SALVA KINDLUSTUSE AS ANNUAL REPORT 2010

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ANNUAL REPORT
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General information on Salva Kindlustuse AS

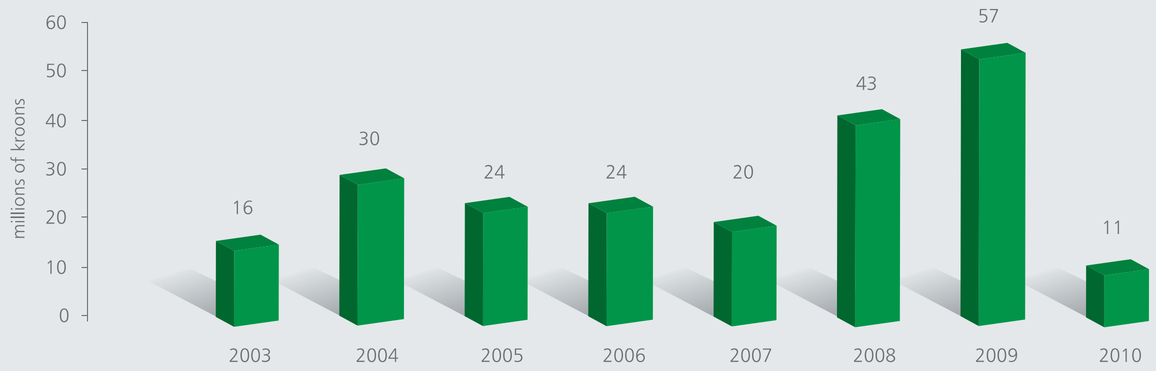
Business name:	Salva Kindlustuse AS
Address:	Pärnu mnt.16, 10141 Tallinn
Registry code:	10284984
Telephone:	6800 500
Fax:	6800 501
E-mail:	salva@salva.ee
Web page:	http://www.salva.ee
Main field of activity:	Non-life insurance
Beginning of financial year:	01.01.2010
End of financial year:	31.12.2010
Managing director:	Tiit Pahapill
Auditor:	Ernst & Young Baltic AS

Management report

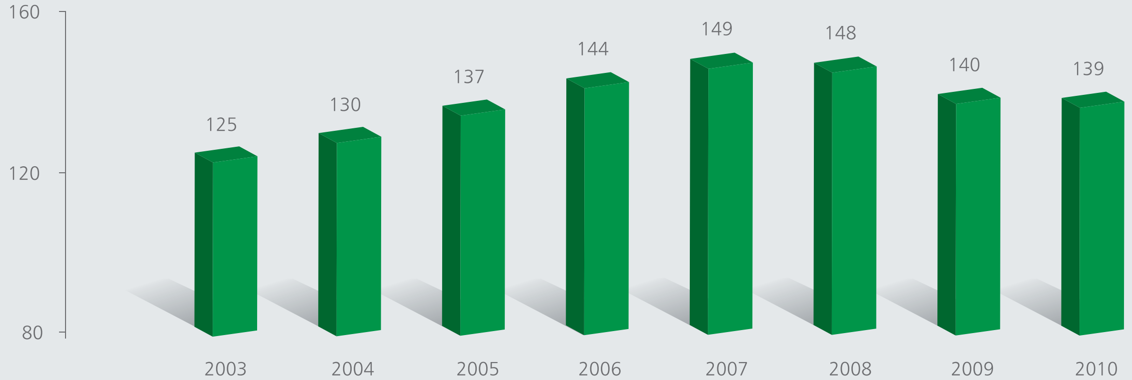
Main financial indicators

Gross premiums and indemnities

Profit



Number of employees



Management report

Vision, mission and strategy

Vision

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

Mission

We are a continuously developing non-life insurance company 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, build on their education and contribute to their 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 eighteen years of business, the Company has become one of the leading non-life insurance companies in Estonia, offering a full range of services. The Company is registered and operates 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 from the public sector.

The Company’s representative offices (8) and sales offices (11) 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	100 %
Salva Kahjukäsitluse OÜ*	10259383	September 1997	Tammsaare tee 118B, Tallinn	claims handling, rent of vehicles, asset management	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 area of activity is non-life insurance.

*Consolidated subsidiaries of Salva Kindlustuse AS.

Economic environment

2010 had a dual personality for Estonia – export-oriented companies are enjoying a downright euphoric economic atmosphere, yet in general the domestic and labour market were still in a slump or are only now showing the first signs of recovery.

Pressure in the form of higher input prices and high unemployment will continue to exert pressure on the internal market. Continued export growth depends primarily on continued economic recovery in Scandinavia. Unfortunately we have to note the existence of certain signs of overheating. The basis for Sweden's relative economic success was the favourable exchange rate of the Swedish krona, but the rate has now risen by about 25 percent and the new environment may not be as favourable.

In general, the European and world economy are in an even better shape than expected as of early 2011 and the signs of slowdown in summer 2010 were successfully overcome thanks to the strong support from the Far East and growing markets.

2011 will pose a challenge for many economies – high commodities prices and the growing budgetary problems of "older" economies will lay prospects for the rise of growing economies that are rich in commodities.

Certainly in the environment of re-emergent nation-states, the European Union will have to make very key efforts in order to carry out the necessary budget and pension reforms in spite of political pressure. Unfortunately it is impossible to carry out these processes in a reasonable, timely manner in the current environment, and the potential wellspring of larger future crises lies precisely in this area.

The increase in commodities prices is undoubtedly a source of concern on both the macroeconomic and microeconomic level – studies have shown that a rise in oil prices to 115-120 USD/barrel could lead to a slowing in economic growth and lower consumer spending. Thus we are awaiting major changes above all in this sector in 2011.

We deem the risk of the Chinese economy overheating to be relatively low or moderate, as timely autocratic measures have proved to be surprisingly effective in these situations. The primary consideration is that the right measures are applied in a timely manner.

The openness of the Estonian economy continues to generate all of these changes for us as well -- in a slightly amplified mode. The three factors with the greatest impact on the Estonian economy in 2011 can be considered to be the sustainability of Scandinavian economic success, the vitality of European reforms and changes in commodities prices.

Non-life insurance market

In 2010, non-life insurance companies and branches on the Estonian insurance market collected a total of 3,400 million kroons in insurance premiums. This constitutes a 9% decrease in premiums from the same period in 2009 (3,745 million kroons in 2009).

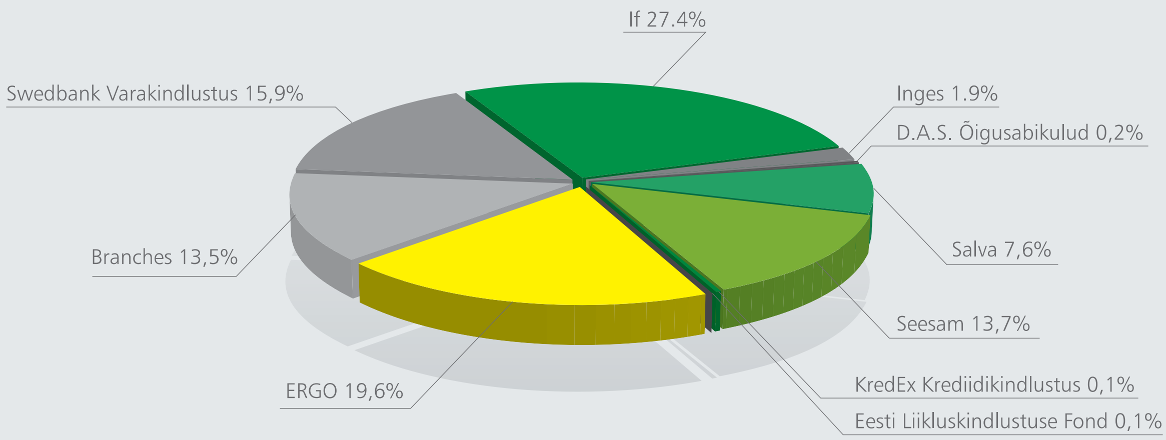
The greatest drop could be seen in optional motor vehicle insurance, traffic insurance and property of legal persons categories. Compared to 2009, the premiums have dropped by 14%, 11% and 8%, respectively. Insurance premiums have grown 10% in civil liability insurance, 7% in travel insurance and 8% in vehicle owner's liability insurance.

The largest share of all insurance categories offered on the insurance market is held by various motor vehicle-related insurance categories – the mandatory motor third party liability insurance (28%) and the optional motor vehicle insurance (36%). The share of property insurance amounts to 25%; and the aggregated share of all the remaining insurance categories, 11% of the market. The structure has not changed significantly in recent years.

The same structure is evident in insurance indemnity disbursements, with the indemnity discharge amounting to 62% as of the end of 2010.

