SALVA KINDLUSTUSE AS
ANNUAL REPORT OF 2011

SALVA
KINDLUSTUS

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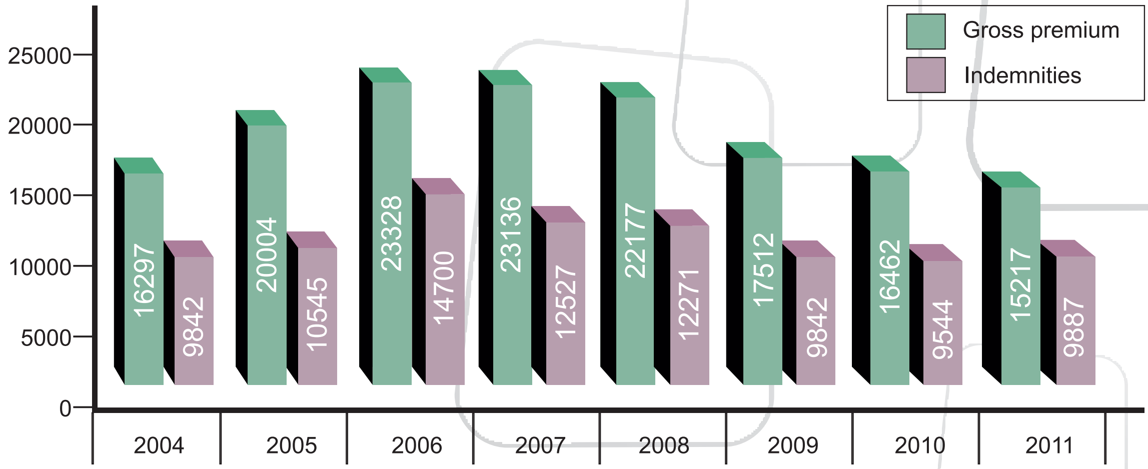
General information on Salva Kindlustuse AS

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:	01.01.2011
End of financial year:	31.12.2011
Managing director:	Tiit Pahapill
Auditor:	Ernst & Young Baltic AS

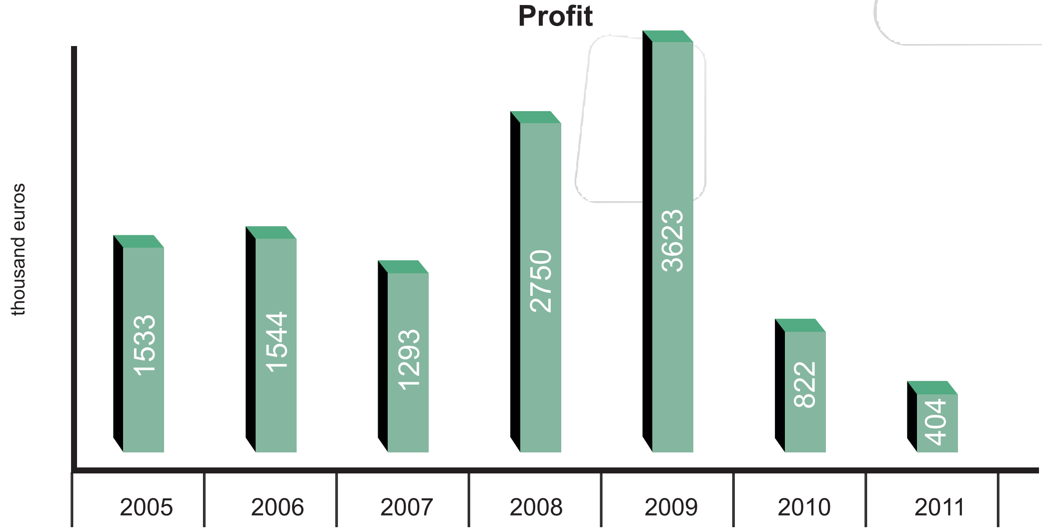
Financial review by Management

Main financial indicators

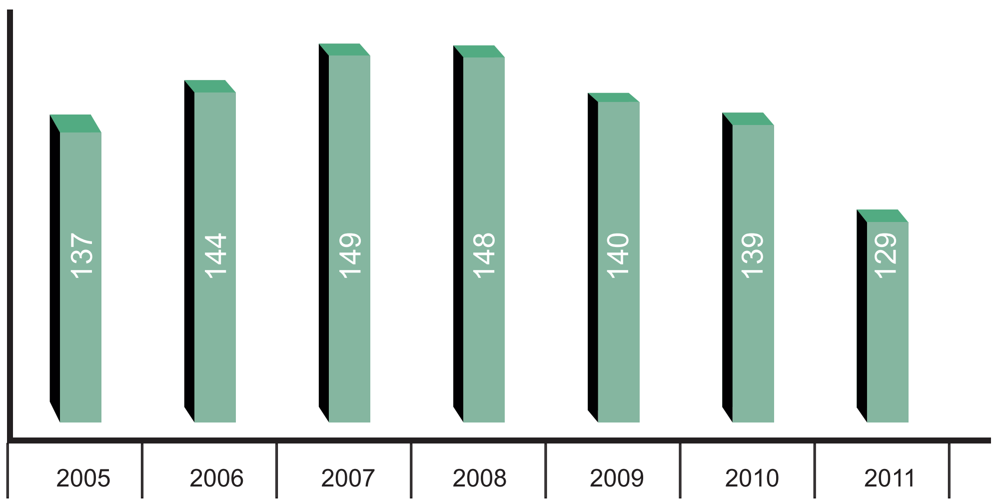
Gross premium and indemnities



Profit



Number of employees



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 sõidukite rent,	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

Economic growth of Estonia has exceeded expectation through the year. The overall economic growth figure (GDP) in Estonia in 2011 reached 7,5%. Unfortunately the pace of growth is slowing down, external uncertainties are increasing and the success of Estonia depends on whether the problems on European bond market will be put behind. The spreading debt crisis and the increasing contagion risk have seriously undermined economic sentiment in both Europe and the rest of the world. Key factor will be dissolving of market distrust in proposed economic policy measures.

Economic growth of Estonia is highly dependent on external partners. Therefore it is important to look into our future from that perspective. The eurozone debt crisis have also worsened significantly the economic situation of Estonia's main trading partners in the second half of 2011. Nevertheless, Estonia's domestic economic imbalances have decreased compared to the situation of years 2008-2009.

Based on opinion of Bank of Estonia, Estonian banks are having sufficient capitalisation and improved loan-to-deposit ratio, providing a good basis for financing households and companies. Cash flows from loan repayment and growing deposits are sufficient to support the markedly higher new lending volumes. At the same time, it is likely companies and households are postponing borrowing due to the highly uncertain economic environment. As a result, the loan portfolio will shrink in 2012 as well.

