SALVA KINDLUSTUSE AS ANNUAL REPORT

2009

SALVA KINDLUSTUS

Table of contents

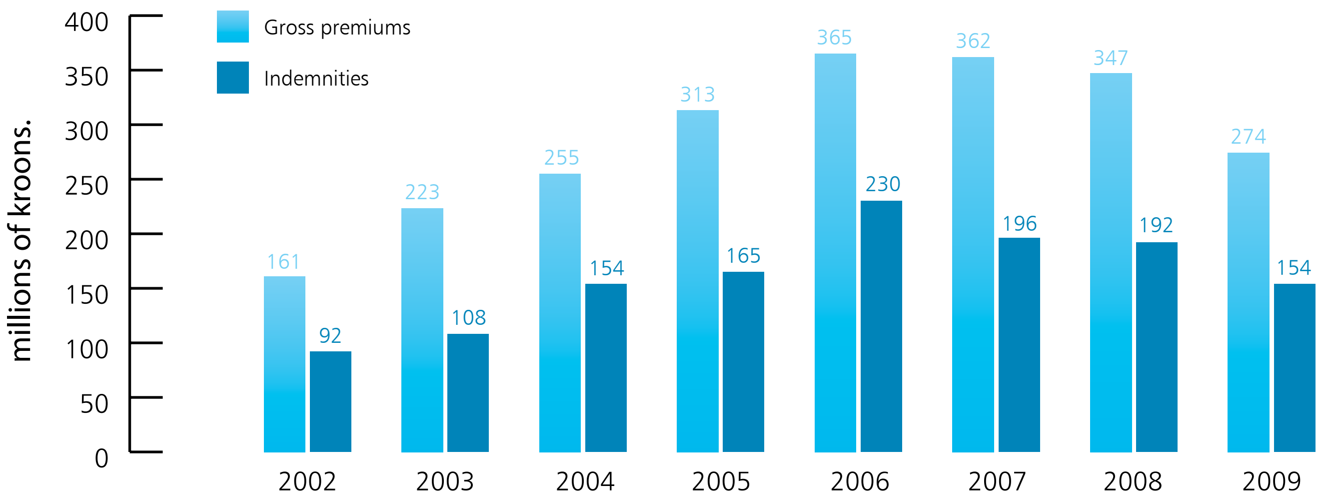
General information on Salva Kindlustuse AS

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:	01.01.2009
End of financial year:	31.12.2009
Managing director:	Tiit Pahapill
Auditor:	Ernst & Young Baltic AS

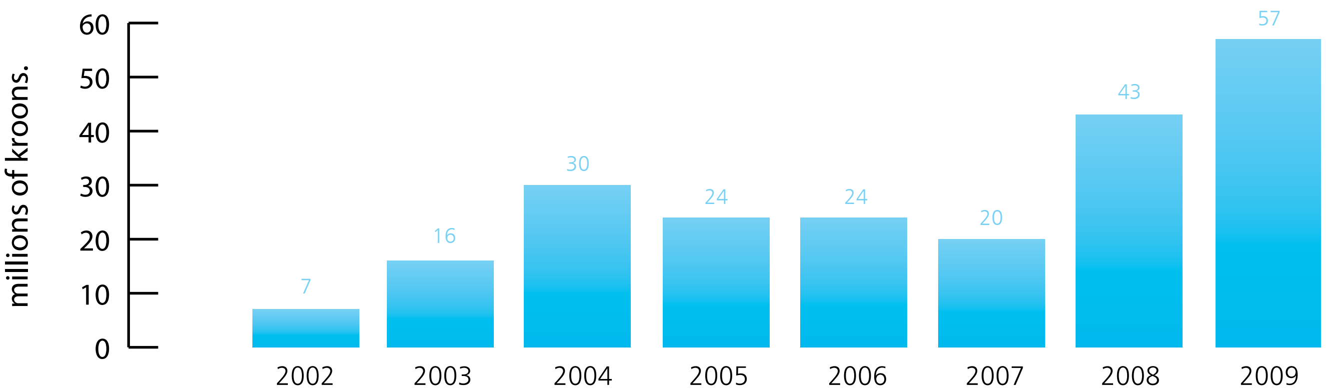
Management report

Main financial indicators

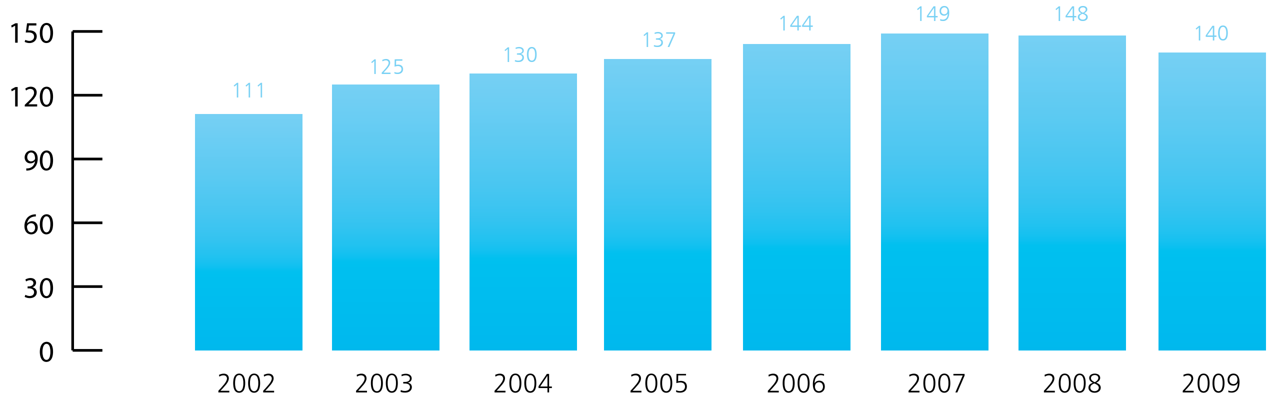
Gross premiums and indemnities



Profit



Number of employees



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

Mission
We are a continuously developing non-life insurance company rendering 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, our website or by telephone. Every client is special for us. Any 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 which serves the needs of every individual, in addition to generating the team spirit required for achieving excellent results. We continuously train our staff, value their education and professional enrichment. 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 in the Estonian insurance market since 1993. In its seventeen 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 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.

Salva Kindlustuse AS Group

Companies of the consolidation group

Business name	Register	Date of registration	Address	Main activity	Participation (%)
Salva Kindlustuse AS	10284984	March 1993	Pärnu mnt.16, Tallinn	non-life insurance, claims handling,	100%
Salva Kahjukäsitluse OÜ*	10259383	September 1997	Tammsaare tee 118B, Tallinn	rent of vehicles	100%
Business Information Systems OÜ	11611994	March 2009	Pärnu mnt 16, Tallinn	Research and development in the field of other natural and technical sciences	49%

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

*Consolidated subsidiaries of Salva Kindlustuse AS

Business Information Systems OÜ (BIS) was established on 18 March 2009. The company's main activity as listed in the Estonian Classification of Economic Activities (EMTAK 2008) is research and development in other natural sciences. In essence, the main activity of BIS is the development and marketing of insurance company information and management systems, and related research and development.

Economic environment

The first half of 2009 will be remembered as a period of uncertainty and anxiety, with some relief provided in the second half-year, when the first clear signs of recovery could be seen.

At the beginning of a new decade, we are convinced that the economy will start to recover from the deep crisis. Financial aid packages and public efforts have saved the global economy from the worst.

Nonetheless, the long-awaited growth will prove modest, with signs of global instability still evident. First of all, the authority of China is growing in both national and international markets. Second, the ever-increasing raw material prices generate new price hikes, hampering consumption and growth in corporate profit indicators.

The euro zone started enhancing export and stocks in 2009. This trend is expected to continue in 2010. Private consumption and investments dropped in 2009, with a modest recovery of growth expected for 2010.

The all-time-low interest levels have helped revive the economy, providing some relief to companies. In the second half of 2010, we expect a change of ECB policy, and increase in interest rates.

As regards our closest neighbours, Scandinavia is showing signs of recovery, with modestly optimistic expectations for 2010. Our southern neighbours Latvia and Lithuania currently seem to have sorted out their problems, with questions still remaining as to the long-term success of these solutions.

Due to the size of the nation and the drastic openness of the economy, the Estonian economic space was significantly affected by the external turmoil in 2009. Negative trends could be seen in all fundamental indicators, except for the current account deficit. Still, we consider this period a stage of preparation for the upcoming growth and recognize that a euphoria-driven economic model is never sustainable.

The biggest economic, political and emotional challenge for 2010 is the evaluation of the euro criteria, and its consequences. It currently seems that our efforts may only be upset if some external factor is unfavourably aligned – for instance, Greece's ability to service its debt or similar problems in Ireland.

Recovery of export growth and the consequent creation of new jobs are essential. This will also provide the basis for long-term and systematic successful development.

Non-life insurance market

In 2009, non-life insurance companies and branches collected a total of 3,745 million kroons in insurance premiums in the Estonian market. This constitutes a 12% decrease, compared to the same period in 2008 (2008: 4,233 million kroons).