Insurance indemnity disbursements for 2010 amounted to a total of 2,097 million kroons – 7% less than in the same period last year (2009: 2,258 million kroons).

Market shares of non-life insurance companies and foreign branches expressed in premiums received by the end of 2010:



The positive financial results and shrinking insurance market have increased competition on the non-life insurance market to unprecedented levels. Optional vehicle insurance and companies' property insurance policies are being sold at a lower price than ever before in Estonia.

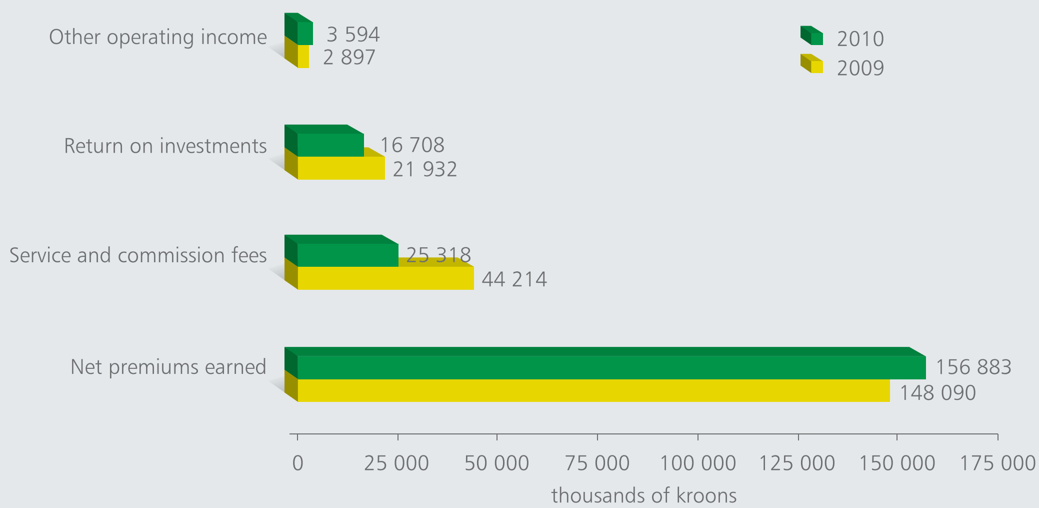
2010 was characterized by an extraordinarily snowy winter, which impacted property insurance and motor TPL insurance figures in the first and fourth quarter. Another impact came from the avalanche of claims from the ash cloud that hit the entire travel insurance market in the second quarter and nor was the third quarter spared, storm damage occurred in Lääne-Viru County.

In 2011, in connection with the increase in the frequency of loss claims, we are expecting a moderate price rise and stabilization of market volume in insurance categories related to vehicles. Both the corporate and individuals' property insurance market will remain competitive. Compared to 2010, we expect the drop in the volume of the non-life insurance market to halt and we believe there will be an opportunity for slight growth in the market volume for the first time in many years.

Financial results

Salva Kindlustuse AS's consolidated net profit in 2010 was 11.2 million kroons (56.7 million kroons in 2009).

Revenue



Income in 2010 decreased by 7% from the same period the year before. Among these, income from service and commission fees made up 43% and the decrease of income from investments accounted for 24%. The premiums earned, net of re-insurance, increased due to the decrease in the relative share of the re-insurer by 6%.

In 2010, Salva Kindlustuse AS garnered 257.6 million kroons in gross insurance premiums, which is 6% less than in 2009 – 274 million kroons.

Insurance premiums decreased the most in accident insurance, by 19%, and in optional vehicle insurance, by 16%. Premiums grew by 10% in liability insurance and by 2% in motor TPL insurance.

In 2010, the profit from insurance activity amounted to 1.2 million kroons. The indicator for the previous year was 40.9 million kroons.

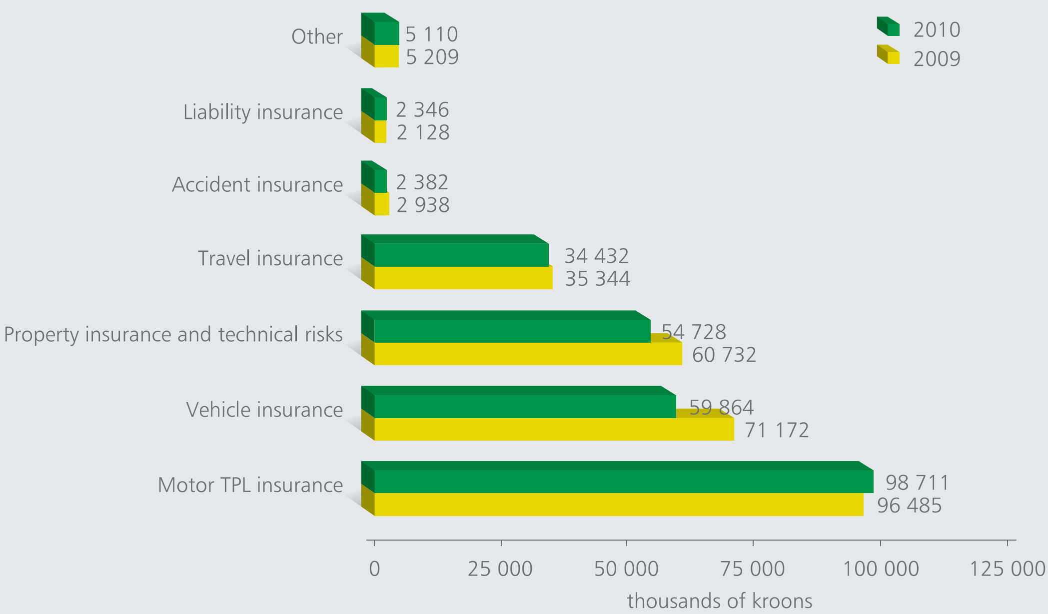
The consolidated loss ratio, net of reinsurance, was 63% (46.6% in 2009).

The loss ratio indicator has been significantly negatively impacted by the increase in the number of vehicle insurance loss claims due to the long, snowy winter and the growth in the number of fire and storm loss claims in the private individuals' property insurance portfolio.

The ratio of consolidated expenses to premiums, net of reinsurance, made up 16.2% at the end of 2010 (25.8% in 2009).

Salva Kindlustuse AS insurance premiums by category, 2010–2009

Gross premiums



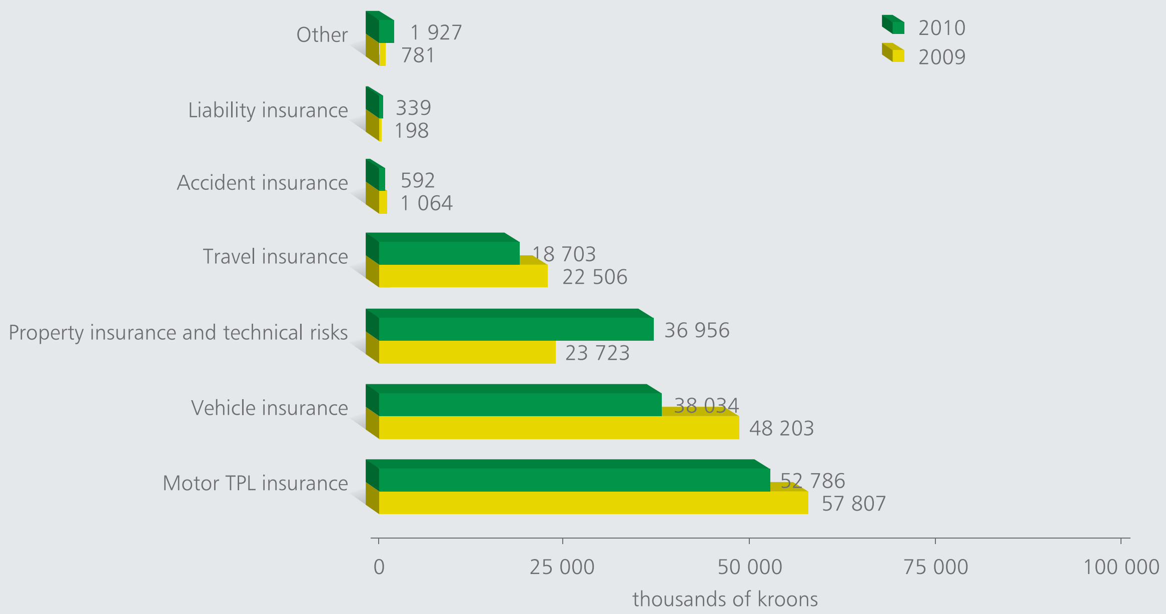
Claims

Total claims in 2010 amounted to 149.3 million kroons, which was 3% less than in the past year (154.3 million in 2009). Claims disbursements remained the same as in the same period last year; while claims adjustment expenses dropped 10% and claims adjustment expenses decreased 10% and income from refunds and residual assets increased 37%.