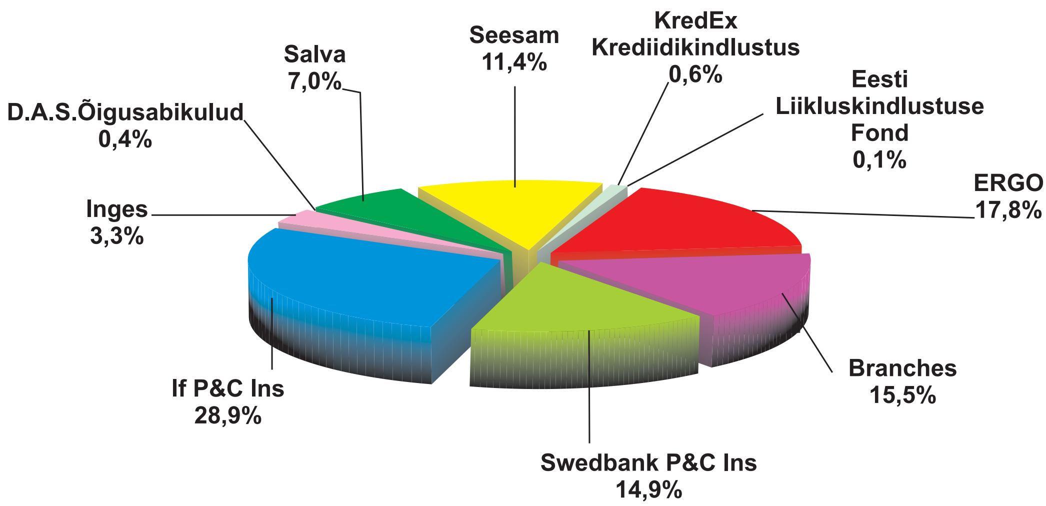
The Estonian labour market has come up with several positive surprises this year. Employment has increased and level of unemployment has dropped. The expected economic sluggishness in 2012 may make employers want to cut the number of their employees again.

In conclusion, we can assume that uncertainties of overall environment have reached level that is not supporting a robust growth scenario of expenditures amongst households or companies. More likely will be moderate decrease or staying at the same level.

Non-life insurance market

In 2011, non-life insurance companies and branches on the Estonian insurance market collected a total of 216 277 thousand euros in insurance premiums. This constitutes a 0,5% decrease in premiums from the same period in 2010 (217 273 thousand euros in 2010).
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 (35%). Tha amount of disbursements in 2011 was 134 122 thousand euros and remained the same compared to the previous year. The share of property insurance amounts to 25%; and the aggregated share of all the remaining insurance categories, 12% 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 2011.

Market shares of non-life insurance companies and foreign branches expressed in premiums received by the end of 2011:

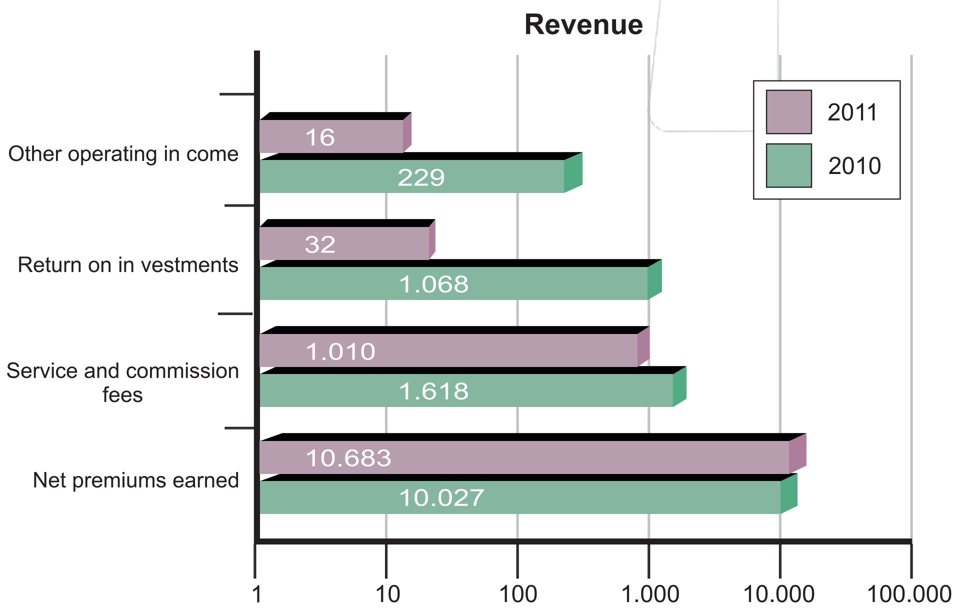


The competition on the non-life insurance market is still tense and there was no expected moderate rise in prices in 2011. On the positive side we can see that the drop in the volume of the none-life insurance market has halted and reached the bottom and hopefully recoveries of the volumes will be seen. Still it will take several years to see the volumes of the year 2008. On the negative side we can still find disproportion in claim incurred and premiums earned due to the continuing competitiveness on the Estonian market. The number of providers of insurance services is relatively high as compared to the volume of the market and interests of the companies to hold and increase their market share has lead to annual incomes lower than expected. In our opinion the situation where the substantive quality and the price of insurance services is out of balance is not sustainable and in order to offer low price they will go slightly up or there will be decisions towards lowering the quality or/and insurance covers.

Significant event characterizing year 2011 was an extraordinarily snowy winter, which impacted motor insurance figures in the first quarter of the year. Another impacts came from the flood in August in Tallinn and the storm in December whitch influenced property insurance figures.
In 2012 we are expecting a moderate price rise. Level of premium income on motor-vehicle-related categoriesis is not sustainable for long and we estimate some rise in the prices of motor TPL and the optional motor vehicle insurance. The situation and the attractiveness of the Estonian market is well characterised by the decision of QBE, the international insurance group, to end their activities in Estonia– the period of fast growth is over and those members of the market who have not reached the position they claimed for, need to be prepared for difficult work over the years.

Financial results

Salva Kindlustuse AS’s consolidated net profit in 2011 was 404.4 thousand euros (821.8 thousand euros in 2010).



Income in 2011 decreased by 9% from the same period the year before. Among these, the premiums earned, net of re-insurance, increased by 7%, income from service and commission fees decreased by 38%. Return on investments decreased substantially and made 3% from income from investments accounted previous year.

