient for covering any future liabilities arising from the insurance portfolio. Technical reserves have been calculated on the basis of the information available as of the reporting date on the risks involved in the insurance portfolio, and comply with the generally accepted actuarial principles, and internal guidelines of the Company.

Note 7 Service and commission fee revenue

in thousands of kroons	2008	2007
Reinsurer commission revenue	50 307	33 245
Reinsurer's profit sharing	80	108
Reinsurance share of changes in acquisition costs	-635	-2 525
Total	**49 752**	**30 828**

Note 8 Net investment revenue

in thousands of kroons	Note	2008	2007
Revenue/expenses from investment property	15	300	626
Dividend revenue		545	609
Interest income from deposits		4 457	1 253
Other financial revenue, including interest revenue from loans granted		517	1 145
Trade portfolio revenue		-3 859	1 436
Revenue from bonds held to maturity		604	2 860
Net revenue from liquidation of subsidiaries		137	0
Total		2 701	7 929

Note 9 Other income

in thousands of kroons	2008	2007
Rental income	0	5
Other	1 837	2 136
Total	1 837	2 141

Note 10 Claims incurred

in thousands of kroons	Note	2008	2007
Claims paid, gross		-183 339	-193 850
Claims handling expenses	11	-19 617	-19 618
Amounts received from recoveries and salvage		14 575	17 556
Estimated amounts receivable from recoveries and salvage		-3 137	113
Total claims, gross		**-191 518**	**-195 799**
Change in the provision for claims outstanding		4 235	-10 616
Claims incurred, gross		**-187 283**	**-206 415**
Reinsurer`s share in claims	13	123 497	142 893
Reinsurer`s share in the change of provision for claims outstanding	13	-9 024	3 653
Reinsurere`s share in claims incurred	13	114 473	146 546
Total		-72 810	-59 869

Note 11 Operating expenses

in thousands of kroons	Note	2008	2007
by functions			
Insurance contract acquisition expenses	10	-19 617	-19 618
Insurance contract acquisition expenses		-72 315	-70 157
Administrative expenses		-22 801	-20 384
Financial expenses		-1 531	-1 600
Total operating expenses		**-96 647**	**-92 141**
Total		**-116 264**	**-111 759**

in thousands of kroons	2008	2007
Payroll expenses	-49 299	-44 825
Brokers' commission fees	-28 621	-28 469
Outsourced services	-6 411	-7 719
Depreciation and impairment of PPE and intangible assets	-2 944	-2 345
Other operating expenses	-26 944	-26 563
Change in deferred acquisition costs	-2 045	-1 837
Total	**-116 264**	**-111 758**

Note 12 Income tax

in thousands of kroons	2008	2007
Profit before income tax	45 149	21 943
Income tax on dividends	-2 127	-1 712
Net profit for the financial period	**43 022**	**20 231**

Note 13 Reinsurance result

in thousands of kroons	Note	2008	2007
Reinsurance premiums		-185 099	-227 600
Reinsurer`s share of the change in provision for unearned premium		-17 229	1 258
Reinsurer`s share in claims paid		123 497	142 893
Reinsurer`s share of the change in provision for claims outstanding		-9 024	3 653
Reinsurance commission fees and profit sharing	7	49 752	30 828
Total		-38 103	-48 968

Note 14 Property, plant and equipment

in thousands of kroons	Land and buildings	Other PPE	Total
Acquisition cost			
31.12.2006	**11 102**	**9 016**	**20 118**
Acquisition	0	1 845	1 845
Disposal	0	-1 588	-1 588
Write-off	0	-97	-97
31.12.2007	**11 102**	**9 176**	**20 278**
Acquisition	0	2 164	2 164
Disposal	0	-721	-721
Write-off	0	-519	-519
Reclassification	12 500	0	12 500
31.12.2008	**23 602**	**10 100**	**33 702**
Accumulated depreciation			
31.12.2006	**-3 746**	**-4 222**	**-7 968**
Depreciation charge for the year	-444	-1 584	-2 028
Depreciation charge of disposals	0	1 175	1 175
Depreciation charge of write-offs	0	97	97
31.12.2007	**-4 190**	**-4 534**	**-8 724**
Depreciation charge for the year	-444	- 1 589	-2 034
Depreciation charge of disposals	0	294	294
Depreciation charge of write-offs	0	292	292
31.12.2008	**-4 634**	**-5 537**	**-10 172**
Net book value			
31.12.2007	**6 912**	**4 642**	**11 554**
31.12.2008	**18 968**	**4 563**	**23 530**

In 2008, the Company generated a total of 240 thousand kroons from disposal of non-current assets.