The claims for losses received increased 43% net of reinsurance. This result is due to the reduced share of the re-insurer.

Salva Kindlustuse AS insurance indemnities, by type, 2010-2009

Indemnities



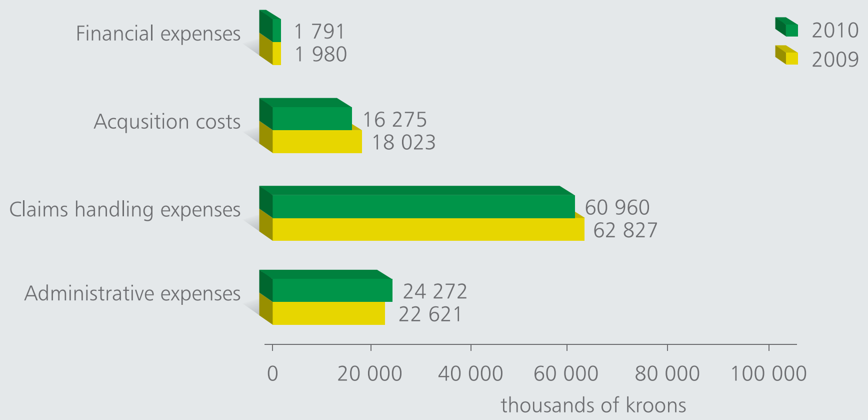
The number of loss claims satisfied in 2010 amounted to 10 thousand and dropped 14% compared to the year before (11,600 in 2009).

Still accounting for a large share of the total number of loss claims were vehicle insurance-related loss claims – motor TPL insurance loss claims make up 34 percent and optional travel insurance losses, 27% of the total number of loss claims. In 2009, their proportions were 30% and 23%, respectively. The number of property insurance loss claims has risen significantly, primarily due to storm and fire loss claims, which increased 32% compared to the previous year.

Operating expenses

Operating expenses stayed the same compared to 2009, amounting to 87 million kroons. Acquisition costs decreased by 3% and administrative expenses increased by 9%. The decrease in acquisition costs is in conformity with the drop in the volume of premiums. Administrative costs were increased by extensive repair work for eliminating damage due to water from melting snow in a building owned by the group.

Operating expenses



Balance sheet

The consolidated value of Salva Kindlustuse AS assets amounted to 426 million kroons as of the end of 2010. Insurance receivables decreased by 18% in 2010, with their share in total assets being 3%.

As a result of the positive cash flow from insurance activities, the investment volume has increased by 5% compared to the end of 2009, amounting to 256 million kroons. The share of investments in total assets amounts to 60%.

Liabilities arising from insurance contracts made up 48% of total assets as of the end of 2010, having increased by 7% compared to the end of last year, amounting to 205 million kroons.

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

Owner's equity

In 2010, Salva Kindlustuse AS's shareholders' equity decreased by 4%, and amounted to 191.7 million kroons. 20 million kroons was paid as dividends to owners in 2010.

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 keyword for 2010 was continued performance of the portfolio even in an environment of falling interest rates and managing reinvestment risks. In summary, it can be said that Salva Kindlustuse AS succeeded in maintaining the value and sufficient diversification of the invested assets, and produced a reasonable and expected return on investments.

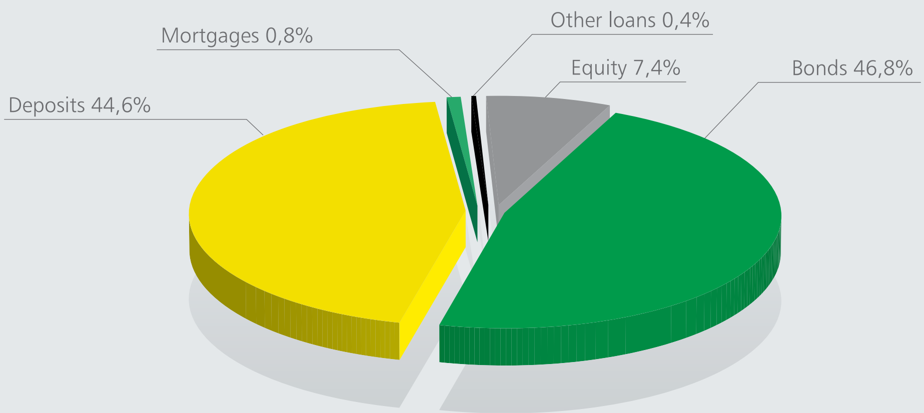
Management report

The consolidated profit earned by Salva Kindlustuse AS from investment activities in 2010 amounted to 13.1 million kroons. The revenue for the same period last year amounted to 18 million kroons. The consolidated annual rate of return on investment was 6%. The average rate of return of the bond portfolio was 5.4%.

The distribution of credit risk in the bond portfolio was the following: 28% of the bonds were rated AAA (S&P) or Aaa (Moody's), 12% had a rating of AA or Aa.

As of the end of the year, financial investments exceed the net technical reserves by 154 million kroons, securing a sufficient liquidity reserve for the Company.

Structure of financial investments as of 31.12.2010



Organisation and management

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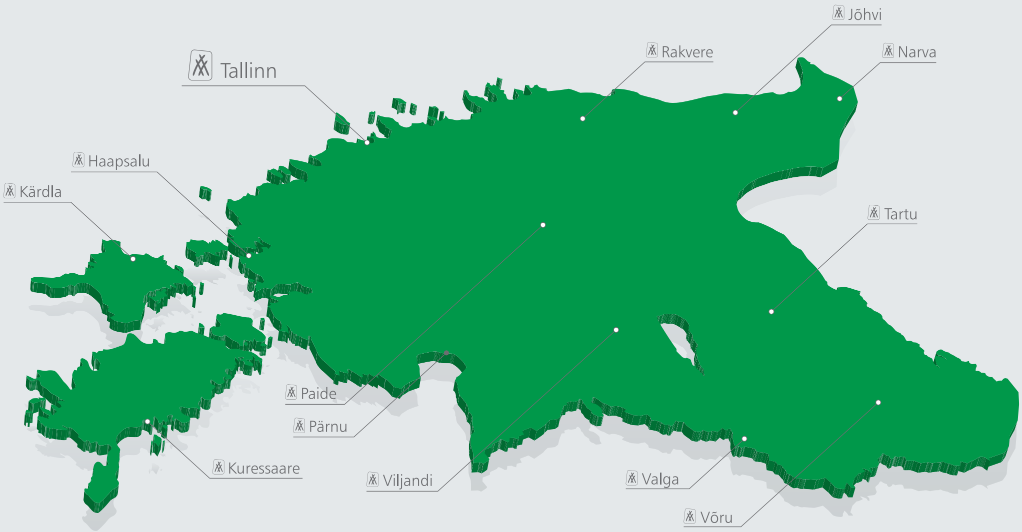

The Company's supervisory board has six members, with the total remuneration paid to members of the supervisory board amounting to 478 thousand kroons (2009: 453 thousand kroons).

The Company's management board has five members, with the total remuneration paid to members of the supervisory board amounting to 5.6 million kroons (2009: 5.8 million kroons).

As of the end of 2009, the Group had 139 employees, including 69 sales employees. The full-time staff of Salva Kindlustuse AS has an average age of 42.

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 taxes) amounted to 45.6 million kroons in 2010. Payroll expenses have decreased by 3% from last year (2009: 47.2 million kroons).

Management report

The Group's development in the financial year and goals for 2011

2010 was a year of adaptation and stabilization for the Estonian economy. Going by a number of parameters, the declining phase that occurred in the last few seasons is slowing or has even stopped. In the second half of the year, the Estonian economy showed a number of signs of improvement, largely due to improved export figures. To some extent we can see a slowdown in drop in consumer spending and a more active loan and leasing market, with the number of the unemployed also decreasing.

With regard to the insurance market, it can be said that general economic trends make themselves felt after a small lag time, both in terms of entering and exiting the downturn. Thus we are expecting the sector to stabilize somewhat in 2011, and we feel that it that the drop in insurance market volumes has a realistic chance of stabilizing in 2011 and that there will be a moderate rise for the first time in several years.

As for 2010, when collected non-life insurance premiums decreased by 9.2% compared to the previous period, the keywords were increased competition and increased frequency of loss events.

The situation is increasingly more competitive in conditions of positive financial results from past years and a shrinking insurance market. Fewer customers enter the market, and the existing agreements are under strong price pressure. Rates for a number of types of insurance are at the lowest historical level.

Especially in the early part of the year, insurance companies found that the most suitable way of keeping sales volumes was to lower prices. The second half of the year saw a more active introduction of new products, renewed acquisition terms and a noteworthy expansion of insurance cover.