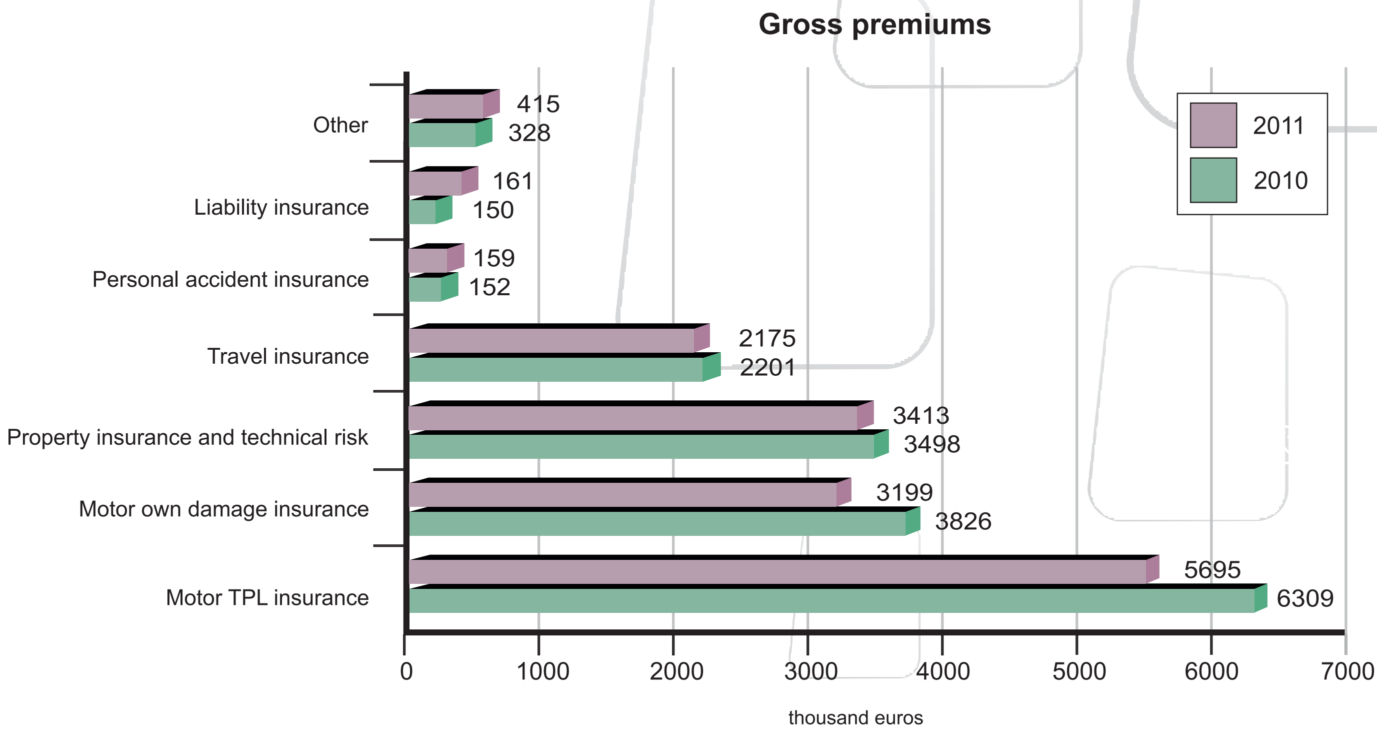
In 2011, Salva Kindlustuse AS gathered 15 217 thousand euros in gross insurance premiums, which is 8% less than in 2010 – 16 462 thousand euros.

Insurance premiums decreased the most in motor TPL insurance, by 10% and in optional vehicle insurance, by 16%. Premiums grew by 8% in liability insurance and by 5% in personal accident insurance.

In 2011, the profit from insurance activity amounted to 745.5 thousand euros. The indicator for the previous year was 180 thousand euros.

The consolidated loss ratio, net of reinsurance, was 59,98% (63,06% in 2010).

Salva Kindlustuse AS insurance premiums by category, 2011–2010



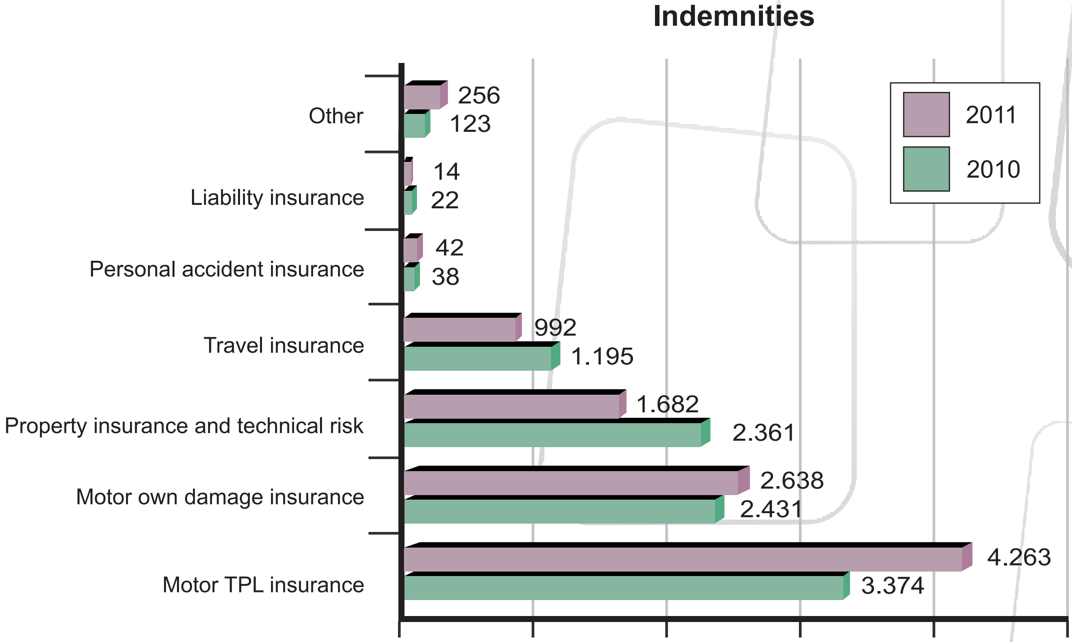
Claims

Total claims incurred in 2011 amounted to a total of 9 073.5 thousand euros – 11% less than in the same period last year (2010: 10 208.1 thousand euros).

Claims disbursements remained the same as in the same period last year; while claims adjustment expenses decreased 9% and income from refunds and residual assets increased 4%. Claims incurred net of reinsurance increased 1%.

Loss ratio 59,98% has slightly improved compared to previous year but it has been negatively impacted by the increase in the number of vehicle insurance loss claims due to the long, snowy winter in the beginning of the year and the growth in the number flood and storm loss claims in the private individuals' property insurance portfolio in the second half of the year.