Note 15 Investment property

The Group owns a registered immovable in the heart of Tallinn. As the proportion of premises used by Group increased significantly in December 2008, the Group`s management board decided to reclassify the real estate from investment property to property, plant and equippment.

in thousands of kroons	2008	2007
Book value of investment property		
At the beginning of the year	12 500	12 500
Reclassification	-12 500	0
At the end of the year	**0**	**12 500**

in thousands of kroons	2008	2007
Revenue and expenses from investment property		
Revenue	1 438	1 487
Investment property management expenses	-1 138	-861
Total	300	626

Note 16 Intangible assets

Other intangible assets

in thousands of kroons	
Acquisition cost	
31.12.2006	**3 132**
Acquired	1 106
31.12.2007	**4 238**
Acquisition	857
31.12.2008	**5 095**
Accumulated depreciation	
31.12.2006	**-1 505**
Depreciation charge for the year	-800
31.12.2007	**-2 305**
Depreciation charge for the year	-910
31.12.2008	**-3 215**
Residual value	
31.12.2007	**1 933**
31.12.2008	**1 880**

Expenses on software acquisition are reported under intangible assets.

Deferred acquisition costs

in thousands of kroons	
31.12.2006	**11 366**
Deferred	35 557
Amortised	-37 414
31.12.2007	**9 509**
Deferred	35 216
Amortised	-37 260
31.12.2007	**7 465**
Net book value	
31.12.2007	**9 509**
31.12.2008	**7 465**

Note 17 Financial assets

in thousands of kroons	Note	31.12.2008	31.12.2007
Shares, equity funds and bond funds	**17.1**	9 606	21 740
Bonds and other fixed income securities	**17.2**	140 259	154 088
Loans	**17.3**	7 486	8 138
Term deposits	**17.4**	65 183	23 112
Total		**222 534**	**207 078**

in thousands of kroons	31.12.2008	31.12.2007
Financial assets measured at fair value through profit and loss		
Classified as held for trading		
Shares, equity funds and bond funds	9 606	21 740
Bonds and other fixed income securities	132 487	154 088
Designated at fair value through profit and loss at inceptions		
Term deposits	65 183	23 112
Financial assets measured at amortised cost		
Loans	**7 486**	**8 138**
Classified as held to maturity		
Bonds and other fixed income securities	7 772	0
Total	**222 534**	**207 078**

in thousands of kroons	31.12.2008		31.12.2007	
	Fair value	Acquisition cost	Fair value	Acquisition cost
Financial assets measured at fair value through profit and loss				
Classified as held for trading				
Shares, equity funds and bond funds	9 606	18 315	21 740	21 746
Bonds and other fixed income securities	132 487	132 323	154 088	152 522
Designated at fair value through profit and loss at inceptions				
Term deposits	65 183	63 265	23 112	23 000
Financial assets measured at amortised cost				
Loans	8 008	8 484	8 614	9 064
Total	**215 284**	**222 387**	**207 554**	**206 332**

Note 17.1 Shares and participations

in thousands of kroons	31.12.2008	31.12.2007
Listed shares	5 190	5 790
Bond and equity funds	4 265	5 882
Liquidity funds	151	10 068
Total	**9 606**	**21 740**

Shares and investment fund units form a part of the trading portfolio and are measured at fair value. Estimates of the fair value of securities are based on the quotations of the respective depositary banks.