In terms of losses, 2010 witnessed a number of extraordinary events that impacted many disbursements. The beginning and end of the year was characterized by severe snow conditions, which had an impact on the results of both vehicle and property insurance in the first and fourth quarter. In the second quarter, the travel insurance market was significantly impacted by the Iceland volcano ash cloud. In the third quarter, the severe storms that followed the hot summer resulted in losses for the property insurance market.

Salva Kindlustuse AS does not consider sustainable the practice of recent years – where the only criterion for selection of insurance provider is low price. We have put the emphasis on increasing the efficiency of the company, product development and level of service.

So that it would be convenient and pleasant for customers to purchase insurance service, Salva Kindlustus continues to maintain representative offices all over Estonia where customers have access to a number of services besides buying insurance – they can pay for insurance their policy, ask for advice, make changes to valid contracts and file claims. The role of electronic channels is also increasing – it is possible to take out an insurance policy via the Internet with regard to travel, traffic and home insurance. As a new feature, Salva Kindlustuse AS opened the first self-service travel insurance kiosk at Tallinn Airport.

In 2011, we plan to make the transition to a new information system that will improve the company's efficiency. We also intend to create for customers the possibility for novel solutions for buying insurance and allow customer insurance risks to be priced more precisely and personally. Motor TPL insurance was the first to make the transition to the new system in 2010, to be followed in the first half of 2011 by motor own damage (casco) insurance and home insurance.

The modernization of the product development system will be sure to continue with the goal of ensuring for customers a consistent level of quality in all of the types of service in the Salva Kindlustuse AS portfolio. Development of new product conditions and creation of associated products will give customers additional arguments in favour of selecting Salva and offer them more personal service.

The mapping of the Salva Kindlustuse AS customer service standard and raising the level of quality will play a key role in the activities in 2011. Starting in 2010, a monthly satisfaction survey is being conducted with regard to handling of claims with the aim of making the claims adjustment process even smoother from a customer perspective. By raising the standard of service, we hope likewise to give existing and future customers an additional argument for considering Salva Kindlustus a paragon of excellence among insurance companies.

Tiit Pahapill
Chairman of the Management Board

Main financial indicators

Group	2010	2009	2008
in thousands of kroons			
For the reporting period			
Gross premiums	257 573	274 008	346 990
Premiums earned, net of reinsurance	156 883	148 090	160 315
Gross claims incurred	159 723	139 236	187 283
Claims incurred, net of reinsurance	98 926	69 023	72 810
Total operating expenses	87 023	87 427	96 647
Net operating expenses	61 705	43 215	46 300
Net loss ratio	63,06%	46,61%	45,42%
Net expenses ratio	36,18%	25,79%	25,68%
Net combined ratio	99,24%	72,40%	71,10%
As of the end of the reporting period			
Total assets	426 384	423 827	439 961
Financial investments	255 772	242 470	222 534
Efficiency indicators			
Technical result	1 201	40 880	46 334
Investment result	14 916	19 952	1 171
Profit for the period	11 238	56 716	43 022
Return on equity	6%	32%	30%
Annual return on investments	6%	8,6%	0,5%
Per share			
Earnings per share (in kroons)	11,24	56,72	43,02

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	Claims incurred, net of reinsurance/premiums earned, net of reinsurance
Net expense ratio	Net operating expenses (except for financial expenses and other expenses) / 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

Consolidated statement of comprehensive income

in thousands of kroons	Note	2010	2009
REVENUE			
Gross premiums	5	257 573	274 008
Reinsurance premiums	13	-86 984	-130 803
Changes in the provision for unearned premiums	5	-2 858	23 911
Reinsurer's share of the change in provision for unearned premiums	13	-10 848	-19 026
Premiums earned, net of reinsurance	**5**	**156 883**	**148 090**
Service and commission fee revenue	7	25 318	44 214
Net investment revenue	8	16 708	21 932
Other income	9	3 594	2 897
Total revenue		**202 503**	**217 133**
EXPENSES			
Claims incurred	10	-159 723	-139 236
Reinsurer's share in claims incurred	10	60 797	70 213
Claims incurred, net of reinsurance	**10**	**-98 926**	**-69 023**
Acquisition costs	11	-60 960	-62 826
Administrative expenses	11	-24 272	-22 621
Financial expenses	11	-1 791	-1 980
Total operating expenses		**-87 023**	**-87 427**
Income tax	12	5 316	3 987
Profit for the financial year		11 238	56 696
Comprehensive income for the financial year		11 238	56 696
Incl. profit attributable to owners of the parent company		11 238	56 716
Incl. profit attributable to minority shareholders		0	-20

Consolidated balance sheet

in thousands of kroons	Note	31.12.2010	31.12.2009
ASSETS			
Property, plant and equipment	14	22 635	23 202
Intangible assets	15	12 124	9 303
Financial investments	16	255 772	242 470
Receivables under reinsurance contracts	17	106 220	122 169
Receivables from insurance activities and other receivables	18	16 842	19 586
Cash and cash equivalents	19	12 791	7 097
TOTAL ASSETS		426 384	423 827
LIABILITIES AND OWNER'S EQUITY			
Share capital		50 000	50 000
Reserve capital		5 020	5 020
Other reserves		1 008	1 008
Retained earnings		124 428	87 712
Profit for the financial year		11 238	56 716
Total equity attributable to owners of the parent company		191 694	200 456
Total owner's equity	20	191 694	200 456
Liabilities under insurance contracts	21	204 514	191 270
Liabilities from reinsurance	22	18 486	18 380
Liabilities from direct insurance activities	23	4 446	4 260
Accrued expenses and prepaid revenue	24	7 244	9 461
Total liabilities		234 690	223 371
TOTAL LIABILITIES AND OWNER'S EQUITY		426 384	423 827

Consolidated statement of changes in equity

in thousands of kroons	Share capital	Reserve capital	Other reserves	Retained earnings	Total	Minority interest	Total
As of 31.12.2008	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
Profit for the financial period	0	0	0	11 238	11 238	0	11 238
Dividends paid	0	0	0	-20 000	-20 000	0	-20 000
Total recognised income and expense for the year	0	0	0	-8 762	-8 726	0	-8 726
As of 31.12.2010	50 000	5 020	1 008	135 666	191 694	0	191 694

See Note 20 for additional information.

Consolidated cash flow statement

in thousands of kroons	Note	2010	2009
Cash flow from operating activities		30 061	14 037
Insurance premiums received		261 610	277 596
Claims paid and claims handling expenses		-133 283	-136 794
Paid to reinsurers		4 162	-26 867
Paid as operating expenses		-94 682	-91 804
Other revenue and expense		-3 592	-1 240
Income tax paid		-5 316	-3 987
Acquisition of shares and other interest		-31 115	-5 535
Disposal of shares and other securities		22 624	9 072
Acquisition of other investments		-138	0
Disposal of other investments	2 930	0	
Acquired fixed rate securities		-99 533	-44 993
Proceeds from disposals of fixed rate securities		67 271	105 590
Loans granted		-556	-1 605
Repayments of loans granted		5 833	343
Investments in term deposits		-102 393	-184 610
Return on term deposits		126 948	110 328
Interest received		10 795	9 738
Dividends received		161	512
Investment expenses paid		-1 665	-1 707
Cash flow from investing activities		-4 367	-4 946
Acquisition of property, plant and equipment, and intangible assets	14,15	-5 292	-5 566
Disposals of property, plant and equipment, and intangible assets	14,15	925	600
Acquisition of subsidiaries		0	20
Cash flow from financing activities		-20 000	-15 000
Dividends paid	20	-20 000	-15 000
Total cash flow		5 694	-5 909
Cash and cash equivalents at the beginning of the period	19	7 097	13 006
Cash and cash equivalents at the end of the period	19	12 791	7 097

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 2010 include the data on Salva Kindlustuse AS, its 100% subsidiary Salva Kahjukäsitluse OÜ and its 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 14 March 2011. Shareholders have the right to decline the Annual Report prepared and submitted by the Management Board, and demand preparation of a new Annual Report.

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

Basis of preparation

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

Declaration of conformity

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 2010.

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) by the balance sheet date.

The estimation of the provisions for losses which have been incurred but are not yet reported is based on the historical experience where the actual incurred losses of the previous periods have been applied to estimate the future loss claim provisions. The estimates and the changes of the preceding period are reviewed on every reporting date, with the provisions being revaluated. 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 2009. 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 optional motor vehicle 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	148 997	28 078	8 912	18 527	204 514

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 2010, the technical reserve amounted to 204,514 thousand kroons (2009: 191,270 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 38% of the total receivables are estimated to be collected in the next seven years. As of the end of 2010, receivables amounted to 36,022 thousand kroons. The management has estimated 9,200 thousand kroons of these receivables to be recoverable (2009: 8,778 thousand kroons).