Salva Kindlustuse AS insurance indemnities, by type, 2011-2010



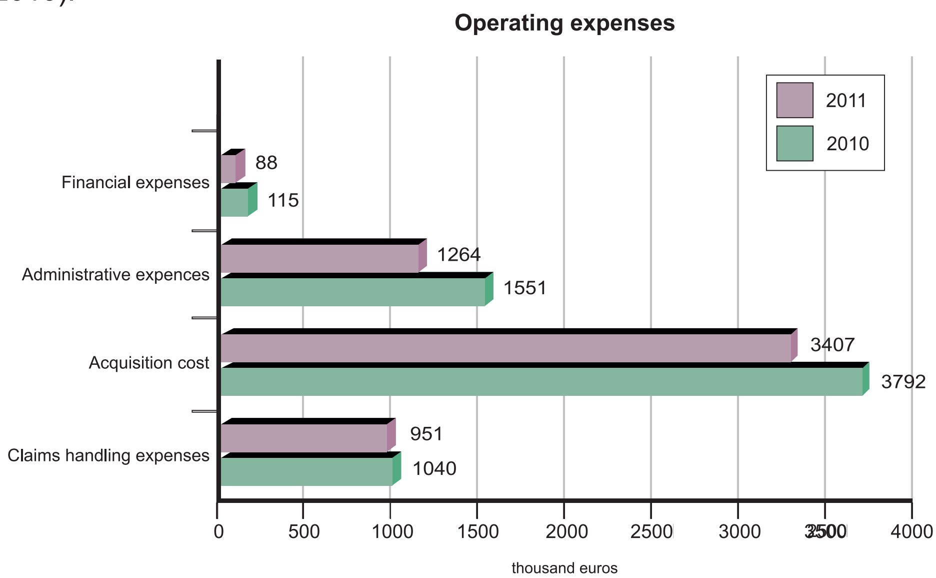
The number of loss claims satisfied in 2011 amounted to 10 089 and remained pracitically the same compared to the year before (10 037 in 2010).

Still accounting for large share of the total number of loss claims were vehicle insurance-related loss claims. Motor TPL insurance loss claims make up 38 percent and Motor Own Damage insurance losses 29% of the total number of loss claims. In 2010, their proportions were 34% and 27%, respectively. For the second consecutive year has risen the number of property insurance loss claims, which increased 24% compared to the previous year. Increase is partly due to the fact that policy-holders, becoming aware of the nature of insurance, report more and more about successively smaller losses.

Operating expenses

Operating expenses for 2011 decreased by 13% compared to 2010, amounting to 4 759.4 thousand euros. Acquisition costs decreased by 10% and administrative expenses decreased by 19%. Financial expenses decreased 23%. Total payroll expenses and commissions paid to intermediaries are reflected in acquisition costs and they decreased by 10% and 13% respectively compared to previous year.The decrease in acquisition costs is in conformity with the drop in the volume of premiums and decreasing role of the intermediaries in our sales.

The ratio of consolidated expenses to premiums, net of reinsurance, made up 33,04% at the end of 2011 (35,15% in 2010).



Balance sheet

The consolidated value of Salva Kindlustuse AS assets amounted to 26 886 thousand euros as of the end of 2011.

Insurance receivables increased by 24% in 2011, with their share in total assets being 4%.

Investment volume has decreased by 6% compared to the end of 2010, amounting to 15 426 thousand euros. The share of investments in total assets amounts to 57%. Due to uncertainties in financial markets more assets were held in cash and cash equivalents as they increased by 61%.

Liabilities arising from insurance contracts made up 46% of total assets as of the end of 2011, having increased by 2% compared to the end of last year, amounting to 12 318 thousand euros.

Prepayments from customers and liabilities to re-insurers increased by 5%, making up 6% of total assets.

Owner's equity

In 2011, Salva Kindlustuse AS's shareholders' equity decreased by 2%, and amounted to 12 119thousand euros. 640 thousand euros was paid as dividends to owners in 2011.

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.

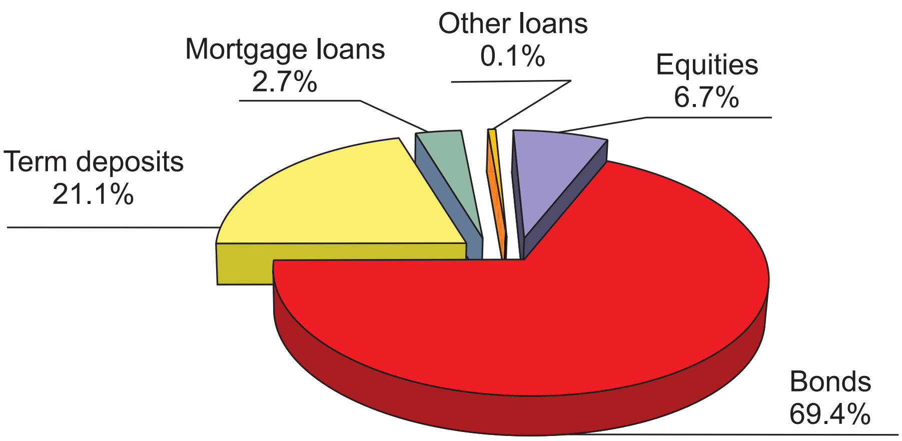
The keyword for 2011 was continued performance of the portfolio on the positive side and managing re-investment risks. In summary, we did not manage to gain some positive return on our investments in the position where securities markets and interest rates were declining.

The consolidated loss earned from investment activities in 2011 amounted to 55.1 thousand euros. The revenue for the same period last year amounted to 953.3 thousand euros. The consolidated annual rate of return on investment was -0,35%. The average rate of return of the bond portfolio was 0,5%.

The distribution of credit risk in the bond portfolio was the following: 15% of the bonds were rated AAA (S&P) or Aaa (Moody's), 31% had a rating of AA or Aa and A.

97% of investments are held in euros. In the opinion of the Management Board the currency risk is minimal. As of the end of the year, financial investments exceed the net technical reserves by 8 762 thousand euros, securing a sufficient liquidity reserve for the Company.

Structure of financial investments as of 31.12.2011



Organisation and management

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

The Company's supervisory board has six members, with the total remuneration paid to members of the supervisory board amounting to 34 thousand euros (2010: 31 thousand euros).

The Company's management board has five members, with the total remuneration paid to members of the supervisory board amounting to 326.4 thousand euros (2010: 357.9 thousand euros).

As of the end of 2011, the Group had 129 employees, including 67 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 2 610.4 thousand euros in 2011. Payroll expenses have decreased by 10% from last year (2010: 2 911.8 thousand euros).