Shares and investment fund units are divided by individual currencies as follows:

in thousands of kroons	31.12.2008	31.12.2007
EEK	1 233	11 955
USD	748	1 239
SEK	63	304
EUR	6 547	6 074
LTL	977	1 919
LVL	38	249
Total	**9 606**	**21 740**

Shares and the equity fund portfolio are exposed to market risk.

Change in market value	Change in the fair value of the portfolio
Share prices +10%	946
Share prices +20%	1 891
Share prices –10%	-946
Share prices –20%	-1 891
Fair value 31.12.2008	**9 455**

Note 17.2 Bonds

Bonds are classified as those held to maturity (at amortised cost), and the trading portfolio (measured at fair value through profit and loss).

As of 31.12.2008, the Company had a total of 7.772 thousand kroons worth of bonds classified as bonds held to maturity.

in thousands of kroons	31.12.2008 At fair value	31.12.2008 At amortised cost	31.12.2008 Total	31.12.2007 At fair value	31.12.2007 At amortised cost	31.12.2007 Total
Bonds with a fixed interest rate						
Government bonds	56 094	0	56 094	22 971	0	22 971
Bonds of financial institutions	52 262	0	52 262	88 423	0	88 423
Other bonds	23 312	7 772	31 084	41 120		41 120
Total	**131 668**	**7 772**	**139 440**	**152 514**	**0**	**152 514**
Bonds with a floating interest rate						
Other bonds	819	0	819	1 574	0	1 574
Total	**819**	**0**	**819**	**1 574**	**0**	**1 574**
Total bonds	**132 487**	**7 772**	**140 259**	**154 088**	**0**	**154 088**

Based on the rating of the bond issuer, the bond portfolio is divided as follows:

Standard & Poor's	Moody's	31.12.2008	31.12.2007
Classified as held to maturity			
N/A	N/A	7 772	0
Classified as held for trading			
AAA	Aaa	71 665	80 337
AA	Aa	32 809	30 613
A	A	15 167	28 930
Below A	Below A	12 846	14 208
Total		**140 259**	**154 088**

By individual currencies, bonds are divided as follows:

in thousands of kroons	31.12.2008	31.12.2007
Classified as held to maturity		
EEK	7 772	0
Classified as held for trading		
EEK	6 005	13 537
EUR	126 025	140 004
LVL	457	547
Total	**140 259**	**154 088**

The bond portfolio is divided by maturity terms as follows:

in thousands of kroons	31.12.2008	31.12.2007
Classified as held to maturity		
6-12 months	7 772	0
Classified as held for trading		
Up to 6 months	6 384	119 072
6-12 months	55 127	27 627
1-3 years	38 277	5 266
Over 3 years	32 699	2 122
Total	**140 259**	**154 087**

By interest rates, the bond portfolio is divided as follows:

in thousands of kroons	31.12.2008	31.12.2007
Classified as held to maturity		
Interest rate: 7.0-7.9%	7 772	0
Classified as held for trading		
Interest rate: 2.0-2.9%	7 886	6 394
Interest rate: 3.0-3.9%	38 593	83 135
Interest rate: 4,0-4,9%	40 016	18 912
Interest rate: 5,0-5,9%	45 898	33 397
Interest rate: 6,0-6,9%	94	8 372
Interest rate: 7,0-7,9%	0	3 878
Total	**140 259**	**154 088**

Fixed interest rate financial investments measured at fair value through profit and loss are exposed to potential interest rate risk. An overview of the potential effect has been provided in the below table. The figures in the table are presented in thousands of Estonian kroons.

Change in interest rate	Change in the fair value of the portfolio
Change in yield curve + 100 base points	-3 211
Change in yield curve -100 base points	+3 319
Change in yield curve +200 base points	-6 319
Change in yield curve -200 base points	+6 751
Fair value 31.12.2008	**140 259**

Note 17.3 Loans

in thousands of kroons	31.12.2008	31.12.2007
Mortgage loans		
Loans with a term of 3-12 months	6 400	6 750
Loans with a term of 1-3 years	0	500
Total	**6 400**	**7 250**
Other loans		
Loans with a term of up to 3 months	14	0
Loans with a term of 3-12 months	586	391
Loans with a term of 1-3 years	391	232
Loans with a term of 3-5 years	95	265
Total	**1 086**	**888**
Total loans	**7 486**	**8 138**

The annual interest rates for loans granted fall between 5.75% and 9%.