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

in thousands of kroons	up to 1	1-5	5-10	Total
Recoveries and salvages	3 134	5 295	770	9 200

The applied discount rate was 5%.

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

(c) Assessment of financial assets

The fair value of financial assets traded on the active market is 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 arms-length transactions. 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 2010, the value of financial assets measured at fair value amounted to 138,838 thousand kroons (2009: 94,684 thousand kroons).

(d) Subsidiaries

Subsidiaries are initially measured at cost in the unconsolidated balance sheet of the parent company. The subsidiary is then measured at fair value in the balance sheet on each balance sheet date. Fair value is established using the discounted future cash flows from the subsidiary. The principal assumptions applied in valuation were the actual cash flows, the increase of sales by 0% in the first year and 3% 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 is recorded in the consolidated financial statements as a subsidiary, as the parent company (Salva Kindlustuse AS) has 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 by 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 have been 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 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, adjustment 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 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 an 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 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 individuals 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 ratio 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 share of the commission fees deriving from reinsurance contracts, as the reinsurance ratio of the provision for unearned premiums forms of the reinsurance premiums. The calculations are based on the reinsurer's share of the premiums by insurance years, and the commission fees deriving from reinsurance contracts by types.

(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 2010 indicated no deficit.

(i) Revenue

Insurance premium revenue

The principles of recording of 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 and revenue associated with conclusion of insurance contracts. These service fees and revenue are charged to income in the period of provision of the services. If the services are to be rendered in future periods, the services are recognised in these future periods based on the cut-off principle.

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.

(j) Expenses

Claims incurred

The accounting principles applied for recording claims incurred have been 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 which arise from the conclusion of insurance contracts, including commission fees to brokers and variable payroll expenses of the sales and insurance departments. 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, printing, transport and communication expenses, 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 subjected 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 of announcing the dividends, 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 a 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 are 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	5 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 the 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 definite useful life.

Such assets are depreciated by applying the straight-line method during their estimated useful life, which is generally up to ten 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 of the period, as a part of acquisition, administrative and claims handling 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 rewards 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 measured at fair value through profit and loss in accordance with IFRS 7 has been presented in Note 16.5.

Level 1 includes financial assets traded in active markets, with the inputs based directly on money and capital market data.

Level 2 includes financial assets traded in the free market, with the inputs based on money and capital market data. Level 3 includes financial assets not traded in the market, with the inputs not based directly on money and capital market data.

"Financial assets held to maturity" means financial assets with established or establishable 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 impair 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 impairment 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 business

Policyholders' prepayments and liabilities before 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 (31.12.2010) 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 2010.

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

Revised IFRS 2 Share-based Payment

Revised IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements

Revised IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

IFRIC 12 Service Concession Arrangements

IFRIC 17 Distributions of Non-cash Assets to Owners

IFRIC 18 Transfer of Assets from Customers

Additions to IFRS (published in 2008 and 2009 and effective for annual periods beginning on or after 1 January 2010).

Revised IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements

The revised IFRS 3 introduces several changes in recognising business combinations after the revision becomes effective. The changes concern calculation of the value of minority interest, recognition of transaction costs, initial recognition and subsequent measurement of transaction fees dependent on additional conditions and recognition of business combinations achieved in stages. These changes have an effect on the initial recognition of goodwill, the financial results for the period of acquisition and for the subsequent periods.

The revised IAS 27 stipulates that any change in the subsidiary's shareholding (not resulting in loss of control) is to be recorded as an equity transaction. The transactions thus generate no goodwill, profit or loss. The revised standard also introduces amendments in the recognition of the subsidiary's losses, and loss of control over the subsidiary.

The revised IFRS 3 and IAS 27 were recorded proactively, and thus have an effect on business combinations, transactions involving loss of control over a subsidiary and transactions with minority shareholders after 1 January 2010.

The standards and interpretations and their amendments adopted in 2010 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:

Revised IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 July 2011, subsequent to EU approval).

The amendment concerns the disclosure requirements applicable for reclassification of certain types of financial assets. The amendment does not affect the Group's financial position or economic results, as the Group conducts no such reclassifications.

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2013, subsequent to EU approval).

IAS 39 will be replaced by IFRS 9 in the future. The IASB has issued the first two parts of the standard, establishing a new framework for classifying and measuring financial assets and recognising financial liabilities. The group has yet to evaluate the effect of the implementation of the standard.

Revised IAS 12 Income Taxes (effective for annual periods beginning on or after 1 January 2012, subsequent to EU approval).

The amendment provides a practical solution to the issue concerning the recognition of deferred income tax related to investment property – the question of whether recovery of the carrying amount of investment property (measured at fair value) will be through use or through sale – by introducing the presumption that recovery of the carrying amount will normally be through sale. The amendment does not affect the Group's financial position or economic results, as the Group has concluded no such transactions.

Revised IAS 24 Related Party Disclosures (effective for annual periods beginning on or after 1 January 2011).

The amendments serve to simplify the definition of a related party, clarifying its meaning and eliminating contradictions in the definition. In addition, the revised standard provides for some disclosure exceptions for state companies. The amendment does not affect the group's financial position or economic results, but may have an effect on the information disclosed on related parties.

Revised IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010).

Amends the definition of financial liability, excluding certain rights, options and guarantees. The amendment does not affect the Group's financial position or economic results, as the Group holds no such instruments.

Additions to IFRS

In May 2010, the IASB issued a set of amendments effective for annual periods beginning on or after 1 July 2010 or 1 January 2011. These amendments have not yet been approved by the EU. The implementation of the following amendments may result in changes in accounting principles, but do not affect the Group's financial position or economic results:

IFRS 3 Business Combinations;

IFRS 7 Financial Instruments: Disclosures;

IAS 1 Presentation of Financial Statements;

IAS 27 Consolidated and Separate Financial Statements;

IFRIC 13 Customer Loyalty Programmes.

Revised IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011, subsequent to EU approval).

The amendment concerns recognition of future payments made in case of minimum funding requirements. The amendment does not affect the group's financial statements, as the group has no defined benefit assets.

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 once every 6 months, 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.

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 damage 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.

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. Conscious risk selection is impossible - 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).

31.12.2010

Type of insurance	Gross liabilities related to insurance contracts	Reinsurer's share of liabilities	Net liabilities
Motor third party liability insurance	137 959	79 872	58 087
Motor vehicle insurance	28 137	11 764	16 373
Short-term health insurance	6 024	537	5 487
Household property insurance	10 312	881	9 431
Corporate property insurance	13 863	4 172	9 691
Railway transport insurance	4 484	4 023	461
Liability insurance	1 091	873	218
Other	2 644	853	1 791
Total	204 514	102 975	101 539

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**

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.

31.12.2010

Factors	Value	Potential change	Effect on equity, thousands of kroons	Effect on equity, %
Net claims incurred	98 926	+5%	-4 946	-2.6
High net loss of motor third party liability insurance			-2 340	-1.2%
High net loss of property insurance			-7 000	-3.7%
Operating expenses	87 023	+5%	-4 351	-2.3%

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%

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. Concentration of the financial risks is disclosed in subsection note 16 (investments by currency).

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 (LArM-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	Financial risk	Note	31.12.2010	31.12.2009
Financial assets measured at fair value through profit and loss				
Shares, equity funds and bond funds	Market risk, liquidity risk	16.1	19 016	7 530
Bonds and other fixed income securities	Market risk, liquidity risk, interest risk	16.2	119 822	84 362
Derivative instruments	Currency risk		0	2 792
Financial assets held to maturity				
Loans and term deposits	Credit risk	16.3,16.4	116 934	147 786
Receivables under reinsurance contracts	Credit risk	17	82 333	87 434
Receivables from insurance activities and other receivables	Credit risk	18	16 842	19 586
Cash and cash equivalents	Credit risk	19	12 791	7 097
Total exposure to financial risk			**367 738**	**356 587**

Receivables under reinsurance contracts do not include the reinsurance share of the provision for unearned premiums, 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. Estonia joined the euro area on 1 January 2011.