Salva is to continue with its customer-centered strategy

2011 was a volatile year for the world economy. The European debt crisis, uncertainty of financial markets and the overall slowdown of global economy left their mark on confidence of businesses and private individuals alike. Despite the preserving volatility of the global environment, Estonia's economic growth continues and according to preliminary estimates, annual growth in 2011 is to reach 7.5%.

Although until now Estonia was holding well against fluctuations, development of our small and open economy depends on resolving of the European debt crisis and restoration of general feeling of confidence. According to analysts, in the following years the economic growth will be lower than in 2011, which will undoubtedly affect the insurance market.

2011 was not a make-or-break year for the insurance market. An important factor that affected portfolios of all companies were the extremely harsh weather conditions – abundance of snow early in the year, floods in August and storms in December. In addition the year was characterized by increasing competition in the car insurance sector, which despite logically expected growth of prices in connection with higher damage brought the car insurance prices to an even lower level.

For Salva 2011 brought the number of positive developments. Our cooperation with Krediidipank started very efficiently: we offer motor insurance contracts in 15 county service bureaus of the Motor Vehicle Register Center. In the future we plan to expand cooperation to all the insurance products offered by Salva. Although in 2011 cooperation with SEB broker has ended, we are happy to report that many customers were willing to continue working with Salva, which is a testimony to our reliability and high quality of our services.
The keyword of our work in 2011 was the customer-centered approach: in development of products and services, in the daily work and in further training of our employees. A survey conducted by Salva shows that our customers think it is very important that the insurance bureau is located close to them and that the services are available quickly and conveniently. Therefore in addition to those, situated in Tallinn sea port and airport, we opened new insurance machines (terminals) in Pärnu and in Tartu so that we can offer our fast and reliable services around the clock, seven days a week.

An important step in this direction is our constant development of digital channels. We are committed to become the first Estonian insurance company to employ digital solutions that would allow to sell all products and to handle all claims within a single integrated system. It will also provide greater opportunities for more personalized service tailored to the customer's wishes and possibilities. We plan to launch the fully operational new system in 2012.

In 2011 we have further developed a number of insurance products: expanded our home property insurance and liability conditions. As the biggest change of 2012 we plan to offer a variety of all-in-one products, which means, for instance, that customers will be able to easily conclude motor and comprehensive insurance contracts or home and liability insurance contracts at the same time.

Looking at the development of insurance market in the coming years, I believe that today's price level is not sustainable, and that quality of service and products along with customer-oriented strategy will become increasingly important. The path we have chosen leads in the right direction. Certainly, our long-term experience, continuous product development and competent employees allow to provide more customers with necessary and valuable services and to set an example for other insurance businesses with our professionalism and performance.

Tiit Pahapill

Chairman of the Management Board

Main financial indicators

Group	2011	2010	2009
in euros			
For the reporting period			
Gross premiums	15 216 983	16 461 927	17 512 333
Premiums earned, net of reinsurance	10 682 646	10 026 634	9 464 704
Gross claims incurred	9 073 537	10 208 137	8 898 797
Claims incurred, net of reinsurance	6 407 264	6 322 470	4 411 353
Total operating expenses	4 759 379	5 458 339	5 587 664
Net operating expenses	3 749 226	3 840 199	2 785 472
Net loss ratio	59,98%	63,06%	46,61%
Net expenses ratio	33,04%	35,15%	26,04%
Net combined ratio	93,02%	98,20%	72,64%
As of the end of the reporting period			
Total assets	26 886 315	27 354 426	27 384 757
Financial investments	15 426 268	16 346 806	15 496 630
Efficiency indicators			
Technical result	745 473	180 248	2 612 706
Investment result	-55 160	953 325	1 275 174
Profit for the period	404 447	821 753	3 623 484
Return on equity	3%	7%	32%
Annual return on investments	-0,35%	5,99%	8,58%
Per share			
Earnings per share	0,40	0,82	3,62

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 euros	Note	2 011	2010 Adjusted
REVENUE			
Gross premiums	3	15 216 983	16 461 927
Reinsurance premiums	3	-4 770 466	-5 559 274
Changes in the provision for unearned premiums	3	396 041	-182 702
Reinsurer's share of the change in provision for unearned premiums	3	-159 912	-693 317
Premiums earned, net of reinsurance	3	10 682 646	10 026 634
Service and commission fee revenue	4	1 010 153	1 618 140
Net investment revenue	5	32 578	1 067 815
Other income	6	15 839	229 755
Total revenue		11 741 216	12 942 344
EXPENSES			
Claims incurred	7	-9 073 537	-10 208 137
Reinsurer's share in claims incurred	7	2 666 273	3 885 668
Claims incurred, net of reinsurance	7	-6 407 264	-6 322 469
Acquisition costs	8	-3 407 473	-3 792 564
Administrative expenses	8	-1 264 168	-1 551 285
Financial expenses	8	-87 738	-114 490
Total operating expenses		**-4 759 379**	**-5 458 339**
Income tax	9	-170 126	-339 783
Profit for the financial year		**404 447**	**821 753**
Comprehensive income for the financial year		**404 447**	**821 753**
Incl. profit attributable to owners of the parent company		**402 668**	**821 753**
Incl. profit attributable to minority shareholders		**1 779**	**0**

Consolidated balance sheet

in euros	Note	31.12.2011	31.12.2010 Adjusted
ASSETS			
Property, plant and equipment	**11**	1 321 980	1 446 630
Intangible assets	**12**	1 759 272	878 376
Financial investments	**13**	15 426 268	16 346 806
Receivables under reinsurance contracts	**14**	5 828 987	6 788 726
Receivables from insurance activities and other receivables	**15**	1 235 022	1 076 378
Cash and cash equivalents	**16**	1 314 786	817 510
TOTAL ASSETS		**26 886 315**	**27 354 426**
LIABILITIES AND OWNER'S EQUITY			
Share capital		3 200 000	3 195 582
Reserve capital		320 836	320 836
Other reserves		64 428	64 428
Retained earnings		8 532 380	8 774 130
Total equity attributable to owners of the parent company		12 117 644	12 354 976
Minority interest		1 779	0
Total owner's equity	**17**	**12 119 423**	**12 354 976**
Liabilities under insurance contracts	**20**	12 318 222	13 070 857
Liabilities from reinsurance	**21**	1 229 446	1 181 482
Liabilities from direct insurance activities	**22**	306 528	284 161
Accrued expenses and prepaid revenue	**23**	912 696	462 950
Total liabilities		**14 766 892**	**14 999 450**
TOTAL LIABILITIES AND OWNER'S EQUITY		**26 886 315**	**27 354 426**