Note 17.4 Term deposits

Term deposits with credit institutions, by terms:

in thousands of kroons	31.12.2008	31.12.2007
Up to 3 months	0	2 000
Term of 3-12 months	31 537	21 112
Term of 1-2 years	10 396	0
Term of 2-3 years	23 250	0
Total	**65 183**	**23 112**

The annual interest rates for term deposits fall between 5.8% and 7.8%.

By individual currencies, deposits are divided as follows:

in thousands of kroons	31.12.2008	31.12.2007
EEK	65 183	23 112
Total	**65 183**	**23 112**

Note 18 Receivables under reinsurance contracts

in thousands of kroons	Note	31.12.2008	31.12.2007
Receivables from reinsurance		3 552	2 769
Reinsurer`s share in provision for unearned premium	22	53 761	70 991
Reinsurer`s share in provision for claims outstanding	22	89 910	98 934
Total		**147 223**	**172 694**

All afore-mentioned receivables are fulfilled within 12 months.

Note 19 Receivables from insurance activities and other receivables

in thousands of kroons	31.12.2008	31.12.2007
Policyholders	8 038	8 404
Insurance brokers	5 804	8 016
Recoveries and salvage	8 737	11 882
Interest receivable	0	11
Prepaid taxes	0	2
Other accrued income	103	42
Other prepaid expenses	1 621	1 440
including Financial Supervision Authority's operation and maintenance costs	*792*	*786*
Total	**24 303**	**29 797**

Term of the receivables:

in thousands of kroons	31.12.2008	31.12.2007
- not due yet	15 838	18 267
- due for up to 3 months	2 943	2 015
- due for 3-6 months	486	753
- due for 6-12 months	435	1 171
- due or over 1 year	4 601	7 591
Total	**24 303**	**29 797**

Impairment of receivables:

in thousands of kroons	31.12.2008	31.12.2007
Allowance for doubtful receivables at the beginning of the period	-270	-432
Collection of receivables recognised as doubtful in the reporting period	26	42
Receivables recognised as doubtful in the reporting period	-138	-16
Receivables recognised as irrecoverable in the reporting period	244	136
Allowance for doubtful receivables at the end of the period	**-138**	**-270**

Note 20 Cash and cash equivalents

in thousands of kroons	31.12.2008	31.12.2007
Cash in hand	3 103	645
Cash at bank	9 903	4 669
Total	**13 006**	**5 314**

Cash and cash equivalents by individual currencies:

in thousands of kroons	31.12.2008	31.12.2007
EEK	11 188	3 510
EUR	638	970
USD	257	421
PLN	149	108
LVL	376	181
LTL	310	97
NOK,DKK,RUB,SEK,GBP	88	27
Total	**13 006**	**5 314**

Note 21 Shareholders' equity and required solvency margin

The Insurance Activities Act lays down the requirements established for non-life insurance undertakings with respect to 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 conform to the structure provided in the Insurance Activities 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 established consolidated solvency margin.

thousands of kroons	31.12.2008	31.12.2007
Equity	158 740	123 746
Solvency margin	141 860	113 812
Required minimum solvency margin	31 438	31 438
Surplus	110 422	82 374

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

The policies, processes and goals of capital management are presented in note 4.

Share capital

As of 31.12.2008, the registered share capital of the Company amounted to 50 million kroons (2007: 50 million kroons), divided into 1 million shares with a nominal value of 50 kroons (2007: 1 million shares). Each share grants its holder the right to receive dividends if dividends are declared, as well as one vote at the general meeting of the shareholders. No transactions involving the shares of the Company were carried out in the reporting period. 55% of the Group`s shares belong to private persons in Estonia.

Dividends

In 2008, a total of 8 million kroons was paid in dividends, i.e. 8 kroons per share.