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 inadequately composed data system or internal inspection that may 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 175.30 million kroons at the end of 2010, 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

2010

in thousands of kroons	Gross premiums	Changes in the provision for unearned premiums	Reinsurance premiums	Reinsurer's share of the change in provision for unearned premiums	Premiums earned, net of reinsurance
Motor third party liability insurance	98 711	-4 950	-42 144	-902	50 715
Short-term health insurance	36 814	118	-2 024	-410	34 497
Motor vehicle insurance	59 865	426	-25 414	-2 020	32 857
Railway rolling stock and small craft	230	-12	-203	6	21
Insurance of goods in transit	482	-42	-337	29	132
Property insurance	54 728	1 622	-13 109	-7 587	35 654
Motor vehicle owner's liability	2 211	-27	-1 548	19	655
Liability insurance	2 346	-64	-1 877	51	456
Monetary damage	2 187	71	-328	-34	1 896
Total	257 573	-2 858	-86 984	-10 848	156 883

2009

in thousands of kroons	Gross premiums	Change in the provision for unearned premiums	Reinsurance premiums	Reinsurer's share of the change in 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 stock 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
Monetary damage	2 245	133	-348	-55	1 975
Total	274 008	23 911	-130 803	-19 026	148 090

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	Before 2001	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Kokku
1 year after the end of validity of the policy		89 001	132 404	137 957	157 493	225 071	262 143	224 742	184 035	161 490		
2 years ...		85 628	131 306	137 051	154 026	215 219	255 954	219 280	181 551			
3 years ...		83 723	136 378	132 938	150 064	210 380	253 862	215 828				
4 years ...		82 642	135 624	129 363	150 380	209 652	252 648					
5 years ...		81 995	128 171	128 543	149 191	208 268						
6 years ...		78 122	127 404	127 232	149 025							
7 years ...		77 773	127 761	127 245								
8 years ...		78 802	127 677									
9 years ...		78 820										
Cumulative estimate of claims		78 820	127 677	127 245	149 025	208 268	252 648	215 828	181 551	161 490	107 864	
the adequacy of estimate made 1 year after the end of validity of the		112,9%	103,7%	108,4%	105,7%	108,1%	103,8%	104,1%	101,4%	100%		
Total disbursements as at 31.12.2010		77 299	119 726	126 124	146 025	202 041	226 443	200 176	168 497	143 302	71 289	
Provision for outstanding claims as at 31.12.2010	2 533	1 421	7 951	1 121	3 000	6 227	26 205	15 652	13 054	18 188	36 575	131 927

In the management's opinion, the amounts of technical reserves reported in the financial statements prepared as of the end of 2010 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	Note	2010	2009
Reinsurer commission revenue	13	20 394	39 652
Reinsurer's profit sharing	13	202	102
Reinsurance share of changes in acquisition costs	13	4 467	4 091
Other technical income, net of reinsurance		255	369
Total		25 318	44 214

Note 8. Net investment revenue

in thousands of kroons	2010	2009
Dividend revenue	161	512
Interest income from deposits	6 666	6 109
Other financial revenue, incl. interest revenue from loans granted	576	611
Trade portfolio revenue	8 525	11 017
Revenue from bonds held to maturity	0	645
Revenue from derivative instruments	780	3 038
Total	16 708	21 932

Note 9. Other income

in thousands of kroons	2010	2009
Foreign exchange gains	1 281	1 296
Government grants	1 118	277
Other income	1 195	1 324
Total	3 594	2 897

Note 10. Claims incurred

in thousands of kroons	Note	2010	2009
Claims paid, gross		-143 702	-143 734
Claims handling expenses	11	-16 275	-18 023
Amounts received from recoveries and salvage		10 218	7 434
Estimated amounts receivable for recoveries and salvage		421	41
Total claims, gross		-149 337	-154 282
Change in the provision for claims outstanding		-10 386	15 046
Claims incurred, gross		-159 723	-139 236
Reinsurer’s share in claims	13	63 074	78 758
Reinsurer’s share of the change in the provision for claims outstanding	13	-2 277	-8 545
Reinsurer’s share in claims incurred	13	60 797	70 213
Total		-98 926	-69 023

Note 11. Operating expenses

in thousands of kroons	Note	2010	2009
Claims handling expenses	10	-16 275	-18 023
Insurance contract acquisition expenses		-60 960	-62 826
Administrative expenses		-24 272	-22 621
incl. other expenses		-3 157	-3 047
Financial expenses		-1 791	-1 980
Total operating expenses		-87 023	-87 427
Total expenses		-103 298	-105 450

in thousands of kroons	2010	2009
Payroll expenses	-45 559	-47 176
Brokers' commission fees	-20 795	-20 679
Outsourced services	-3 208	-5 848
Depreciation and impairment of PPE and intangible assets	-3 229	-3 159
Other operating expenses	-30 976	-26 382
Change in deferred acquisition costs	469	-2 206
Total	-103 298	-105 450

Note 12. Income tax

in thousands of kroons	2010	2009
Profit before taxes	16 554	60 703
Income tax on dividends	-5 316	-3 987
Net profit for the financial period	11 238	56 716

Note 13. Reinsurance result

in thousands of kroons	Note	2010	2009
Reinsurance premiums		-86 984	-130 803
Reinsurer's share of the change in provision for unearned premiums		-10 848	-19 026
Reinsurer's share in claims paid		63 074	78 758
Reinsurer's share of the change in the provision for claims outstanding		-2 277	-8 545
Reinsurance commission fees and profit sharing	7	25 063	43 845
Total		-11 972	-35 771

Note 14. Property, plant and equipment

in thousands of kroons	Land and buildings	Other PPE	Total
Acquisition cost			
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
Acquisition	0	3 033	3 033
Disposal	0	-2 057	-2 057
Write-off	0	-437	-437
31.12.2010	23 602	10 644	34 246
Accumulated depreciation			
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
Depreciation charge for the year	-876	-1 567	-2 443
Depreciation charge of disposals	0	900	900
Depreciation charge of write-offs	0	437	437
31.12.2010	-6 386	- 5 225	-11 611
Net book value			
31.12.2009	18 092	5 110	23 202
31.12.2010	17 216	5 419	22 635

Carrying amount of property fully amortised yet in use as at 31.12.2010 was 2 872 thousand kroons (last year: 2,738 thousand kroons).

Note 15. Intangible assets

in thousands of kroons	Other intangible assets	Prepayments for intangible assets	Total intangible assets
Acquisition cost			
31.12.2008	4 610	485	5 095
Acquisition	0	2 903	2 903
31.12.2009	4 610	3 388	7 998
Acquisition	601	2 535	3 136
Reclassification	1 387	-1 387	0
31.12.2010	6 598	4 536	11 134
Accumulated amortisation			
31.12.2008	-3 215	0	-3 215
Amortisation charge for the year	-759	0	-759
31.12.2009	-3 974	0	-3 974
Amortisation charge for the year	-784	0	-784
31.12.2010	-4 758	0	-4 758
Net book value			
31.12.2009	636	3 388	4 024
31.12.2010	1840	4 536	6 376

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	
31.12.2008	7 485
Deferred	25 864
Amortised	-28 070
31.12.2009	5 279
Deferred	25 605
Amortised	-25 136
31.12.2010	5 748
Net book value	
31.12.2009	5 279
31.12.2010	5 748

Note 16. Financial assets

in thousands of kroons	Note	31.12.2010	31.12.2009
Shares, equity funds and bond funds	16.1	19 016	7 530
Bonds and other fixed income securities	16.2	119 822	84 362
Loans	16.3	2 908	8 458
Term deposits	16.4	114 026	139 328
Derivative instruments		0	2 792
Total		255 772	242 470

in thousands of kroons	31.12.2010	31.12.2009
Financial assets measured at fair value through profit and loss		
Classified as held for trading		
Shares, equity funds and bond funds	19 016	7 530
Bonds and other fixed income securities	119 822	84 362
Derivative instruments	0	2 792
Financial assets measured at amortised cost		
Loans and receivables		
Loans and term deposits	116 934	147 786
Total	255 772	242 470

in thousands of kroons	31.12.2010		31.12.2009	
	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	19 016	18 827	7 530	11 071
Bonds and other fixed income securities	119 822	121 570	84 362	79 472
Derivative instruments	0	0	2 792	0
Financial assets measured at amortised cost				
Term deposits	114 026	110 318	139 328	134 874
Loans granted to related parties	538	500	6 008	5 600
Other loans	2 938	2 769	3 061	3 244
Total	256 340	253 984	243 081	234 261

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 does not significantly differ from the value measured at amortised cost.