Consolidated statement of changes in equity

in euros	Share capital	Reserve capital	Other reserves	Retained earnings	Minority interest	Total
As of 31.12.2009	**3 195 582**	**320 836**	**64 428**	**9 230 610**	**0**	**12 811 456**
Profit for the financial period	0	0	0	718 239	0	718 239
Dividends paid	0	0	0	-1 278 233	0	-1 278 233
Total recognised income and expense for the year	**0**	**0**	**0**	**- 559 994**	**0**	**-559 994**
As of 31.12.2010	**3 195 582**	**320 836**	**64 428**	**8 670 616**	**0**	**12 251 462**
The effect of the correction of errors *				103 514		103 514
Adjustment as of 31.12.2010	**3 195 582**	**320 836**	**64 428**	**8 774 130**	**0**	**12 354 976**
Profit for the financial period	0	0	0	402 668	1 779	404 447
Dividends paid	0	0	0	-640 000	0	-640 000
Change in share capital	4 418	0	0	-4 418	0	0
Total recognised income and expense for the year	**4 418**	**0**	**0**	**-241 750**	**1 779**	**-235 553**
As of 31.12.2011	**3 200 000**	**320 836**	**64 428**	**8 532 380**	**1 779**	**12 119 423**

See Note 17 for additional information about equity.
* See note 12 for additional information.

Consolidated cash flow statement

in euros	Note	2011	2010
Cash flow from operating activities		**2 152 980**	**1 921 266**
Insurance premiums received		14 213 980	16 719 986
Claims paid and claims handling expenses		-8 633 497	-8 518 331
Paid to reinsurers		-252 599	265 987
Paid as operating expenses		-3 889 706	-6 280 899
Income tax paid		-170 126	-339 783
Acquisition of shares and other securities		-301 879	-1 988 577
Disposal of shares and other securities		347 567	1 445 958
Acquired fixed rate securities		-5 472 171	-6 361 315
Proceeds from disposals of fixed rate securities		1 962 777	4 299 406
Loans granted		-255 682	-35 535
Repayments of loans granted		379	372 783
Investments in term deposits		-3 245 000	-6 544 067
Return on term deposits		7 051 230	8 113 446
Disposal of other investments		0	178 440
Interest received		844 167	689 921
Dividends received		11 500	10 283
Investment expenses paid		-57 960	-106 437
Cash flow from investing activities		**-1 015 704**	**-279 101**
Acquisition of property, plant and equipment, and intangible assets	**11,12**	-1 015 704	-338 237
Disposals of property, plant and equipment, and intangible assets	**11,12**	0	59 136
Cash flow from financing activities		**-640 000**	**-1 278 233**
Dividends paid	**17**	-640 000	-1 278 233
Total cash flow		**497 276**	**363 931**
Cash and cash equivalents at the beginning of the period	**16**	**817 510**	**453 578**
Cash and cash equivalents at the end of the period	**16**	**1 314 786**	**817 510**

Notes to the financial statements

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 2011 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 19 March 2012. Shareholders have the right to decline the Annual Report prepared and submitted by the Management Board, and demand preparation of a new Annual Report.

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

2.1. Basis of preparation

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 2011.

The consolidated financial statements have been prepared in euros, 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.

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

2.2. Summary of significant accounting policies

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 euro.

Foreign currency transactions are recorded on the basis of the foreign currency exchange rates of European Central Bank 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 European Central Bank 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 2.5.

(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 2.5).

(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 2011 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 25.

(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 depreciation periods assigned to intangible assets 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.

In the case of impairment of intangible assets, 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.
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. Government grants are accompanied by contingent obligations and therefore are recorded as prepaid income and are not recorded in revenue.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 13.5.

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 (31.12.2011) 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.

There were no 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 and that should be disclosed in the financial statements.

2.3. Changes in accounting policies and correction of errors

Estonia joined Eurozone on January the 1st 2011 and national currency Estonian kroon (EEK) was replaced by euro (EUR). As a result the Company converted its accounting to euros and starting from financial years beginning on or after 1 January 2011 all financial reports will be drawn in euros. The official rate used for conversion of comparative information is 15,6466 EEK/EUR.
In 2011 an error in recognition of intangible assets was discovered. Expenses on software acquisition are reported under intangible assets. Prepayments for intangible assets include expenses on the insurance sales program not yet accounted as assets.
The external costs on the insurance sales program made by subsidiary were partly recognised as expenses in annual report of the previous year. Balance of intagible assets as at 31.12.2010 was adjusted with the number of costs made and afterwards they are recognised in Group as intangible assets.

Impact of the correction:

	31.12.2010	adjustment	01.01.2011
Intangible assets	711 679	103 514	815 193
Profit of the year	718 239	103 514	821 753

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 2011.

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

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amended)
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
IAS 24 Related Party Disclosures (Amended)
IAS 32 Classification on Rights Issues (Amended)
Improvements to IFRSs (May 2010)

- **IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)**

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The amendment is applied retrospectively.

- **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments**

The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss.

- **IAS 24 Related Party Transactions (Amendment)**

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The amendment is applied retrospectively.

- **IAS 32 Financial Instruments: Presentation (Amendment)**

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment is applied retrospectively.
The standards and interpretations and their amendments adopted in 2011 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.

- **Improvements to IFRSs**

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

- IFRS 1 First-time adoption
- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments - Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Reporting
- IFRIC 13 Customer Loyalty Programmes

b) New IFRS standards and interpretations issued but not yet effective and not early adopded

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

IFRS 7 Financial Instruments: Disclosures (Amended) - Enhanced Derecognition Disclosure Requirements

The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment has only disclosure effects.

The following standards are issued by IASB but has not yet been endorsed by the EU

- IAS 1 Financial Statement Presentation (Amended) – Presentation of Items of Other Comprehensive Income
- IAS 12 Income Taxes (Amended) – Recovery of Underlying Assets
- IAS 19 Employee Benefits (Amended)
- IAS 27 Separate Financial Statements (Revised)
- IAS 28 Investments in Associates and Joint Ventures (Revised)
- IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities
- IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities
- IFRS 9 Financial Instruments - Classification and Measurement
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosures of Involvement with Other Entities
- IFRS 13 Fair Value Measurement
- IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine

The Group is in the process of assessing the impact of the new interpretations on the financial position or performance of the Group.

2.5. 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, motor own damage 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 2010. 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, optional motor vehicle insurance and property insurance: 15% of the loss amount, a minimum of 64 euros and a maximum of 6 400 euros.