The management board has proposed to the general meeting of the shareholders to pay 15 million kroons in dividends, i.e. 15 kroons per share.

Reserve capital

The insurance company establishes the mandatory reserve capital in accordance with the requirements of the Commercial Code, and under the stipulations of the Articles of Association. Reserve capital is a mandatory reserve, prescribed by the Commercial Code, that can be used for covering the loss, if loss cannot be covered from the available shareholder's equity. Mandatory reserve can also be used for increasing the share capital of the company. The minim amount of the reserve capital is 10% of the share capital. The reserve capital is made up of profit allocations and cannot be distributed to shareholders.

The reserve capital includes the mandatory reserve of Salva Kindlustuse AS (pursuant to subsection 336 (2) of the Commercial Code) in the amount of 4.976 thousand kroons, and the mandatory reserve of Salva Kahjukäsitluse OÜ (pursuant to subsection 160 (2) of the Commercial Code) in the amount of 20 thousand kroons. As a result of the liquidation of the subsidiary Salva Arenduse OÜ, the mandatory reserve capital dropped below the established minimum. The management board proposes to the owners to bring the reserve capital into line with the requirements of the Commercial Code.

Other reserves

Other reserves represent a reserve established from net profit allocations, and are used for covering potential losses.

Note 22 Liabilities related to insurance contracts and reinsurance share

in thousands of kroons	**31.12.2008**	**31.12.2007**
Gross		
Provision for losses incurred in the previous periods	51 593	45 671
Provision for losses incurred in the reporting period	53 853	70 839
Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR)	245	3 145
Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR)	10 043	7 937
Provision for pension under motor third party liability insurance incurred in the previous periods	18 347	11 187
Provision for pension under motor third party liability insurance incurred in the reporting period	2 506	2 043
Provision for unearned premiums	93 640	109 294
Total	**230 227**	**250 116**
Reinsurer`s share		
Provision for losses incurred in the previous periods	39 151	26 766
Provision for losses incurred in the reporting period	29 943	55 516
Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR)	124	1 580
Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR)	5 043	5 540
Provision for pension under motor third party liability insurance incurred in the previous periods	13 895	8 101
Provision for pension under motor third party liability insurance incurred in the reporting period	1 754	1 431
Provision for unearned premiums	53 761	70 991
Total	**143 671**	**169 925**
Net		
Provision for losses incurred in the previous periods	12 442	18 905
Provision for losses incurred in the reporting period	23 910	15 323
Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR)	121	1 565
Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR)	5 000	2 397
Provision for pension under motor third party liability insurance incurred in the previous periods	4 452	3 086
Provision for pension under motor third party liability insurance incurred in the reporting period	752	612
Provision for unearned premium	39 879	38 303
Total	**86 556**	**80 191**

All afore mentioned liabilities, except for provision for pension under motor third party liability insurance, are to be expected within 12 months.

Note 22.1 Provision for unearned premium

	2008		
	Gross	Reinsurer's share	Net
Balance 01.01.2008	109 294	70 991	38 303
Premiums written in the year	346 990	185 099	161 891
Premiums earned during the year	362 644	202 329	160 315
Balance 31.12.2008	**93 640**	**53 761**	**39 879**

	2007		
	Gross	Reinsurer's share	Net
Balance 01.01.2007	106 363	69 733	36 630
Premiums written in the year	361 842	227 115	134 727
Premiums earned during the year	358 911	225 857	133 054
Balance 31.12.2007	**109 294**	**70 991**	**38 303**

Note 22.2 Provision for losses incurred (including IBNR)

	2008		
	Gross	Reinsurer's share	Net
Balance 01.01.2008	140 823	98 934	41 889
Claims paid	191 518	123 497	68 021
Losses incurred during a year	187 283	114 473	72 810
Balance 31.12.2008	**136 588**	**89 910**	**46 678**

	2007		
	Gross	Reinsurer's share	Net
Balance 01.01.2007	130 207	95 281	34 926
Claims paid	195 799	142 893	52 906
Losses incurred during a year	206 415	146 546	59 869
Balance 31.12.2007	**140 823**	**98 934**	**41 889**

Note 23 Liabilities under reinsurance

in thousands of kroons	31.12.2008	31.12.2007
Payables to reinsurers	16 340	40 996
Reinsurer`s share of the deferred acquisition costs	6 004	8 246
Reinsurer`s share in recoveries and salvage	11 916	11 281
Total	34 260	60 523

All liabilites under reinsurance are short –term (up to 12 months).