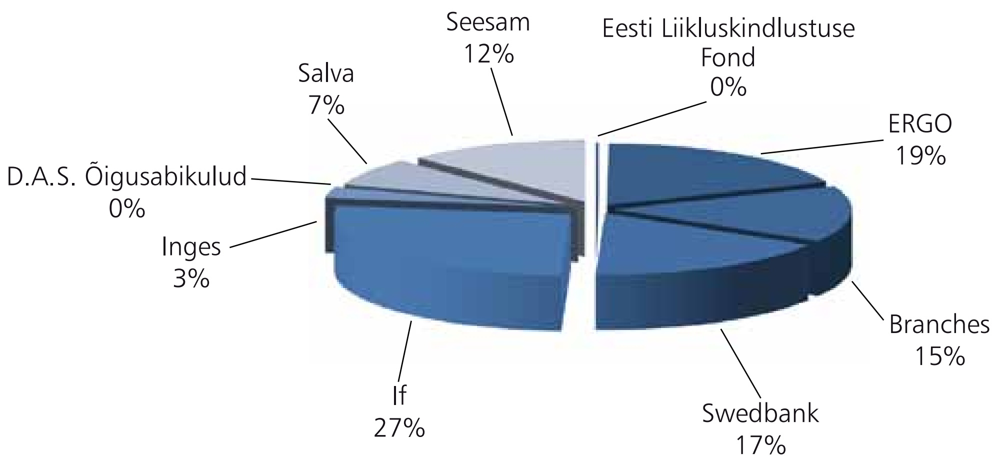
The greatest drop could be seen in optional motor vehicle, legal property and travel insurance categories. Compared to 2008, the premiums have dropped by 18%, 15% and 11%, respectively. Insurance premiums have grown in personal property insurance and monetary loss insurance categories.

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 (29%) and the optional motor vehicle insurance (38%). The share of property insurance amounts to 23%, and the aggregated share of all the remaining insurance categories, 10% 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 60% as of the end of 2009.

Insurance indemnity disbursements for 2009 amounted to a total of 2,258 million kroons – 6% less than in the same period last year (2008: 2,398 million kroons).

Market shares of non-life insurance companies and foreign branches expressed in premiums received by the end of 2009:



Competition on the non-life insurance market remained tight in 2009, 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) were fighting for their market share while the Estonian economy was cooling.

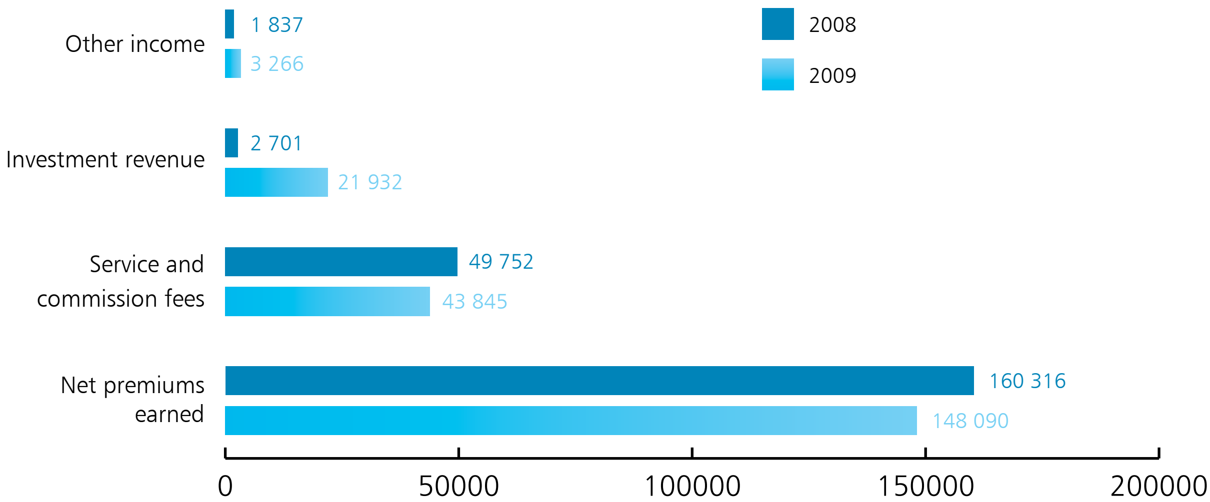
The 12% decrease of the non-life insurance market was relatively small, compared to many other sectors. This is due to the fact that a majority of the insurance payments made in 2009 were associated with contracts concluded in 2008, with the payments received in 2009. The drop in the new sale of vehicle insurance was significantly bigger, and will have an effect in 2010.

The price competition is not expected to decrease in 2010 – despite the drop in market volumes, the results in most insurance categories met expectations, and the financial results of insurance companies were good.

Financial results

The consolidated net profit of Salva Kindlustuse AS for 2009 amounted to 56.7 million kroons (2008: 43 million kroons). The year can be considered highly successful, as the estimates at the beginning of the year were much more pessimistic.

Profits



In 2009, revenue increased by 1%, compared to the same period last year. This figure consists of an 18% decrease in premiums earned, a 12% decrease in service and commission fees and an eightfold increase in investment revenues.

In 2009, Salva Kindlustuse AS collected 274 million kroons in insurance premiums. This is 21% less than the 347 million kroons collected in 2008.

The biggest decrease in insurance premiums was seen in motor own damage insurance (kasko insurance) (27%), travel insurance (27%), motor third party liability insurance (17%) and property insurance (16%).

Premiums earned, net of reinsurance, decreased by 8%. The net profit posted from insurance activities in 2009 amounted to 40.9 million kroons. The corresponding indicator for the previous year was 46.3 million kroons.

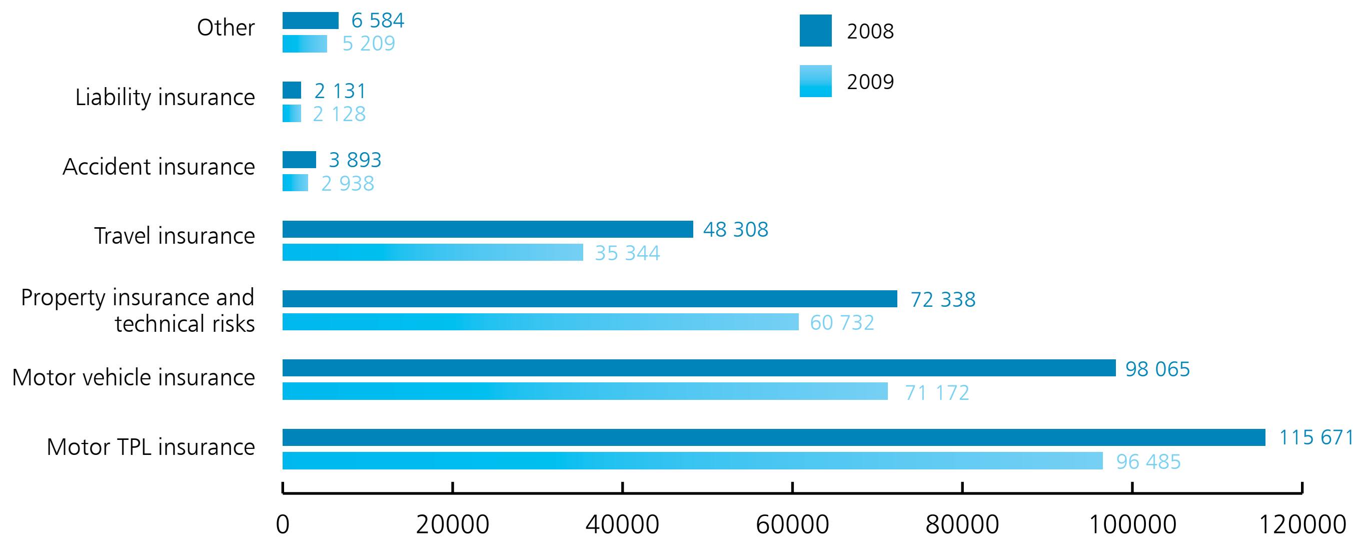
Due to the decrease in the reinsurer's share of gross premiums, the drop in premiums earned was not that large, compared to the drop in gross premiums. The decrease in damage frequency on the insurance market has improved the loss ratio.

The consolidated loss ratio, net of reinsurance, was 46% (2008: 45%).

The ratio of consolidated expenses to premiums earned, net of reinsurance, was 26% as of the end of 2009, remaining on par with the end of 2008.