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:

thousand euros	up to 1	1-4	5-10	11+	Total
Liabilities under insurance contracts	9 924	531	646	1 217	12 318

The expected cash flows are presented in simplified manner using expectation that the liabilities from insurance contracts are fulfilled within 12 months, except for the provision for pension under motor third party liability insurance. More accurate estimation for future cash flows has so far been considered as being impractical. 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 2.

As of the end of 2011, the technical reserve amounted to 12 318 thousand eurot (2010: 13 071 thousand euros).

(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 21% of the total receivables are estimated to be collected in the next seven years. As of the end of 2011, receivables amounted to 2 330 819 euros. The management has estimated 645 819 euros of these receivables to be recoverable (2010: 587 956 euros).
Discounted cash flows of recoveries, fixed-term, in years:

thousand euros	up to 1	1-5	5-10	Total
Recoveries and salvages	203	393	50	646

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 2.2.

As of the end of 2011, the value of financial assets measured at fair value amounted to 15 426 268 euros (2010: 16 346 806 euros).

(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 and assessing net asset value. The principal assumptions applied in valuation future cash flows were the average cash flows on four previous years. Net asset value is the best assessment of the board. The discount rate applied to valuation of the fair value of a subsidiary was 12%.

3. Premiums earned, net of reinsurance

2011

in euros	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	5 694 728	99 410	-2 494 060	-39 765	3 260 313
Short-term health insurance	2 334 184	-17 562	-111 313	816	2 206 125
Motor vehicle insurance	3 198 608	282 855	-1 281 543	-113 142	2 086 778
Railway rolling stock and small craft	6 367	-248	-3 633	227	2 713
Insurance of goods in transit	42 928	1 240	-30 049	-868	13 251
Property insurance	3 412 623	50 796	-559 134	-15 560	2 888 725
Motor vehicle owner's liability	187 520	-11 307	-131 264	7 915	52 864
Liability insurance	161 292	9 872	-129 028	-7 897	34 239
Monetary damage	178 733	-19 015	-30 442	8 362	137 638
Total	**15 216 983**	**396 041**	**-4 770 466**	**-159 912**	**10 682 646**

2010

in euros	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	6 308 769	-316 388	-2 693 464	-57 633	3 241 284
Short-term health insurance	2 352 828	7 533	-129 375	-26 217	2 204 769
Motor vehicle insurance	3 826 045	27 240	-1 624 263	-129 108	2 099 914
Railway rolling stock and small craft	14 723	-799	-12 971	398	1 351
Insurance of goods in transit	30 811	-2 660	-21 568	1 862	8 445
Property insurance	3 497 762	103 638	-837 835	-484 938	2 278 627
Motor vehicle owner's liability	141 316	-1 718	-98 921	1 202	41 880
Liability insurance	149 929	-4 102	-119 943	3 282	29 166
Monetary damage	139 744	4 554	-20 934	-2 165	121 198
Total	**16 461 927**	**-182 702**	**-5 559 274**	**-693 317**	**10 026 634**

4. Service and commission fee revenue

in euros	Note	2011	2010
Reinsurer commission revenue	**10**	948 295	1 303 386
Reinsurer's profit sharing	**10**	19 471	12 908
Reinsurance share of changes in acquisition costs	**10**	37 665	285 515
Other technical income, net of reinsurance		4 722	16 331
Total		**1 010 153**	**1 618 140**

5. Net investment revenue

in euros	Note	2011	2010
Dividend revenue		11 500	10 283
Interest income from deposits		78 977	426 061
Other financial revenue, incl. interest revenue from loans granted		15 015	36 817
Trade portfolio revenue		-72 914	544 824
Revenue from derivative instruments		0	49 830
Total		**32 578**	**1 067 815**

6. Other income

in euros	2011	2010
Foreign exchange gains	**0**	81 856
Government grants	**0**	71 470
Other income	**15 839**	76 429
Total	**15 839**	229 755

7. Claims incurred

in euros	Note	2011	2010
Claims paid, gross		-9 190 914	-9 184 217
Claims handling expenses	8	-950 944	-1 040 154
Amounts received from recoveries and salvage		653 863	653 074
Estimated amounts receivable for recoveries and salvage		57 864	26 925
Total claims, gross		**-9 430 131**	**-9 544 372**
Change in the provision for claims outstanding		356 594	-663 765
Claims incurred, gross		**-9 073 537**	**-10 208 137**
Reinsurer's share in claims	10	3 433 867	4 031 219
Reinsurer's share of the change in the provision for claims outstanding	10	-767 594	-145 551
Reinsurer's share in claims incurred		**2 666 273**	**3 885 668**
Total		**-6 407 264**	**-6 322 469**

8. Operating expenses

in euros	Note	2011	2010
Claims handling expenses	**7**	**-950 944**	**-1 040 154**
Insurance contract acquisition expenses		-3 407 473	-3 792 564
Administrative expenses		-1 264 168	-1 551 284
incl. other expenses		-131 579	-201 792
Financial expenses		-87 738	-114 490
Total operating expenses		**-4 759 379**	**-5 458 339**
Total expenses		**-5 710 323**	**- 6 498 493**

in euros	2011	2010
Payroll expenses	-2 610 440	-2 911 753
Brokers' commission fees	-1 160 790	-1 329 047
Outsourced services	-179 457	-205 044
Depreciation and impairment of PPE and intangible assets	-208 827	-206 352
Other operating expenses	-1 500 176	-1 876 304
Change in deferred acquisition costs	-50 633	30 006
Total	**-5 710 323**	**- 6 498 493**

9. Income tax

in euros	2011	2010
Profit before taxes	574 573	1 161 536
Income tax on dividends	-170 126	-339 783
Net profit for the financial period	**404 447**	**821 753**

10. Reinsurance result

in euros	Note	2011	2010
Reinsurance premiums	3	-4 770 466	-5 559 274
Reinsurer's share of the change in provision for unearned premiums	3	-159 912	-693 317
Reinsurer's share in claims paid	7	3 433 867	4 031 219
Reinsurer's share of the change in the provision for claims outstanding	7	-767 594	-145 551
Reinsurance commission fees and profit sharing	4	1 005 431	1 601 809
Total		**-1 258 674**	**-765 114**

11. Property, plant and equipment

in euros	Land and buildings	Other PPE	Total
Acquisition cost			
31.12.2009	**1 508 408**	**645 878**	**2 154 286**
Acquisition	0	193 841	193 841
Disposal	0	-131 468	-131 468
Write-off	0	-27 961	-27 961
31.12.2010	**1 508 408**	**680 290**	**2 188 698**
Acquisition	0	29 210	29 210
Write-off	0	-15 623	-15 623
31.12.2011	**1 508 408**	**693 877**	**2 202 285**
Accumulated depreciation			
31.12.2009	**-352 128**	**-319 250**	**-671 378**
Depreciation charge for the year	-55 983	-100 180	-156 163
Depreciation charge of disposals	0	57 512	57 512
Depreciation charge of write-offs	0	27 961	27 961
31.12.2010	**-408 111**	**- 333 957**	**-742 068**
Depreciation charge for the year	-55 983	-97 877	-153 860
Depreciation charge of write-offs	0	15 623	15 623
31.12.2011	**-464 094**	**-416 211**	**-880 305**
Net book value			
31.12.2010	**1 100 297**	**346 333**	**1 446 630**
31.12.2011	**1 044 314**	**277 666**	**1 321 980**

Carrying amount of property fully amortised yet in use as at 31.12.2011 was 183 735 euros. (2010: 183 536 euros).