Note 24 Liabilities from direct insurance activities

in thousands of kroons	31.12.2008	31.12.2007
Policyholder prepayments	4 265	4 396
Payables to insurance brokers	2 006	1 499
Other liabilities	175	183
Total	6 446	6 078

All liabilites from direct insurance activities are short –term (up to 12 months).

Note 25 Accrued expenses and other prepaid revenue

in thousands of kroons	31.12.2008	31.12.2007
Payables to employees	3 349	2 718
Vacation accrual	2 006	2 344
Value added tax	428	499
Personal income tax	1 040	643
Social tax	1 988	1 847
Unemployment insurance tax	48	29
Funded pension liability	93	50
Corporate income tax	75	246
Accounts payable	1 248	1 546
Prepaid rent	13	13
Total	10 288	9 935

All accruals are short-term (up to 12 months).

Note 26 Operating lease

Assets used under operating lease

The consolidated financial statements disclose the rental expenses on passenger cars and office space.

in thousands of kroons	**2008**	**2007**
Passenger car rental payments	366	192
Office space rental payments	3 655	2 286

Consolidated rental expenses of next periods, under non-cancellable contracts:

in thousands of kroons	
up to 1 year	1 462
1-5 years	3 278
over 5 year	1 234

The lease contracts have been concluded for a fixed term, for a period of 1-10 years.

Assets leased out under operating lease

The consolidated financial statements disclose other rental revenue and revenue generated from lease of premises.

in thousands of kroons	**2008**	**2007**
Passenger car rental revenue	0	5
Office space rental revenue	1104	1083

Consolidated rental revenue in the next periods, under non-cancellable contracts:

in thousands of kroons	
up to 1 year	783
1-5 years	756

Note 27 Provisions and contingent liabilities

Income tax

As of 31.12.2008, the Company's retained earnings amounted to 102.736 thousand kroons (last year: 67.738 thousand kroons). The maximum possible income tax liability related to the payment of the Company's retained earnings as dividends is 27.310 thousand kroons (last year: 18.006 thousand kroons). The company can thus pay a total of 75.426 thousand kroons in net dividends. The maximum possible income tax liability has been calculated based on the assumption that the net dividends to be paid, and the related total income tax expenses to be recorded in the income statement of 2009 would not exceed the distributable profit as of 31.12.2008.

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 approximately 1.5 million kroons of these claims to be satisfied, with the corresponding amount charged to the outstanding claims reserve.

Note 28 Related party transactions

Related party

The Company's shareholders, enterprises controlled by the Company, the Company's management board and supervisory board members, their close relatives and other individuals over whom the above persons have significant influence, are considered related parties.

Transactions with members of the management board and supervisory board

In 2008, insurance contracts with aggregate premiums of 81 thousand kroons were concluded with members of the management board. The wages of the members of the management board amounted to 6.9 million kroons, and the remuneration paid to members of the supervisory board to 461 thousand kroons. The members of the management board and supervisory board are not entitled to any severance compensation.

Other related party transactions

Companies related to members of the management board render services associated with the acquisition and management of investments.

Purchases of services

in thousands of kroons	2008	2007
Companies related to a management board member	392	405

As of 31.12.2008, the balance of loans granted to own employees and related parties amounted to 6 674 717 kroons (31.12.2007: 7 250 538 kroons).

Transactions between the Group companies, including subsidiaries, have been eliminated from the consolidated financial statements.

According to the management of the Company, the prices used for related party transactions do not significantly differ from the market prices.