Insurance premiums of Salva Kindlustus AS, by type, 2008-2009

Gross premiums

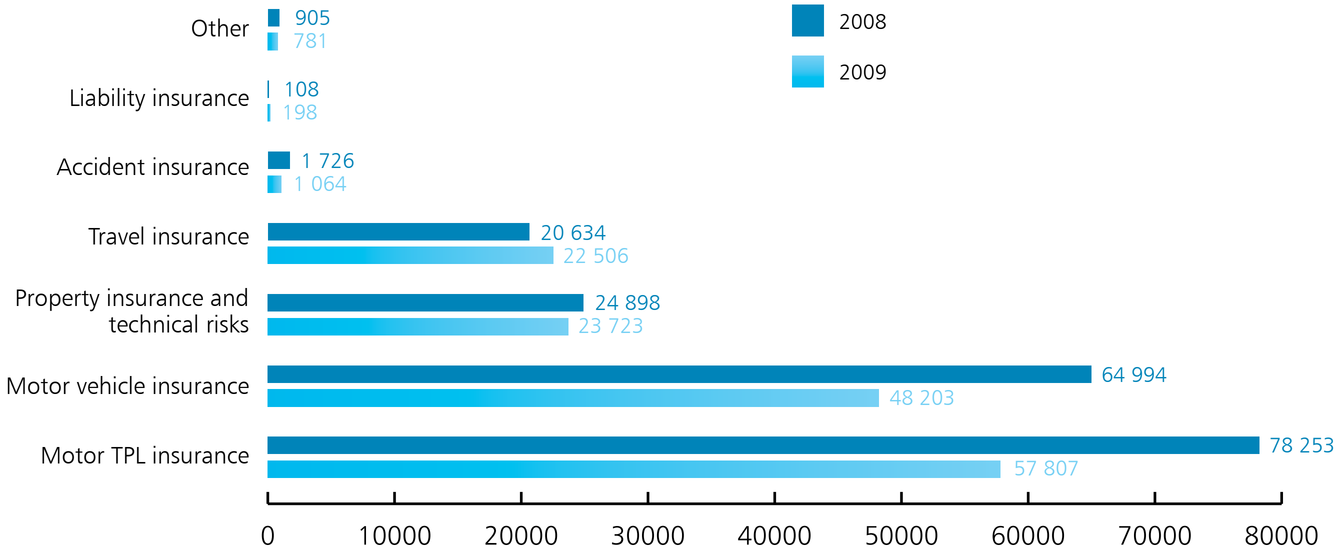


Claims

In 2009, claims disbursements amounted to 154 million kroons. Compared to last year, total claims decreased by 19%. Claims incurred, net of reinsurance, decreased by 5%.

Insurance indemnities of Salva Kindlustuse AS, by type, 2008-2009

Claims

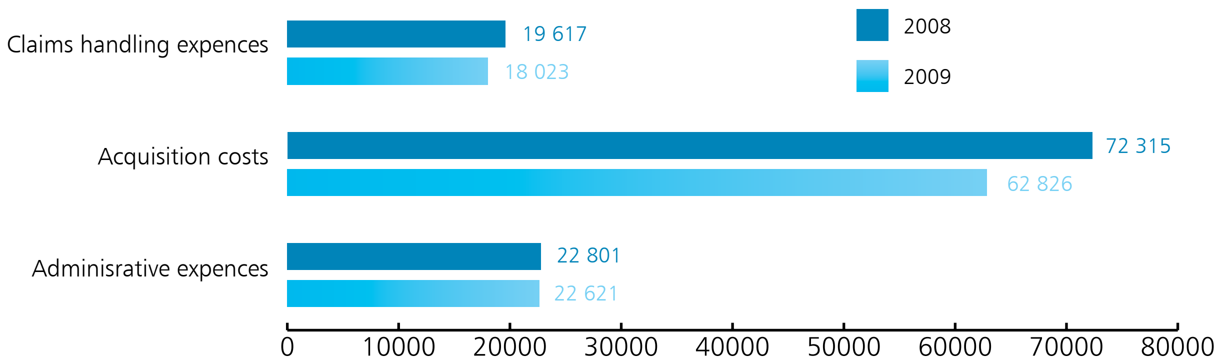


The number of loss claims satisfied in 2009 amounted to 11.6 thousand, showing a 2% increase from last year.

The largest share of the losses (53%) was formed by motor third party liability and optional motor vehicle insurance losses. In 2008, the corresponding share was 59%. The share of travel insurance losses in total losses has increased from 30% to 35%.

Operating expenses

In 2009, operating expenses decreased by 10%, compared to 2008, with acquisition costs decreasing by 13%, claims handling expenses by 8% and administrative expenses by 1%.



Compared to last year, payroll expenses, included in acquisition cost, decreased by 4% and commission fees paid to brokers by 28%.

Balance sheet
The consolidated value of the assets of Salva Kindlustuse AS amounted to 424 million kroons as of the end of 2009.

Insurance receivables decreased by 24% in 2009, with their share in total assets being 4%.

As a result of the positive cash flow from insurance activities, the investment volume has increased by 9%, amounting to 242 million kroons. The share of investments in total assets amounts to 57%.

Liabilities arising from insurance contracts made up 45% of total assets as of the end of the year, having decreased by 17%, compared to the end of last year, amounting to 191 million kroons.

Prepayments from customers and liabilities to reinsurers decreased by 49%, making up 3% of total assets.

Owner's equity
In 2009, Salva Kindlustuse AS's shareholders' equity increased by 26%, and amounted to 200 million kroons. 15 million kroons was paid as dividends to owners in 2009.

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 2009 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, despite the fact that the investment strategy stipulates the obligation to prepare and manage a low-risk instrument portfolio which is based on the liabilities.

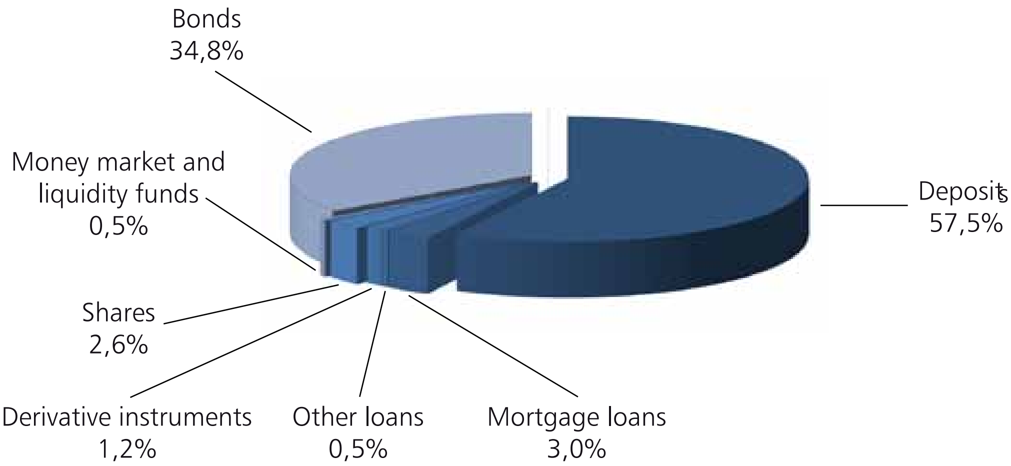
The consolidated profit earned by Salva Kindlustuse AS from investment activities in 2009 amounted to 20 million kroons. The revenue for the same period last year amounted to 1.1 million kroons. The consolidated annual rate of return on investment was 8.6%. The average rate of return of the bond portfolio was 9%.

The division of credit risk in the bond portfolio was the following: 60% of the bonds were rated AAA (S&P) or Aaa (Moody's), 2% had a rating of AA or Aa.

A total of 33% of the investments are held in euros, 65% 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 167 million kroons, securing a sufficient liquidity reserve for the Company.

Structure of financial investments as of 31.12.2009



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 453 thousand kroons (2008: 461 thousand kroons).

The Company's management board has five members, with the remuneration amounting to 5.8 million kroons (2008: 6.7 million kroons).

As of the end of 2009, the Group had 140 employees, including 74 sales employees. The full-time staff of Salva Kindlustuse AS is young and well-educated, with an average age of 39. Of the staff, 35% have acquired higher education and 39% secondary special education.

The Group's employee retention is very stable. This is supported by a competitive background system, a modern working environment and a strong organizational 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 47.1 million kroons in 2009. Payroll expenses have decreased by 4% from last year (2008: 49.3 million kroons).

The Group's development in the financial year and goals for 2010

Salva Kindlustuse AS, one of the oldest insurance undertakings operating non-stop on the Estonian non-life insurance market, has seen ups and downs ever since its establishment in 1993. The insurance market was not left untouched by the cooling of the economy in the last two years. Salva Kindlustuse AS is thus faced with a major challenge of drawing conclusions from past experience, adapting to the new climate, and passing the right decisions regarding future periods.

The decrease in the volume of the non-life insurance market in the financial year met the expectations formulated based on the results for 2008 and the reversal of the economic growth. The plans for 2009 were made with appreciation towards market decline, as an aspect that cannot be neglected.

The stable growth of previous periods, which decelerated with each month of 2008, dropping to only a few per cent by the end of the year, was to be replaced with a standstill or decline, depending on the insurance category. The competition has significantly tightened, compared to the good years. Several new insurance undertakings and branches have entered the Estonian non-life insurance market, pursuing a greater market share.

The overall decline of the non-life insurance market and the ever-tightening competition made the year 2009 one of the toughest years in the company's history. Despite the difficulties, Salva Kindlustuse AS showed good results, relying on the know-how and experience of the company's staff, as well as our loyal customer base and business partners.

Salva Kindlustus continued the implementation of its sales and development strategies, with sights on longer-term projects, not maintaining the annual market share at all cost. Rather than pursuing an aggressive price policy, Salva invested in the enhancement of corporate efficiency and product development as well as the quality of the claims handling process in order to remain competitive.