Note 16.1. Shares and participations

in thousands of kroons	31.12.2010	31.12.2009
Listed shares	11 023	6 272
Bond and equity funds	7 993	0
Liquidity funds	0	1 258
Total	**19 016**	**7 530**

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	31.12.2010	31.12.2009
EEK	2 184	3 407
EUR	8 434	43
USD	6 414	2 243
GBP	190	0
SEK	0	108
LTL	1 794	1 692
LVL	0	37
Total	**19 016**	**7 530**

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%	1 102
Share prices +20%	2 205
Share prices –10%	-1 102
Share prices –20%	-2 205
Fair value 31.12.2010	**11 023**

Note 16.2. Bonds

Bonds are classified as the trading portfolio (measured at fair value through profit and loss).

in thousands of kroons	31.12.2010	31.12.2009
	At fair value	At fair value
Bonds with a fixed interest rate		
Government bonds	110 178	52 790
Bonds of financial institutions	9 113	8 324
Other bonds	0	22 704
Total	**119 291**	**83 818**
Bonds with a floating interest rate		
Other bonds	531	544
Total	531	544
Total bonds	**119 822**	**84 362**

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

Standard & Poor's	Moody's	31.12.2010	31.12.2009
Classified as held for trading			
AAA	Aaa	32 980	50 288
AA	Aa	13 820	1 609
A	A	20 883	23 188
BBB	Baa	47 465	8 733
BB	Ba	4 674	544
Total		**119 822**	**84 362**

By individual currencies, bonds are divided as follows:

in thousands of kroons	31.12.2010	31.12.2009
Classified as held for trading		
EEK	531	9 277
EUR	118 720	74 600
LVL	571	485
Total	**119 822**	**84 362**

The bond portfolio is divided by maturity terms as follows:

in thousands of kroons	31.12.2010	31.12.2009
Classified as held for trading		
Up to 6 months	8 264	9 664
6-12 months	16 884	8 732
1-3 years	36 429	34 452
Over 3 years	58 245	31 514
Total	119 822	84 362

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

in thousands of kroons	31.12.2010	31.12.2009
Classified as held for trading		
Interest rate: 0,0-2,9%	7 843	9 276
Interest rate: 3,0-3,9%	14 849	17 931
Interest rate: 4,0-4,9%	48 116	31 028
Interest rate: 5,0-5,9%	27 144	26 127
Interest rate: 6,0-6,9%	982	0
Interest rate: 9,0-9,9%	20 888	0
Total	119 822	84 362

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	-1 106
Change in yield curve -50 base points	+1 123
Change in yield curve +100 base points	-2 195
Change in yield curve -100 base points	+2 263
Change in yield curve +200 base points	-4 325
Change in yield curve -200 base points	+4 598
Fair value 31.12.2010	119 822

Note 16.3. Loans

in thousands of kroons	31.12.2010	31.12.2009
Mortgage loans		
Loans to related parties with a term of up to 3 months	0	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	500	1 750
Other mortgage loans with a term of 3-12 months	950	0
Total	1 950	7 350
Other loans		
Loans with a term of up to 3 months	3	200
Loans with a term of 3-12 months	648	544
Loans with a term of 1-3 years	307	238
Loans with a term of 3-5 years	0	126
Total	958	1 108
Total loans	2 908	8 458

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	31.12.2010	31.12.2009
Up to 3 months	59 918	7 919
Term of 3-12 months	54 108	98 894
Term of 1-2 years	0	32 515
Total	114 026	139 328

The annual interest rates for term deposits fall between 1.77% and 6.85%.

By individual currencies, deposits are divided as follows:

in thousands of kroons	31.12.2010	31.12.2009
EEK	54 051	134 065
EUR	59 975	5 263
Total	114 026	139 328

Note 16.5. Evaluation of financial instruments under IFRS 7 levels

in thousands of kroons	Level 1		Level 2		Level 3		Total	
	31.12.10	31.12.09	31.12.10	31.12.09	31.12.10	31.12.09	31.12.10	31.12.09
Classified as held for trading								
Shares, equity funds and bond funds	11 023	6 272	0	1 258	7 993	0	19 016	7 530
Bonds and other fixed income securities	39 426	51 898	79 865	31 920	531	544	119 822	84 362
Derivative instruments	0	0	0	2 792	0	0	0	2 792
Total	50 449	58 170	79 865	35 970	8 524	544	138 838	94 684

Note 17. Receivables under reinsurance contracts

in thousands of kroons	Note	31.12.2010	31.12.2009
Receivables from reinsurance		3 245	6 069
Reinsurer’s share in provision for unearned premium	21	23 887	34 735
Reinsurer’s share in provision for claims outstanding	21	79 088	81 365
Total		106 220	122 169

All receivables from reinsurance are paid within 12 months.

Note 18. Receivables from insurance activities and other receivables

in thousands of kroons	31.12.2010	31.12.2009
Policyholders	2 236	3 924
Insurance brokers	2 599	4 438
Recoveries and salvages	9 199	8 778
Interest receivable	0	1
Prepaid taxes	226	168
Other accrued income	37	116
Other prepaid expenses	2 545	2 161
incl. Financial Supervision Authority's operation and maintenance costs	720	778
Total	16 842	19 586

Term of the receivables:

in thousands of kroons	31.12.2010	31.12.2009
- not due yet	14 191	15 615
- due for up to 3 months	1 896	2 642
- due for 3-6 months	274	194
- due for 6-12 months	203	388
- due for over 1 year	278	747
Total	16 842	19 586

Impairment of receivables:

in thousands of kroons	31.12.2010	31.12.2009
Allowance for doubtful receivables at the beginning of the period	-86	-138
Collection of receivables recognised as doubtful in the reporting period	0	6
Receivables recognised as doubtful in the reporting period	-666	-226
Receivables recognised as irrecoverable in the reporting period	752	272
Allowance for doubtful receivables at the end of the period	0	-86

Note 19. Cash and cash equivalents

in thousands of kroons	31.12.2010	31.12.2009
Cash in hand	242	1 487
Cash at bank	12 549	5 610
Total	12 791	7 097

Cash and cash equivalents by individual currencies:

in thousands of kroons	31.12.2010	31.12.2009
EEK	11 202	6 212
EUR	1 512	563
USD	33	46
PLN	0	43
LVL	44	98
LTL	0	134
NOK,RUB,SEK,GBP	0	1
Total	12 791	7 097

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	31.12.2010	31.12.2009
Owner's equity	191 694	200 456
Solvency margin	175 305	176 432
Required minimum solvency margin	27 060	27 060
Surplus	**148 245**	**149 372**

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 Group and regulated entities within it have met all of these requirements throughout the financial year.

The capital management principles are described in Note 4.

Share capital

As of 31.12.2010, the registered share capital of the Group amounted to 50 million kroons (2098: 50 million kroons), divided into 1,000,000 shares with a nominal value of 50 kroons (as of 31.12.2009, 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 2010, a total of 20 million kroons was paid in dividends, i.e. 20 kroons per share.

The management board has proposed to the general meeting of the shareholders to pay 10,013,824 kroons (640,000 euros) in dividends, i.e. 10.01 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 Kahjukäsitluse 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	31.12.2010	31.12.2009
Gross		
Provision for losses incurred in the previous periods	52 403	55 668
Provision for losses incurred in the reporting period	37 209	32 948
Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR)	80	433
Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR)	6 934	5 285
Provision for pension under motor third party liability insurance incurred in the previous periods	30 392	27 207
Provision for pension under motor third party liability insurance incurred in the reporting period	4 909	0
Provision for unearned premiums	72 587	69 729
Total	204 514	191 270
Reinsurer's share		
Provision for losses incurred in the previous periods	38 382	41 443
Provision for losses incurred in the reporting period	14 141	17 531
Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR)	41	290
Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR)	2 505	2 253
Provision for pension under motor third party liability insurance incurred in the previous periods	21 684	19 849
Provision for pension under motor third party liability insurance incurred in the reporting period	2 335	0
Provision for unearned premiums	23 887	34 735
Total	102 975	116 101
Net		
Provision for losses incurred in the previous periods	14 021	14 226
Provision for losses incurred in the reporting period	23 068	15 417
Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR)	39	143
Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR)	4 429	3 032
Provision for pension under motor third party liability insurance incurred in the previous periods	8 708	7 358
Provision for pension under motor third party liability insurance incurred in the reporting period	2 574	0
Provision for unearned premiums	48 700	34 993
Total	101 539	75 169

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

2010	Liabilities under insurance contracts	Reinsurer's share	Net
Balance 01.01.2010	69 729	34 735	34 994
Premiums written in the year	257 573	86 984	170 589
Premiums earned during the year	254 715	97 832	156 883
Balance 31.12.2010	**72 587**	**23 887**	**48 700**

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**

Note 21.2. Provision for losses incurred

2010	Liabilities under insurance contracts	Reinsurer's share	Net
Balance 01.01.2010	121 541	81 365	40 176
Claims paid during the year that incurred in prior accident years	-23 885	-15 149	-8 736
Claims paid during the year that incurred in the current accident year	-125 452	-47 925	-77 527
Adjustment to claims incurred in prior accident years	-14 781	-6 110	-8 671
Losses incurred during the year	174 504	66 907	107 597
Balance 31.12.2010	**131 927**	**79 088**	**52 839**

2009	Liabilities under insurance contracts	Reinsurer's share	Net
Balance 01.01.2009	136 588	89 910	46 678
Claims paid during the year that incurred in prior accident years	-36 161	-21 494	-14 667
Claims paid during the year that incurred in the current accident year	-118 122	-57 264	-60 858
Adjustment to claims incurred in prior accident years	-17 119	-6 834	-10 285
Losses incurred during the year	156 355	77 047	79 308
Balance 31.12.2009	**121 541**	**81 365**	**40 176**