Note 29 Subsidiaries

in thousands of kroons	Salva Kahjukäsitluse OÜ
Field of activity	adjustment of loss events, vehicle leasing and repairs, real estate management
Founded:	in September 1997
Participation %	100
Number of shares	1
Share capital, in EEK	40
Acquisition cost, in EEK	40

Note 30 The parent company's unconsolidated financial statements, as required by the Accounting Act of the Republic of Estonia

Income statement of Salva Kindlustuse AS

in thousands of kroons	2 008	2 007
REVENUE		
Gross premiums	347 249	362 102
Reinsurance premiums	-185 099	-227 115
Change in the provision for unearned premiums	15 654	-2 931
Reinsurre`s share of the change in provision for unearned premium	-17 229	1 258
Premiums earned, net of reinsurance	**160 575**	**133 314**
Service and commission fee revenue	49 752	30 828
Net investment revenue	4 963	24 453
Other income	1 389	2 527
Total revenue	**216 679**	**191 122**
EXPENSES		
Claims incurred	-199 376	-226 416
Reinsurer`s share in claims incurred	114 473	146 546
Claims incurred, net of reinsurance	-84 903	-79 870
Acquisition costs	-72 315	-70 157
Administrative expenses	-22 183	-20 791
Financial expenses	-1 531	-1 600
Total operating expenses	**-96 029**	**-92 548**
Income tax	**0**	0
Profit for the financial year	**35 747**	**18 703**

Balance sheet of Salva Kindlustuse AS

in thousands of kroons	31.12.2008	31.12.2007
ASSETS		
Property, plant and equipment	519	593
Intangible assets	9 365	11 462
Subsidiaries	84 538	90 297
Financial investments	191 443	206 929
Receivables under reinsurance contracts	147 223	172 694
Receivables from insurance activities and other receivables	24 016	29 677
Cash and cash equivalents	8 618	3 152
TOTAL ASSETS	465 722	514 804
LIABILITIES AND OWNER'S EQUITY		
Share capital	50 000	50 000
Reserve capital	4 976	4 976
Other reserves	1 008	1 008
Retained earnings	86 942	76 238
Profit for the financial year	35 747	18 704
Total owner's equity	**178 673**	**150 926**
Liabilities under insurance contracts	230 227	250 116
Liabilities from reinsurance	34 260	60 523
Liabilities from direct insurance activities	6 446	6 078
Other liabilities	8 471	39 535
Accrued expenses and prepaid revenue	7 645	7 626
Total liabilities	**287 049**	**363 878**
TOTAL LIABILITIES AND OWNER'S EQUITY	465 722	514 804

Cash flow statement of Salva Kindlustuse AS

in thousands of kroons	31.12.2008	31.12.2007
Cash flow from operating activities	**14 616**	**5 399**
Insurance premiums received	350 797	363 318
Claims paid and claims handling expenses	-200 036	-195 489
Paid to reinsurers	-39 529	-48 933
Paid as operating expenses	-91 079	-88 754
Other revenue and expense	-1 461	419
Liquidation of subsidiaries	677	0
Acquisition of shares and other securities	-15 903	-22 467
Disposal of shares and other securities	19 239	26 259
Acquired fixed rate securities	-161 784	-120 360
Proceeds from disposals of fixed rate securities	174 237	64 040
Loans granted	-2 041	-2 134
Repayments of loans granted	2 667	5 863
Investments in term deposits	-151 943	-55 604
Return on term deposits	121 678	68 282
Interest received	10 083	6 250
Dividends received	545	6 309
Investment expenses paid	-1 531	-1 600
Cash flow from investing activities	**-1 150**	**-1 304**
Acquisition of property, plant and equipment, and intangible assets	-1 160	-1 304
Cash flow from financing activities	**-8 000**	**-6 000**
Dividends paid	-8 000	-6 000
Total cash flow	**5 466**	**-1 905**
Cash and cash equivalents at the beginning of the period	**3 152**	**5 057**
Cash and cash equivalents at the end of the period	**8 618**	**3 152**