In addition to the maintaining of the pan-Estonian sales network, the company continued developing its electronic channels. In addition to travel insurance, customers can purchase motor TPL insurance via the web-based module from the second half of 2009. The new Salva Kindlustuse AS data and sales system took a leap forward, and when it is fully implemented, it will allow management of both in-house and out-of-house sales processes to be enhanced.

Salva Kindlustuse AS has continued giving back to society, sponsoring sports and culture. The company is continuing its partnership with the volleyball team Tartu Pere Leib, and the junior basketball team Salva Tartu. We also support regional events and continue raising funds for young musicians via the Salva Kindlustuse AS sub-fund held by the Estonian National Culture Foundation.

Salva Kindlustuse AS's main objective for 2010 is similar to the company's objective for the previous period: to maintain its market position despite the insurance market decline and ever-tightening competition, pursuing the established sales and development strategy.

The main pursuits of Salva include improvement of the sales process in order to make it more convenient for both customers and sellers, implementing the next-generation data and sales system; boosting the share of web-based sales by developing the existing (travel insurance, motor TPL insurance) and upcoming (home insurance, kasko insurance) sales modules and developing the customer feedback system and satisfaction surveys.

Salva still aims to be the best insurance partner for both existing and new customers, following the corporate vision – to be the epitome of a reliable insurance company for the customer.

Tiit Pahapill
Chairman of the Management Board

Main financial indicators

Group	2009	2008	2007
in thousands of kroons			
For the reporting period			
Gross premiums	274 008	346 990	361 842
Premiums earned, net of reinsurance	148 090	160 315	133 055
Gross claims incurred	139 236	187 283	206 415
Claims incurred, net of reinsurance	69 023	72 810	59 869
Total operating expenses	87 427	96 647	92 141
Net operating expenses	43 582	46 895	61 313
Net loss ratio	47%	45%	45%
Net expenses ratio	29%	29%	46%
Net combined ratio	76%	75%	91%
As of the end of the reporting period			
Total assets	423 827	439 961	450 398
Financial investments	242 470	222 534	206 966
Investment property	0	0	12 500
Efficiency indicators			
Technical result	40 880	46 334	16 369
Investment result	19 952	1 171	6 329
Profit for the period	56 716	43 022	20 231
Return on equity	32%	30%	17%
Annual return on investments	8,6%	0,5%	3,1%
Per share			
Earnings per share (in kroons)	56,72	43,02	20,23

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 investments (ROI)	investment result / average investments for the period

Management representation and signatures to the Annual Report 2009

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 (16 March 2010) 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.

Tiit Pahapill, chairman of the Management Board		19.03.2010
Irja Elias, member of the Management Board		19.03.2010
Urmas Kivirüüt, member of the Management Board		19.03.2010
Andres Lõhmus, member of the Management Board		19.03.2010
Algor Orav, member of the Management Board		19.03.2010

Consolidated statement of comprehensive income

in thousands of kroons	Note	2 009	2 008
REVENUE			
Gross premiums	5	274 008	346 990
Reinsurance premiums	13	-130 803	-185 099
Changes in the provision for unearned premiums	5	23 911	15 654
Reinsurer's share of the change in provision for unearned premiums	13	-19 026	-17 229
Premiums earned, net of reinsurance	5	148 090	160 316
Service and commission fee revenue	7	43 845	49 752
Net investment revenue	8	21 932	2 701
Other income	9	3 266	1 837
Total revenue		217 133	214 606
EXPENSES			
Claims incurred	10	-139 236	-187 283
Reinsurer's share in claims incurred	10	70 213	114 473
Claims incurred, net of reinsurance	10	-69 023	-72810
Acquisition costs	11	-62 826	-72 315
Administrative expenses	11	-22 621	-22 801
Financial expenses	11	-1 980	-1 531
Total operating expenses		-87 427	-96 647
Income tax	12	3 987	2 127
Profit for the financial year		56 696	43 022
Comprehensive income for the financial year		56 696	43 022
Incl. profit attributable to owners of the parent company		56 716	43 022
Incl. profit attributable to minority shareholders		-20	0

Consolidated statement of financial position

in thousands of kroons	Note	31.12.2009	31.12.2008
ASSETS			
Property, plant and equipment	14	23 202	23 530
Intangible assets	15	9 303	9 365
Financial investments	16	242 470	222 534
Receivables under reinsurance contracts	17	122 169	147 223
Receivables from insurance activities and other receivables	18	19 586	24 303
Cash and cash equivalents	19	7 097	13 006
TOTAL ASSETS		423 827	439 961

LIABILITIES AND OWNER'S EQUITY			
Share capital		50 000	50 000
Reserve capital		5 020	4 996
Other reserves		1 008	1 008
Retained earnings		87 712	59 714
Profit for the financial year		56 716	43 022
Total equity attributable to owners of the parent company		200 456	158 740
Total owner's equity	20	200 456	158 740
Liabilities under insurance contracts	21	191 270	230 227
Liabilities from reinsurance	22	18 380	34 260
Liabilities from direct insurance activities	23	4 260	6 446
Accrued expenses and prepaid revenue	24	9 461	10 288
Total liabilities		223 371	281 221
TOTAL LIABILITIES AND OWNER'S EQUITY		423 827	439 961

Consolidated statement of changes in equity

in thousands of kroons	Share capital	Reserve capital	Other reserves	Retained earnings	Total	Minority interest	Total
As of 31.12.2007	50 000	5 000	1 008	67 738	123 746	0	123746
Change in reserve capital	0	-4	0	4	0	0	00
Retained earnings	0	0	0	-28	-28	0	-28
Profit for the financial period	0	0	0	43 022	43 022	0	43 022
Dividends paid	0	0	0	-8 000	-8 000	0	-8 000
Total recognised income and expense for the year	0	-4	0	34 998	34 994	0	34 994
As of 31.12.2008	50 000	4 996	1 008	102 736	158 740	0	158 740
Change in reserve capital	0	24	0	-24	0	0	0
Profit for the financial period	0	0	0	56 716	56 716	-20	56 696
Dividends paid	0	0	0	-15 000	-15 000	0	-15 000
Minority interest	0	0	0	0	0	20	20
Total recognised income and expense for the year	0	24	0	41 692	41 716	0	41 716
As of 31.12.2009	50 000	5 020	1 008	144 428	200 456	0	200 456

See Note 20 for additional information.

Consolidated cash flow statement

in thousands of kroons		2009	2008
Cash flow from operating activities	**Note**	**14 038**	**18 204**
Insurance premiums received		277 596	350 498
Claims paid and claims handling expenses		-136 794	-178 598
Paid to reinsurers		-26 867	-39 529
Paid as operating expenses		-91 804	-102 998
Other revenue and expense		-1 240	6 337
Income tax paid		-3 987	-2 127
Acquisition of shares and other securities		-5 535	-15 903
Disposal of shares and other securities		9 072	19 239
Acquired fixed rate securities		-44 993	-161 784
Proceeds from disposals of fixed rate securities		105 590	174 237
Loans granted		-1 605	-2 041
Repayments of loans granted		343	2 693
Investments in term deposits		-184 610	-161 943
Return on term deposits		110 328	121 678
Interest received		9 738	10 124
Dividends received		512	545
Investment expenses paid		-1 707	-2 225
Cash flow from investing activities		**-4 946**	**-2 512**
Acquisition of property, plant and equipment, and intangible assets	14,15	-5 566	-2 522
Disposals of property, plant and equipment, and intangible assets	14,15	600	10
Acquisition of subsidiaries		20	0
Cash flow from financing activities		**-15 000**	**-8 000**
Dividends paid	20	-15 000	-8 000
Total cash flow		**-5 909**	**7 692**
Cash and cash equivalents at the beginning of the period	19	**13 006**	**5 314**
Cash and cash equivalents at the end of the period	19	**7 097**	**13 006**

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 2009, include the data on Salva Kindlustuse AS, its 100% subsidiary Salva Kahjukäsitluse OÜ and 49% subsidiary Business Information Systems OÜ (jointly referred to as the Group).

The management board approved the disclosure of the financial statements with its resolution of 19 March 2010. 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 method, 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 2009.

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 2008. 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: 15% 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.

Expected 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	131 165	40 412	7 195	12 498	191 270

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 2009, the technical provision amounted to 191 270 thousand kroons (2008: 230.227 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 25% of the total receivables are estimated to be collected in the next seven years. As of the end of 2009, receivables amounted to 34.808 thousand kroons. The management has estimated that 8.778 thousand kroons of these receivables are recoverable (2008: 8.737 thousand kroons).

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

in thousands of kroons	up to 1	1-5	5-10	Total
Salvages and recoveries	3 842	4 571	365	8 778

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 reinsurance.

(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 2009, the value of financial assets measured at fair value amounted to 94.684 thousand kroons (2008: 207.276 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 -5% in the first year and an average of 2,5% 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.

Business Information Systems OÜ, established in March 2009, is recorded in consolidated financial statements as subsidiary as the parent company (Salva Kindlustuse AS) has the control over the operating and financial policies 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 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 2009 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

Investment revenues include revenues earned from financial investments.