Note 22. Liabilities under reinsurance

in thousands of kroons	31.12.2010	31.12.2009
Payables to reinsurers	9314	4 820
Reinsurer's share in recoveries and salvage	5814	5 735
Reinsurer's share of the deferred acquisition costs	3358	7 825
Total	18 486	18 380

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

Note 23. Liabilities from direct insurance activities

in thousands of kroons	31.12.2010	31.12.2009
Policyholder prepayments	3019	2803
Payables to insurance brokers	1296	1279
Other liabilities	131	178
Total	4 446	4 260

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

Note 24. Accrued expenses and other prepaid revenue

in thousands of kroons	31.12.2010	31.12.2009
Payables to employees	381	2 342
Vacation accrual	2 128	2 327
Value added tax	20	253
Personal income tax	1 000	974
Social tax	1 831	1 872
Unemployment insurance	210	217
Funded pension liability	51	23
Corporate income tax	65	57
Accounts payable	1 545	1 383
Prepaid rent	13	13
Total	7 244	9 461

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	2010	2009
Passenger car rental payments	208	318
Office space rental payments	3 470	3 400

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

in thousands of kroons	
up to 1 year	1 129
1-5 years	1 511

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	2010	2009
Office space rental revenue	847	966

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

in thousands of kroons	
up to 1 year	739
1-5 years	2 534

Note 26. Provisions and contingent liabilities

Income tax

As of 31.12.2010, the company's retained earnings amounted to 135,666 thousand kroons (last year: 144,428 thousand kroons) and net book value of intangible assets to 12,124 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 25,944 thousand kroons (last year: 28,376 thousand kroons). The company can thus pay a total of 97,598 thousand kroons in net dividends (last year 106,749 thousand kroons). 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 2011 would not exceed the distributable profit as of 31.12.2010.

Other

Claims of action in the amount of 1.9 million kroons have been submitted against Salva Kindlustuse AS in connection with insurance losses. The management board estimates approximately 900 thousand 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 2010, insurance contracts with aggregate premiums of 54.2 thousand kroons were concluded with members of the management board. The wages of the members of the management board amounted to 5.6 million kroons, and the remuneration paid to members of the supervisory board to 478 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	2010	2009
Companies related to a management board member	410	392

As of 31.12.2010, the balance of loans granted to own employees and related parties amounted to 957,970 kroons. (31.12.2009: 6,508,000 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 Kahjukäsitluse OÜ	Business Information Systems OÜ
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. Events after the reporting date

Starting from the 1st of January 2011 joined Estonia euro zone and Estonian kroon (EEK) has been replaced by euro (EUR). From this date the Company accounting has been converted into euro and all reports in 2011 and subsequent years will be presented in euro. All comparatives will be converted to euro by official exchange rate 15,6466 EEK for 1 EUR.

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

Income statement of Salva Kindlustuse AS

in thousands of kroons	2 010	2 009
REVENUE		
Gross premiums	257 876	274 295
Reinsurance premiums	-86 984	-130 803
Changes in the provision for unearned premiums	-2 858	23 911
Reinsurer's share of the change in provision for unearned premiums	-10 848	-19 026
Premiums earned, net of reinsurance	157 186	148 377
Service and commission fee revenue	25 318	44 214
Net investment revenue	23 357	-2 302
Other income	179	39
Total revenue	206 040	190 328
EXPENSES		
Claims incurred	-164 209	-141 615
Reinsurer's share in claims incurred	60 797	70 213
Claims incurred, net of reinsurance	-103 412	-71 402
Acquisition costs	-58 568	-63 068
Administrative expenses	-18 844	-19 931
Financial expenses	-1 564	-1 686
Total operating expenses	-78 976	-84 685
Income tax	5 316	0
Profit for the financial year	18 336	34 241

Balance sheet of Salva Kindlustuse AS

in thousands of kroons	31.12.2010	31.12.2009
ASSETS		
Property, plant and equipment	606	467
Intangible assets	10 650	7 302
Subsidiaries	55 662	52 401
Financial investments	226 746	209 311
Receivables under reinsurance contracts	106 220	122 169
Receivables from insurance activities and other receivables	21 465	22 152
Cash and cash equivalents	11 846	5 043
TOTAL ASSETS	433 195	418 845
LIABILITIES AND OWNER'S EQUITY		
Share capital	50 000	50 000
Reserve capital	5 000	5 000
Other reserves	1 008	1 008
Retained earnings	121 906	107 665
Profit for the financial year	18 336	34 241
Total owner's equity	196 250	197 914
Liabilities under insurance contracts	204 514	191 270
Liabilities from reinsurance	18 486	18 380
Liabilities from direct insurance activities	4 446	4 260
Other liabilities	4 833	242
Accrued expenses and prepaid revenue	4 666	6 779
Total liabilities	236 945	220 931
TOTAL LIABILITIES AND OWNER'S EQUITY	433 195	418 845

Cash flow statement of Salva Kindlustuse AS

in thousands of kroons	31.12.2010	31.12.2009
Cash flow from operating activities	33 748	12 535
Insurance premiums received	261 912	277 936
Claims paid and claims handling expenses	-148 973	-150 456
Paid to reinsurers	4 162	-26 867
Paid as operating expenses	-77 076	-78 698
Other revenue and expense	-1 637	-1 742
Income tax paid	-5 316	0
Acquisition of shares and other interest	-31 115	-5 535
Disposal of shares and other securities	22 624	9 072
Acquisition of other investments	-138	0
Disposal of other investments	2 930	0
Acquired fixed rate securities	-88 459	-44 993
Proceeds from disposals of fixed rate securities	67 271	105 590
Loans granted	-556	-6 605
Repayment of loans granted	10 833	332
Investments in term deposits	-102 393	-173 946
Return on term deposits	111 110	100 328
Interest received	9 965	9 252
Dividends received	161	512
Investment expenses paid	-1 557	-1 645
Cash flow from investing activities	-6 945	-1 110
Acquisition of property, plant and equipment, and intangible assets	-6 945	-1 110
Cash flow from financing activities	-20 000	-15 000
Dividends paid	-20 000	-15 000
Total cash flow	6 803	-3 575
Cash and cash equivalents at the beginning of the period	5 043	8 618
Cash and cash equivalents at the end of the period	11 846	5 043

Statement of changes in equity of Salva Kindlustuse AS

in thousands of kroons	Share capital	Reserve capital	Other reserves	Retained earnings	Total
As of 31.12.2008	50 000	4 976	1 008	122 689	178 673
Retained earnings	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
Profit for the financial period	0	0	0	18 336	18 336
Dividends paid	0	0	0	-20 000	-20 000
Total recognised income and expense for the year	0	0	0	-1 664	-1 664
As of 31.12.2010	50 000	5 000	1 008	140 242	196 250

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 2010:

	2010	2009
Parent company's unconsolidated equity	196 250	197 914
Investment in the parent company's balance sheet (-)	-55 662	-52 401
Subsidiary's value under the equity method (+)	51 106	54 943
Total	191 694	200 456

Signatures of the Management Board to the Annual Report 2010

The Management Board of Salva Kindlustuse AS has prepared the management report and financial statements for 2010.

Management Board:

Tiit Pahapill	Chairman of the Management Board		21.03.2011
Irja Elias	Member of the Management Board		21.03.2011
Urmas Kivirüüt	Member of the Management Board		21.03.2011
Algor Orav	Member of the Management Board		21.03.2011
Andres Lõhmus	Member of the Management Board		21.03.2011

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Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Salva Kindlustuse AS

We have audited the accompanying financial statements of Salva Kindlustuse AS and its subsidiaries (hereafter "the Group"), which comprise the balance sheet as at 31 December 2010, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

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

Tallinn, 21 March 2011

Ivar Kiigemägi
Ernst & Young Baltic AS

Tiina Sõmer
Authorised Auditor

Profit allocation proposal

Retained earnings	124 427 663
Net profit for 2010	11 237 995
Intangible assets at book value	-12 123 957
(Subsection 59 (2) of the Insurance Activities Act)	
Total distributable profit as of 31.12.2010	123 541 701

The Management Board proposes to allocate the profit as follows:

To be distributed as dividends	10 013 824
Balance of distributable profit after profit allocation	**113 527 877**

Tiit Pahapill	Chairman of the Management Board		21.03.2011
Irja Elias	Member of the Management Board		21.03.2011
Urmas Kivirüüt	Member of the Management Board		21.03.2011
Algor Orav	Member of the Management Board		21.03.2011
Andres Lõhmus	Member of the Management Board		21.03.2011