Statement of changes in equity of Salva Kindlustuse AS

in thousands of kroons	Share capital	Reserve capital	Other reserves	Retained earnings	Total
Balance as of 31.12.2006	**50 000**	**4 976**	**1 008**	**82 238**	**138 222**
Profit for the financial period	0	0	0	18 704	18 704
Dividends paid	0	0	0	-6 000	-6 000
Total recognised income and expense for the year	**0**	**0**	**0**	**12 704**	**12 704**
Balance as of 31.12.2007	**50 000**	**4 976**	**1 008**	**94 942**	**150 926**
Profit for the financial period	0	0	0	35 747	35 747
Dividends paid	0	0	0	-8 000	-8 000
Total recognised income and expense for the year	**0**	**0**	**0**	**27 747**	**27 747**
Balance as of 31.12.2008	**50 000**	**4 976**	**1 008**	**122 689**	**178 673**

See Note 21 for additional information.

Parent company's adjusted unconsolidated equity in accordance with the requirements of the Commercial Code of Estonia:

in thousands of kroons	2008	2007
Parent company's unconsolidated equity	178 673	150 926
Investment in the parent company's balance sheet (minus)	-84 538	-90 297
Subsidiary's value under the equity method (plus)	64 605	63 117
Total	**158 740**	**123 746**

Signatures of the Management Board and the Supervisory Board to the Annual Report 2008

The Management Board of Salva Kindlustuse AS has prepared the management report and financial statements for 2008.

Management Board:

Tiit Pahapill	Chairman of the Management Board	____________________	24.03.2009
Irja Elias	Member of the Management Board	____________________	24.03.2009
Urmas Kivirüüt	Member of the Management Board	____________________	24.03.2009
Algor Orav	Member of the Management Board	____________________	24.03.2009
Andres Lõhmus	Member of the Management Board	____________________	24.03.2009

The Supervisory Board has reviewed the annual report submitted by the Management Board, consisting of the management report and financial statements, and submitted it to the General Meeting of the Shareholders for approval.

Supervisory Board:

Leho Siimsen	Chairman of the Supervisory Board	____________________	27.03.2009
Reigo Kala	Member of the Supervisory Board	____________________	27.03.2009
Peep Kütt	Member of the Supervisory Board	____________________	27.03.2009
Marje Hansar	Member of the Supervisory Board	____________________	27.03.2009
Indrek Kasela	Member of the Supervisory Board	____________________	27.03.2009
Kustaa Äimä	Member of the Supervisory Board	____________________	27.03.2009

Auditor's Report

ERNST & YOUNG

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Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Salva Kindlustuse AS

We have audited the consolidated financial statements of Salva Kindlutuse AS and its subsidiary (hereafter "the Group"), which comprise the balance sheet as of 31 December 2008, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The audited financial statements, which we have identified on the accompanying pages, are enclosed with the current report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

ERNST & YOUNG

Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The financial information of Salva Kindlustuse AS as a parent company in Note 30 is presented because it is required by the Estonian Accounting Law and is not a required part of the consolidated financial statements prepared under International Financial Reporting Standards as adopted by the European Union. Such financial information has been subject to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, is prepared in all material respects in accordance with the requirements of the Estonian generally accepted accounting principles and in relation to the consolidated financial statements taken as whole.

Tallinn, 25 March 2009

Hanno Lindpere	Tiina Sõmer
Ernst & Young Baltic AS	Authorised Auditor

Profit Allocation Proposal

Retained earnings	59 714 293
Net profit for 2008	43 021 762
Intangible assets at book value	- 9 364 896
(Subsection 59 (2) of the Insurance Activities Act)	
Total distributable profit as of 31.12.2008:	93 371 159
The Management Board proposes to allocate the profit as follows:	
To be transferred to the mandatory reserve:	24 000
To be distributed as dividends:	15 000 000
Balance of distributable profit after profit allocation:	78 367 159

Tiit Pahapill	Chairman of the Management Board	____________________	24.03.2009
Irja Elias	Member of the Management Board	____________________	24.03.2009
Urmas Kivirüüt	Member of the Management Board	____________________	24.03.2009
Algor Orav	Member of the Management Board	____________________	24.03.2009
Andres Lõhmus	Member of the Management Board	____________________	24.03.2009