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.

Revenue from dividends is recognised when the Group's right to receive the payment is established.

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 26.

(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) 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.

(n) Grants

Grants related to operating expenses

Grants received to cover operating expenses are recognised in proportion with the related operating expenses. The gross method is applied for recording income, i.e. the grant received and the expenses to be covered are recorded in different captions of the income statement. Income related to grants is recorded under "Other operating income" in the income statement.

(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. 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.

IFRS 7, Financial instruments-Disclosures`(amendment), requires enhanced disclosures about fair value measurement and liquidity risk. The Group adopted the amendment to IFRS 7 with effect from 1 January 2009. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:
- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs) (see Note 16.5).

"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 term deposits. 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.

(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 (31.12.2009) 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 2009.

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

IFRS 8 Operating Segments;

Amendment to IAS 1 Presentation of Financial Statements;

Amendment to IAS 23 Borrowing Costs;

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements

Amendment to IFRS 2 Share-based Payment;

Amendments to IFRS 7 Financial Instruments: Disclosures;

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation;

Amendments to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement – Embedded derivatives;

IFRIC 13 Customer Loyalty Programmes;

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction;

IFRIC 15 Agreement for the Construction of Real Estate;

IFRIC 16 Hedges of a Net Investment in a Foreign Operation;

Improvements to IFRS (issued in 2008 and effective on 1 January 2009).
The standards and interpretations and their amendments adopted in 2009 did not impact the financial statements of the Group, because the Group did not have the respective financial statement items and transactions addressed by these changes.

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

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

Amendment to IFRS 2 Share-based Payment (effective for financial years beginning on or after 1 January 2010, once adopted by the EU).

The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have share-based payments.

Amendments to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 July 2009).

Revised IFRS 3 (IFRS 3R) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. In accordance with the transitional requirements of these amendments, the Group will adopt them as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standards will not be restated.

IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2013, once adopted by the EU).

IFRS 9 will eventually replace IAS 39. The IASB has issued the first part of the standard, establishing a new classification and measurement framework for financial assets. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 24 Related Party Disclosures (effective for financial years beginning on or after 1 January 2011, once adopted by the EU).

The amendments simplify the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. They also provide a partial exemption from the disclosure requirements for government-related entities. The implementation of these amendments will have no impact on the financial position or performance of the Group, however it may impact the related parties disclosures.

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for financial years beginning on or after 1 February 2010).

The amendment changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have such instruments.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for financial years beginning on or after 1 July 2009).

The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

Improvements to IFRSs
In May 2008 and April 2009 IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The second omnibus, issued in April 2009, is still to be adopted by the EU. The adoption of the following amendments (all not adopted by the EU yet) may result in changes to accounting policies but will not have any impact on the financial position or performance of the Group:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.

IFRS 8 Operating Segments. Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

IAS 7 Statement of Cash Flows. Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.

IAS 36 Impairment of Assets. The amendment clarified that the largest cash generating unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8.

Other amendments resulting from Improvements to IFRSs to the following standards will not have any impact on the accounting policies, financial position or performance of the Group:

IFRS 2 Share-based Payment;

IAS 1 Presentation of Financial Statements;

IAS 17 Leases;

IAS 38 Intangible Assets;

IAS 39 Financial Instruments: Recognition and Measurement;

IFRIC 9 Reassessment of Embedded Derivatives;

IFRIC 16 Hedge of a Net Investment in a Foreign Operation.

IFRIC 12 Service Concession Arrangements (effective for financial years beginning on or after 29 March 2009).

This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has no impact on the Group.

Amendment to IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for financial years beginning on or after 1 January 2011, once adopted by the EU).

The amendment modifies the accounting for prepayments of future contributions when there is a minimum funding requirement. This amendment will not have any impact on the consolidated financial statements because the Group does not have defined benefit assets.

IFRIC 17 Distributions of Non-cash Assets to Owners (effective for financial years beginning on or after 31 October 2009).

The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. IFRIC 17 will not have an impact on the consolidated financial statements because the Group does not distribute non-cash assets to owners.

IFRIC 18 Transfers of Assets from Customers (effective for financial years beginning on or after 31 October 2009).

The Interpretation provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). IFRIC 18 will not have an impact on the consolidated financial statements because the Group does not have such agreements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for financial years beginning on or after 1 April 2010, once adopted by the EU).

The interpretation provides guidance on accounting for extinguishing financial liabilities with equity instruments. Since the Group does not have such transactions, IFRIC 19 will not have any impact on its consolidated financial statements.

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, participating in the work of various levels if required and reporting to the supervisory board and management board. 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 risks 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 than 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 balanced 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 for 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).

31.12.2009

Type of insurance	Gross liabilities related to insurance contracts	Reinsurer's share of liabilities	Net liabilities
Motor third party liability insurance	117 730	76 597	41 133
Motor vehicle insurance	30 473	15 963	14 510
Short-term health insurance	7 085	1 224	5 861
Household property insurance	11 679	6 566	5 113
Corporate property insurance	15 456	9 557	5 899
Railway transport insurance	4 470	4 017	453
Liability insurance	791	633	158
Other	3 586	1 544	2 042
Total	**191 270**	**116 101**	**75 169**

31.12.2008

Type of insurance	Gross liabilities related to insurance contracts	Reinsurer's 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**

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.

31.12.2009

Factors	Value	Potential change	Effect on equity, thousands of kroons	Effect on equity, %
Net claims incurred	69 023	+5%	-3 451	-1,7
High net loss of motor third party liability insurance			-1170	-0,6%
High net loss of property insurance			-500	-0,2%
Operating expenses	87 427	+5%	-4 371	-2,2%

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%

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. Bonds and bank deposits are the most popular among such instruments.

We use asset-liability matching tests (Lar-M-tests), stress tests and other tests in order to determine the extreme risks and prepare the most suitable strategic distribution of assets. 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 actively manages the portfolio, and continually 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. 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		31.12.2009	31.12.2008
Financial assets measured at fair value through profit and loss			
Shares, equity funds and bond funds	16.1	7 530	9 606
Bonds and other fixed income securities	16.2	84 362	132 487
Derivative instruments		2 792	0
Financial assets held to maturity			
Bonds	16.2	0	7 772
Loans and term deposits	16.3,16.4	147 786	72 669
Receivables under reinsurance contracts	17	87 434	93 462
Receivables from insurance activities and other receivables	18	19 586	24 303
Cash and cash equivalents	19	7 097	13 006
Total exposure to financial risk		**356 587**	**353 305**

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. If there is a significant risk between the Estonian kroon and the euro on the money and capital market, we are willing to bear such risk on a short-term basis, provided that the risk will be rewarded. This applies, for instance, to short-term future transactions, establishing a different exchange rate for future transactions.

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 for 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 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 inadequate data system or internal controls 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 of 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 the following goals, strategies and processes in order to manage risks which affect the Company's capital position.

The purpose of capital management is to manage capital in such a way as to guarantee the Company's sustainability and stability by simultaneously ensuring protection of the interests of policyholders, creditors and shareholders. Capital management within the Group involves the simultaneous management of assets, liabilities and risks, and regular monitoring of the adherence to capital requirements in order to be financially strong and ensure sufficient liquidity.

Further to the area of activity, the Group's operations are subject to supervision. Insurance supervision mainly serves the purpose of protecting the rights of policyholders, and ensuring that the Group is managed in view of the interests of policyholders. At the same time, insurance supervision makes sure that the Group maintains sufficient solvency in order to serve unforeseen liabilities arising from financial shocks or natural disasters.

The requirements for the insurance undertaking's solvency margin are stipulated in the Insurance Activities Act. Pursuant to subsection 56 (1) of the Insurance Activities Act, the solvency margin minimum shall be 3.2 million euros or 50 million kroons. The Group's solvency margin was 176.43 million kroons at the end of 2009, in line with the rules for accounting for the solvency margin, stipulated in the Insurance Activities Act. The minimum consolidated solvency margin is 27.06 million kroons.

Note 5. Premiums earned, net of reinsurance

2009

in thousands of kroons	Gross premiums	Change in the provision for unearned premiums	Reinsurance premiums	Reinsurance share in the change in the provision for unearned premiums	Premiums earned, net of reinsurance
Motor third party liability insurance	96 485	7 230	-50 176	-7 220	46 319
Short -term health insurance	38 283	1 145	-3 646	-268	35 514
Motor vehicle insurance	71 172	10 319	-37 238	-8 041	36 212
Railway rolling stoc k and small craft	398	147	-353	-144	48
Insurance of goods in transit	492	112	-358	-93	153
Property insurance	60 732	4 875	-35 530	-3 237	26 841
Motor vehicle owner's liability	2 074	-91	-1 452	64	595
Liability insurance	2 128	42	-1 702	-34	434
Monetar y damage	2 245	133	-348	-55	1 975
Total	**274 008**	**23 911**	**-130 803**	**-19 026**	**148 090**

2008

in thousands of kroons	Gross premiums	Change in the provision for unearned premiums	Reinsurance premiums	Reinsurance share in the change in the provision for 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
Insurance of goods in transit	1 112	26	-890	-21	228
Property insurance	72 338	233	-43 125	139	29 585
Motor vehicle owner's liability	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**

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									
Cumulative estimate of losses	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
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	184 035	
2 years...	50 461	85 628	131 306	137 051	154 026	215 219	255 954	219 280		
3 years...	51 553	83 723	136 378	132 938	150 064	210 380	253 862			
4 years...	51 883	82 642	135 624	129 363	150 380	209 652				
5 years...	51 736	81 995	128 171	128 543	149 191					
6 years...	51 338	78 122	127 404	127 232						
7 years...	50 220	77 773	127 761							
8 years...	50 190	78 802								
9 years...	50 190									
Cumulative estimate of claims	50 190	78 446	127 396	126 812	148 740	208 745	242 584	215 205	182 059	94 365
Total disbursements as of 31.12.2009	50 190	77 311	119 821	125 954	146 038	201 791	225 342	199 460	162 772	68 678
Provision for outstanding claims as of 31.12.2009		1 135	7 575	858	2 702	6 954	17 242	15 745	19 287	25 687

In the management's opinion, the amounts of technical reserves reported in the financial statements prepared as of the end of 2009 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	2009	2008
Reinsurer commission revenue	39 652	50 307
Reinsurer's profit sharing	102	80
Reinsurance share of changes in acquisition costs	4 091	-635
Total	**43 845**	**49 752**

Note 8. Net investment revenue

in thousands of kroons	Note	2009	2008
Revenue/expenses from investment property	15	0	300
Dividend revenue		512	545
Interest income from deposits		6 109	4 457
Other financial revenue, incl. interest revenue from loans granted		611	517
Trade portfolio revenue		11 017	-3 859
Revenue from bonds held to maturity		645	604
Net revenue from liquidation of subsidiaries		0	137
Revenue from derivative instruments		3 038	0
Total		21 932	2 701

Note 9. Other income

in thousands of kroons	2009	2008
Foreign exchange gains	1 296	982
Government grants	277	0
Other technical income, net of reinsurance	369	595
Other income	1 324	260
Total	3 266	1 837

Note 10. Claims incurred

in thousands of kroons	Note	2009	2008
Claims paid, gross		-143 734	-183 339
Claims handling expenses	11	-18 023	-19 617
Amounts received from recoveries and salvage		7 434	14 575
Estimated amounts receivable for recoveries and salvage		41	-3 137
Total claims, gross		-154 282	-191 518
Change in the provision for claims outstanding		15 046	4 235
Claims incurred, gross		-139 236	-187 283
Reinsurer's share in claims	13	78 758	123 497
Reinsurer's share in the change of provision for claims outstanding	13	-8 545	-9 024
Reinsurer's share in claims incurred	13	70 213	114 473
Total		-69 023	-72 810

Note 11. Operating expenses

in thousands of kroons	Note	2009	2008
Claims handling expenses	10	**-18 023**	**-19 617**
Insurance contract acquisition expenses		-62 826	-72 315
Administrative expenses		-22 621	-22 801
Financial expenses		-1 980	-1 531
Total operating expenses		**-87 427**	**-96 647**
Total expenses		**-105 450**	**-116 264**

in thousands of kroons	2009	2008
Payroll expenses	-47 176	-49 299
Brokers' commission fees	-20 679	-28 621
Outsourced services	-5 848	-6 411
Depreciation and impairment of PPE and intangible assets	-3 159	-2 944
Other operating expenses	-26 382	-26 944
Change in deferred acquisition costs	-2 206	-2 045
Total	**-105 450**	**-116 264**

Note 12. Income tax

in thousands of kroons	2009	2008
Profit before taxes	60 703	45 149
Income tax on dividends	-3 987	-2 127
Net profit for the financial period	**56 716**	**43 022**

Note 13. Reinsurance result

in thousands of kroons	Note	2009	2008
Reinsurance premiums		-130 803	-185 099
Reinsurer's share of the change in the provision for unearned premiums		-19 026	-17 229
Reinsurer's share in claims paid		78 758	123 497
Reinsurer's share of the change in the provision for claims outstanding		-8 545	-9 024
Reinsurance commission fees and profit sharing	7	43 845	49 752
Total		**-35 771**	**-38 103**

Note 14. Property, plant and equipment

in thousands of kroons	Land and buildings	Other PPE	Total
Acquisition cost			
31.12.2007	11 102	9 175	20 277
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
Acquisition	0	3 303	3 303
Disposal	0	-3 170	-3 170
Write-off	0	-128	-128
31.12.2009	23 602	10 105	33 707
Accumulated depreciation			
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
Depreciation charge for the year	-876	-1 524	-2 400
Depreciation charge of disposals	0	1 939	1 939
Depreciation charge of write-offs	0	128	128
31.12.2009	-5 510	- 4 995	-10 505
Net book value			
31.12.2008	18 967	4 563	23 530
31.12.2009	18 092	5 110	23 202

Note 15. Intangible assets

in thousands of kroons

	Other intangible assets	Prepayments for intangible assets	Total intangible assets
Acquisition cost			
31.12.2007	4 238	0	4 238
Acquisition	372	485	857
31.12.2008	4 610	485	5 095
Acquisition	0	2 903	2 903
31.12.2009	4 610	3 388	7 998
Accumulated amortisation			
31.12.2007	- 2 305	0	- 2 305
Amortisation charge for the year	-910	0	-910
31.12.2008	-3 215	0	-3 215
Amortisation charge for the year	-759	0	-759
31.12.2009	-3 974	0	-3 974
Net book value			
31.12.2008	1 395	485	1 880
31.12.2009	636	3 388	4 024

Expenses on software acquisition are reported under intangible assets. Prepayments for intangible assets include expenses on the insurance sales program.

Deferred acquisition costs

in thousands of kroons

31.12.2007	9 529
Deferred	35 216
Amortised	-37 260
31.12.2008	7 485
Deferred	25 864
Amortised	-28 070
31.12.2009	5 279
Net book value	
31.12.2008	7 485
31.12.2009	5 279

Note 16. Financial assets

in thousands of kroons	Note	31.12.2009	31.12.2008
Shares, equity funds and bond funds	16.1	7 530	9 606
Bonds and other fixed income securities	16.2	84 362	140 259
Loans	16.3	8 458	7 486
Term deposits	16.4	139 328	65 183
Derivative instruments		2 792	0
Total		242 470	222 534

in thousands of kroons	31.12.2009	31.12.2008
Financial assets measured at fair value through profit and loss		
Classified as held for trading		
Shares, equity funds and bond funds	7 530	9 606
Bonds and other fixed income securities	84 362	132 487
Derivative instruments	2 792	0
Financial assets measured at amortised cost		
Loans and term deposits	147 786	72 669
Classified as held to maturity		
Bonds and other fixed income securities	0	7 772
Total	242 470	222 534

in thousands of kroons	31.12.2009		31.12.2008	
	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	7 530	11 071	9 606	18 315
Bonds and other fixed income securities	84 362	79 472	132 487	132 323
Derivative instruments	2 792	0	0	0
Financial assets measured at amortised cost				
Term deposits	139 328	134 874	65 183	63 265
Loans granted to related parties	6 008	5 600	5 944	6 100
Other loans	3 061	3 244	2 064	2 384
Total	243 081	234 261	215 284	222 387

The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. The value of using above-mentioned method is not significant comparing to the value which is measured at amortised cost on the basis of the effective interest rate method.

Note 16.1. Shares and participations

in thousands of kroons	31.12.2009	31.12.2008
Listed shares	6 272	5 190
Bond and equity funds	0	4 265
Liquidity funds	1 258	151
Total	**7 530**	**9 606**

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	31.12.2009	31.12.2008
EEK	3 407	1 233
USD	2 243	748
SEK	108	63
EUR	43	6 547
LTL	1 692	977
LVL	37	38
Total	7 530	9 606

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

Change in share prices	Change in the fair value of the portfolio
Share prices +10%	627
Share prices +20%	1 254
Share prices - 10%	-627
Share prices - 20%	-1 254
Fair value 31.12.2009	6 272

Note 16.2. Bonds

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

	31.12.2009			31.12.2008		
in thousands of kroons	At fair value	At amortised cost	Total	At fair value	At amortised cost	Total
Bonds with a fixed interest rate						
Government bonds	52 790	0	52 790	56 094	0	56 094
Bonds of financial institutions	8 324	0	8 324	52 262	0	52 262
Other bonds	22 704	0	22 704	23 312	7 772	31 084
Total	**83 818**	**0**	**83 818**	**131 668**	**7 772**	**139 440**
Bonds with a floating interest rate						
Other bonds	544	0	544	819	0	819
Total	**544**	**0**	**544**	**819**	**0**	**819**
Total bonds	**84 362**	**0**	**84 362**	**132 487**	**7 772**	**140 259**

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

Standard & Poor's	Moody's	31.12.2009	31.12.2008
Classified as held to maturity			
N/A	N/A	0	7 772
Classified as held for trading			
AAA	Aaa	50 288	71 665
AA	Aa	1 609	32 809
A	A	23 188	15 167
Below A	Below A	9 277	12 846
Total		**84 362**	**140 259**

By individual currencies, bonds are divided as follows:

in thousands of kroons	31.12.2009	31.12.2008
Classified as held to maturity		
EEK	0	7 772
Classified as held for trading		
EEK	9 277	6 005
EUR	74 600	126 025
LVL	485	457
Total	**84 362**	**140 259**

The bond portfolio is divided by maturity terms as follows:

in thousands of kroons	31.12.2009	31.12.2008
Classified as held to maturity		
6-12 months	0	7 772
Classified as held for trading		
Up to 6 months	9 664	6 384
6-12 months	8 732	55 127
1-3 years	34 452	38 277
Over 3 years	31 514	32 699
Total	84 362	140 259

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

in thousands of kroons	31.12.2009	31.12.2008
Classified as held to maturity		
Interest rate: 7.0-7.9%	0	7 772
Classified as held for trading		
Interest rate: 2.0-2.9%	9 276	7 886
Interest rate: 3.0-3.9%	17 931	38 593
Interest rate: 4.0-4.9%	31 028	40 016
Interest rate: 5.0-5.9%	26 127	45 898
Interest rate: 6.0-6.9%	0	94
Total	84 362	140 259

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 +50 base points	-1576
Change in yield curve -50 base points	+1 614
Change in yield curve +100 base points	-3 115
Change in yield curve -100 base points	+3 268
Change in yield curve +200 base points	-6 085
Change in yield curve -200 base points	+6 698
Fair value 31.12.2009	84 362

Note 16.3. Loans

in thousands of kroons	31.12.2009	31.12.2008
Mortgage loans		
Loans to related parties with a term of up to 3 months	5 100	5 100
Loans to related parties with a term 3-12 months	500	500
Other mortgage loans with a term of up to 3 months	1 750	800
Total	7 350	6 400
Other loans		
Loans with a term of up to 3 months	200	14
Loans with a term of 3-12 months	544	586
Loans with a term of 1-3 years	238	391
Loans with a term of 3-5 years	126	95
Total	1 108	1 086
Total loans	8 458	7 486

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

Note 16.4. Term deposits

Term deposits with credit institutions, by terms:

in thousands of kroons	31.12.2009	31.12.2008
Up to 3 months	7 919	0
Term of 3-12 months	98 894	31 537
Term of 1-2 years	32 515	10 396
Term of 2-3 years	0	23 250
Total	139 328	65 183

The annual interest rates for term deposits fall between 4.4% and 7.25%.

By individual currencies, deposits are divided as follows:

in thousands of kroons	31.12.2009	31.12.2008
EEK	134 065	65 183
EUR	5 263	0
Total	139 328	65 183

Note 16.5. Evaluation of financial instruments under IFRS 7 levels

in thousands of kroons	Level 1		Level 2		Level 3		Total	
	31.12.09	31.12.08	31.12.09	31.12.08	31.12.09	31.12.08	31.12.09	31.12.08
Classified as held for trading								
Shares, equity funds and bond funds	6 272	6 123	1 258	3 483	0	0	7 530	9 606
Bonds and other fixed income securities	51 898		31 920	131 668	544	819	84 362	132 487
Derivative instruments	0	0	2 792	0	0	0	2 792	0
Designated at fair value through profit and loss at inceptions								
Term deposits	0	0	0	0	0	65 183	0	65 183
Total	58 170	6 123	35 970	135 151	544	66 002	94 684	207 276

In 2009 term deposits were reclassified to the group of Loans and receivables as the Group has the intention to hold the financial assets until maturity.

Note 17. Receivables under reinsurance contracts

in thousands of kroons	Note	31.12.2009	31.12.2008
Receivables from reinsurance		6 069	3 552
Reinsurers share in provision for unearned premium	22	34 735	53 761
Reinsurers share in provision for claims outstanding	22	81 365	89 910
Total		122 169	147 223

All receivables from reinsurance are paid within 12 months.

Note 18. Receivables from insurance activities and other receivables

in thousands of kroons	31.12.2009	31.12.2008
Policyholders	3 924	8 038
Insurance brokers	4 438	5 804
Recoveries and salvages	8 778	8 737
Interest receivable	1	0
Prepaid taxes	168	0
Other accrued income	116	103
Other prepaid expenses	2 161	1 621
incl. Financial Supervision Authority's operation and maintenance costs	778	*792*
Total	19 586	24 303

Term of the receivables:

in thousands of kroons	31.12.2009	31.12.2008
- not due yet	15 615	20 003
- due for up to 3 months	2 642	2 943
- due for 3-6 months	194	486
- due for 6-12 months	388	435
- due for over 1 year	747	436
Total	19 586	24 303

Impairment of receivables:

in thousands of kroons	31.12.2009	31.12.2008
Allowance for doubtful receivables at the beginning of the period	-138	-270
Collection of receivables recognised as doubtful in the reporting period	6	26
Receivables recognised as doubtful in the reporting period	-226	-138
Receivables recognised as irrecoverable in the reporting period	272	244
Allowance for doubtful receivables at the end of the period	-86	-138

Note 19. Cash and cash equivalents

in thousands of kroons	31.12.2009	31.12.2008
Cash in hand	1 487	3 103
Cash at bank	5 610	9 903
Total	7 097	13 006

Cash and cash equivalents by individual currencies:

in thousands of kroons	31.12.2009	31.12.2008
EEK	6 212	11 188
EUR	563	638
USD	46	257
PLN	43	149
LVL	98	376
LTL	134	310
NOK, RUB, SEK, GBP	1	88
Total	**7 097**	**13 006**

Note 20. 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 insurance undertaking follows the capital management principle according to which 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.

in thousands of kroons	31.12.2009	31.12.2008
Owner's equity	200 456	158 740
Solvency margin	176 432	141 860
Required minimum solvency margin	27 060	31 438
Surplus	149 372	110 422

The minimum solvency margin of 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 capital management principles are described in Note 4.

Share capital

As of 31.12.2009, the registered share capital of the Group amounted to 50 million kroons (2008: 50 million kroons), divided into 1,000,000 shares with a nominal value of 50 kroons (as of 31.12.2008, 1,000,000 shares had been issued). 55% of the Group's shares are held by Estonian private persons. 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.

Dividends

In 2009, a total of 15 million kroons was paid in dividends, i.e. 15 kroons per share.
The management board has proposed to the general meeting of the shareholders to pay 20 million kroons in dividends, i.e. 20 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 minimum 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 5 million kroons, and the mandatory reserve of Salva Kahju-käsitluse OÜ (pursuant to subsection 160 (2) of the Commercial Code) in the amount of 20 thousand kroons.

Other reserves

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

Note 21. Liabilities related to insurance contracts and reinsurance share

in thousands of kroons	31.12.2009	31.12.2008
Gross		
Provision for losses incurred in the previous periods	55 668	51 593
Provision for losses incurred in the reporting period	32 948	53 853
Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR)	433	245
Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR)	5 285	10 043
Provision for pension under motor third party liability insurance incurred in the previous periods	27 207	18 347
Provision for pension under motor third party liability insurance incurred in the reporting period	0	2 506
Provision for unearned premiums	69 729	93 640
Total	191 270	230 227
Reinsurer's share		
Provision for losses incurred in the previous periods	41 443	39 151
Provision for losses incurred in the reporting period	17 531	29 943
Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR)	290	124
Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR)	2 253	5 043
Provision for pension under motor third party liability insurance incurred in the previous periods	19 849	13 895
Provision for pension under motor third party liability insurance incurred in the reporting period	0	1 754
Provision for unearned premiums	34 735	53 761
Total	116 101	143 671
Net		
Provision for losses incurred in the previous periods	14 226	12 442
Provision for losses incurred in the reporting period	15 417	23 910
Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR)	143	121
Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR)	3 032	5 000
Provision for pension under motor third party liability insurance incurred in the previous periods	7 358	4 452
Provision for pension under motor third party liability insurance incurred in the reporting period	0	752
Provision for unearned premiums	34 993	39 879
Total	75 169	86 556

The liabilities from insurance contracts are fulfilled within 12 months, except for the provision for pension under motor third party liability insurance.

Note 21.1. Provision for unearned premiums

	2009		
	Liabilities under insurance contracts	Reinsurer's share	Net
Balance 01.01.2009	93 640	53 761	39 879
Premiums written in the year	274 008	130 803	143 205
Premiums earned during the year	297 919	149 829	148 090
Balance 31.12.2009	**69 729**	**34 735**	**34 994**

	2008		
	Liabilities under insurance contracts	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**

Note 21.2. Provision for losses incurred (including IBNR)

	2009		
	Liabilities under insurance contracts	Reinsurer's share	Net
Balance 01.01.2009	136 588	89 910	46 678
Claims paid	154 283	78 758	75 525
Losses incurred during the year	139 236	70 213	69 023
Balance 31.12.2009	**121 541**	**81 365**	**40 176**

	2008		
	Liabilities under insurance contracts	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 the year	187 283	114 473	72 810
Balance 31.12.2008	**136 588**	**89 910**	**46 678**

Note 22. Liabilities under reinsurance

in thousands of kroons	31.12.2009	31.12.2008
Payables to reinsurers	4 820	16 340
Reinsurers share in recoveries and salvage	5 735	6 004
Reinsurers share of the deferred acquisition costs	7 825	11 916
Total	18 380	34 260

All liabilities under reinsurance are short-term (up to 12 months).

Note 23. Liabilities from direct insurance activities

in thousands of kroons	31.12.2009	31.12.2008
Policyholder prepayments	2803	4 265
Payables to insurance brokers	1279	2 006
Other liabilities	178	175
Total	4 260	6 446

All liabilities from direct insurance are short-term (up to 12 months).

Note 24. Accrued expenses and other prepaid revenue

in thousands of kroons	31.12.2009	31.12.2008
Payables to employees	2 342	2 789
Vacation accrual	2 327	2 566
Value added tax	253	428
Personal income tax	974	1 040
Social tax	1 872	1 988
Unemployment insurance	217	48
Funded pension liability	23	93
Corporate income tax	57	75
Accounts payable	1 383	1 248
Prepaid rent	13	13
Total	9 461	10 288

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

Note 25. 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	2009	2008
Passenger car rental payments	318	366
Office space rental payments	3 400	3 655

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

up to 1 year	1 633
1-5 years	4 201
over 5 year	308

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	2009	2008
Office space rental revenue	966	1 104

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

up to 1 year	979
1-5 years	3 231

Note 26. Provisions and contingent liabilities

Income tax

As of 31.12.2009, the company's retained earnings amounted to 144,428 thousand kroons (last year: 102,736 thousand kroons) and net book value of intangible assets to 9,303 thousand kroons (last year: 9,303 thousand kroons). The maximum possible income tax liability related to the payment of the company's retained earnings as dividends is 28,376 thousand kroons (last year: 19,620 thousand kroons). The company can thus pay a total of 106,747 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 2010 would not exceed the distributable profit as of 31.12.2009.

Other

Claims of action in the amount of 3.5 million kroons have been submitted against Salva Kindlustuse AS in connection with insurance losses. The management board estimates approximately 1.7 million kroons of these claims to be satisfied, with the corresponding amount charged to the outstanding claims reserve.

Note 27. 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 2009, insurance contracts with aggregate premiums of 55.1 thousand kroons were concluded with members of the management board. The wages of the members of the management board amounted to 5.8 million kroons, and the remuneration paid to members of the supervisory board to 453 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	2009	2008
Companies related to a management board member	392	392

As of 31.12.2009, the balance of loans granted to own employees and related parties amounted to 6,508,000 kroons (31.12.2008: 6,674,717 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 28. Subsidiaries

in thousands of kroons	Salva Kahjuk sitluse O	Business Information Systems O
Field of activity	Adjustment of loss events, vehicle leasing and repairs, real estate management	Research and development in the field of other natural and technical sciences
Founded:	September 1997	March 2009
Participation %	100	49
Number of shares	1	1
Share capital, in EEK	40	40
Acquisition cost, in EEK	40	40

Note 29. 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	2 009	2 008
REVENUE		
Gross premiums	274 295	347 249
Reinsurance premiums	-130 803	-185 099
Changes in the provision for unearned premiums	23 911	15 654
Reinsurer's share of the change in the provision for unearned premiums	-19 026	-17 229
Premiums earned, net of reinsurance	148 377	160 575
Service and commission fee revenue	43 845	49 752
Net investment revenue	-2 302	4 963
Other income	408	1 389
Total revenue	190 328	216 679
EXPENSES		
Claims incurred	-141 615	-199 376
Reinsurer's share in claims incurred	70 213	114 473
Claims incurred, net of reinsurance	-71 402	-84 903
Acquisition costs	-63 068	-72 315
Administrative expenses	-19 931	-22 183
Financial expenses	-1 686	-1 531
Total operating expenses	-84 685	-96 029
Income tax	0	0
Profit for the financial year	34 241	35 747

Balance sheet of Salva Kindlustuse AS

in thousands of kroons	31.12.2009	31.12.2008
ASSETS		
Property, plant and equipment	467	519
Intangible assets	7 302	9 365
Subsidiaries	52 401	84 538
Financial investments	209 311	191 443
Receivables under reinsurance contracts	122 169	147 223
Receivables from insurance activities and other receivables	22 152	24 016
Cash and cash equivalents	5 043	8 618
TOTAL ASSETS	418 845	465 722

LIABILITIES AND OWNER'S EQUITY		
Share capital	50 000	50 000
Reserve capital	5 000	4 976
Other reserves	1 008	1 008
Retained earnings	107 665	86 942
Profit for the financial year	34 241	35 747
Total owner's equity	197 914	178 673
Liabilities under insurance contracts	191 270	230 227
Liabilities from reinsurance	18 380	34 261
Liabilities from direct insurance activities	4 260	6 444
Other liabilities	242	8 471
Accrued expenses and prepaid revenue	6 779	7 645
Total liabilities	220 931	287 049
TOTAL LIABILITIES AND OWNER'S EQUITY	418 845	465 722

Cash flow statement of Salva Kindlustuse AS

in thousands of kroons	31.12.2009	31.12.2008
Cash flow from operating activities	12 535	14 616
Insurance premiums received	277 935	350 797
Claims paid and claims handling expenses	-150 456	-200 036
Paid to reinsurers	-26 867	-39 529
Paid as operating expenses	-78 698	-91 079
Other revenue and expense	-1 742	-1 461
Liquidation of subsidiaries	0	677
Acquisition of shares and other interest	-5 535	-15 903
Disposal of shares and other securities	9 072	19 239
Acquired fixed rate securities	-44 993	-161 784
Proceeds from disposals of fixed rate securities	105 590	174 237
Loans granted	-6 605	-2 041
Repayment of loans granted	332	2 667
Investments in term deposits	-173 946	-151 943
Return on term deposits	100 328	121 678
Interest received	9 252	10 083
Dividends received	512	545
Investment expenses paid	-1 645	-1 531
Cash flow from investing activities	-1 110	-1 150
Acquisition of property, plant and equipment, and intangible assets	-1 110	-1 150
Cash flow from financing activities	-15 000	-8 000
Dividends paid	-15 000	-8 000
Total cash flow	-3 575	5 466
Cash and cash equivalents at the beginning of the period	8 618	3 152
Cash and cash equivalents at the end of the period	5 043	8 618

Statement of changes in equity of Salva Kindlustuse AS

in thousands of kroons	Share capital	Reserve capital	Other reserves	Retained earnings	Total
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
As of 31.12.2008	50 000	4 976	1 008	122 689	178 673
Change in reserve capital	0	24	0	-24	0
Profit for the financial period	0	0	0	34 241	34 241
Dividends paid	0	0	0	-15 000	-15 000
Total recognised income and expense for the year	0	24	0	19 217	19 241
As of 31.12.2009	50 000	5 000	1 008	141 906	197 914

See Note 20 for additional information.

Parent company's adjusted unconsolidated equity in accordance with the requirements of the Commercial Code, as of 31 December 2009:

	2009	2008
Parent companys unconsolidated equity	197 914	178 673
Investment in the parent companys balance sheet (-)	-52 401	-84 538
Subsidiary s value under the equity method (+)	54 943	64 605
Total	200 456	158 740

Signatures of the Management Board and the Supervisory Board to the Annual Report 2009

The Management Board of Salva Kindlustuse AS has prepared the management report and financial statements for 2009.

Management Board:

Tiit Pahapill, chairman of the Management Board	....	19.03.2010
Irja Elias, member of the Management Board	....	19.03.2010
Urmas Kivirüüt, member of the Management Board	....	19.03.2010
Algor Orav, member of the Management Board	....	19.03.2010
Andres Lõhmus, member of the Management Board	....	19.03.2010

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	....	26.03.2010
Reigo Kala, member of the Supervisory Board	....	26.03.2010
Peep Kütt, member of the Supervisory Board	....	26.03.2010
Marje Hansar, member of the Supervisory Board	....	26.03.2010
Indrek Kasela, member of the Supervisory Board	....	26.03.2010
Kustaa Äimä, member of the Supervisory Board	....	26.03.2010

Auditor's report

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Code of legal entity 10877299
VAT payer code EE 100770654

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 Kindlustuse AS and its subsidiaries (hereafter "the Group"), which comprise the statement of financial position as of 31 December 2009, the statements of comprehensive 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 2009, 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.

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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 29 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, 22 March 2010

Ivar Kiigemägi
Ernst & Young Baltic AS

Tiina Sõmer
Authorised Auditor

Profit allocation proposal

Retained earnings	87 712 055
Net profit for 2009	56 715 608
Intangible assets at book value	-9 303 021
(Subsection 59 (2) of the Insurance Activities Act)	
Total distributable profit as of 31.12.2009:	135 124 642
The Management Board proposes to allocate the profit as follows:	
To be distributed as dividends:	20 000 000
Balance of distributable profit after profit allocation:	115 124 642

Tiit Pahapill, chairman of the Management Board	....	19.03.2010
Irja Elias, member of the Management Board	....	19.03.2010
Urmas Kivirüüt, member of the Management Board	....	19.03.2010
Algor Orav, member of the Management Board	....	19.03.2010
Andres Lõhmus, member of the Management Board	....	19.03.2010

SALVA
KINDLUSTUS

2010