12. Intangible assets

in euros

	Other intangible assets	Prepayments for intangible assets	Total intangible assets
Acquisition cost			
31.12.2009	**294 659**	**216 546**	**511 205**
Acquisition	38 462	162 012	200 474
Reclassification	88 683	-88 683	0
31.12.2010	**421 804**	**289 875**	**711 679**
Change from correction of error	103 514	0	103 514
Acquisition cost after the adjustment	**525 318**	**289 875**	**815 193**
Acquisition	711 629	274 865	986 494
31.12.2011	**1 236 947**	**564 740**	**1 801 687**
Accumulated amortisation			
31.12.2009	**-254 021**	**0**	**-254 021**
Amortisation charge for the year	-50 188	0	-50 188
31.12.2010	**-304 209**	**0**	**-304 209**
Amortisation charge for the year	-54 966	0	-54 966
31.12.2011	**-359 175**	**0**	**-359 175**
Net book value			
31.12.2010	**221 109**	**289 875**	**510 984**
31.12.2011	**877 772**	**564 740**	**1 442 512**

Expenses on software acquisition are reported under intangible assets. Prepayments for intangible assets include expenses on the insurance sales program not yet accounted as assets.

The external costs on the insurance sales program made by subsidiary were partly recognised as expenses in annual report of the previous year. Balance of intagible assets as at 31.12.2010 was adjusted with the number of costs made and afterwards they are recognised in Group as intangible assets. Acquisitions made during the financial year 2011 include internaly capitalised development costs amounting to 212 416.

Impact of the correction:

	31.12.2010	adjustment	01.01.2011
Intangible assets	**711 679**	**103 514**	**815 193**
Profit of the year	718 239	103 514	821 753

Carrying amount of intangible assets fully amortised yet in use as at 31.12.2011 was 292 367 euros and it remained unchanged compared to previous year.

Deferred acquisition costs

in euros	
31.12.2009	**337 387**
Deferred	1 636 471
Amortised	-1 606 466
31.12.2010	**367 392**
Deferred	1 464 589
Amortised	**-1 515 221**
31.12.2011	**316 760**

Net book value

31.12.2010	**367 392**
31.12.2011	**316 760**

13. Financial assets

in euros	**Note**	**31.12.2011**	**31.12.2010**
Shares, equity funds and bond funds	**13.1**	**966 505**	**1 215 374**
Bonds and other fixed income securities	**13.2**	10 765 481	7 657 985
Loans	**13.3**	435 103	185 853
Term deposits	**13.4**	3 259 179	7 287 594
Total		**15 426 268**	**16 346 806**

in euros	**31.12.2011**	**31.12.2010**
Financial assets measured at fair value through profit and loss		
Classified as held for trading		
Shares, equity funds and bond funds	966 505	1 215 374
Bonds and other fixed income securities	10 765 481	7 657 985
Financial assets measured at amortised cost		
Loans and receivables		
Loans and term deposits	3 694 282	7 473 447
Total	**15 426 268**	**16 346 806**

in euros	31.12.2011		31.12.2010	
	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	966 505	1 106 738	1 215 374	1 203 264
Bonds and other fixed income securities	10 765 481	11 163 680	7 657 985	7 769 739
Financial assets measured at amortised cost				
Term deposits	3 259 179	3 245 000	7 287 594	7 050 605
Loans granted to related parties	317 871	313 912	34 384	31 956
Other loans	117 232	129 884	187 775	176 972
Total	**15 426 268**	**15 959 214**	**16 383 112**	**16 232 536**

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

13.1. Shares and participations

in euros	**31.12.2011**	**31.12.2010**
Listed shares	457 642	704 539
Bond and equity funds	508 863	510 835
Total	**966 505**	**1 215 374**

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 euros	**31.12.2011**	**31.12.2010**
EUR	667 582	678 658
USD	195 010	409 946
GBP	17 613	12 141
LTL	86 300	114 629
Total	**966 505**	**1 215 374**

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

Change in share prices thousand *euros*	**Change in the fair value of the portfolio**
Share prices +10%	46
Share prices +20%	92
Share prices - 10%	-46
Share prices - 20%	-92
Fair value 31.12.2011	**458**

13.2. Bonds

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

	31.12 2011	31.12.2010
in euros	At fair value	At fair value
Bonds with a fixed interest rate		
Government and government owned institutions bonds	10 637 705	7 041 616
Bonds of financial institutions	61 952	582 402
Total	**10 699 657**	**7 624 018**

Bonds with a floating interest rate

Other bonds	65 824	33 967
Total	**65 824**	**33 967**
Total bonds	**10 765 481**	**7 657 985**

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

Standard & Poor's	Moody's	31.12.2011	31.12.2010
Classified as held for trading			
AAA	Aaa	1 575 499	2 107 791
AA	Aa	521 639	883 233
A	A	2 762 514	1 334 698
BBB	Baa	4 777 423	3 033 532
BB	Ba	955 897	298 731
CCC	Ca	106 685	0
N/A		65 824	0
Total		**10 765 481**	**7 657 985**

By individual currencies, bonds are divided as follows:

in euros	31.12.2011	31.12.2010
Classified as held for trading		
EUR	10 765 481	7 621 463
LVL	0	36 522
Total	**10 765 481**	**7 657 985**

The bond portfolio is divided by maturity terms as follows:

in euros	31.12.2011	31.12.2010
Classified as held for trading		
Up to 6 months	696 814	528 162
6-12 months	1 618 052	1 079 101
1-3 years	7 868 657	2 328 220
Over 3 years	581 958	3 722 502
Total	**10 765 481**	**7 657 985**

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

in euros	**31.12.2011**	**31.12.2010**
Classified as held for trading		
Interest rate: 0.0-2.9%	532 113	501 287
Interest rate: 3.0-3.9%	937 404	949 005
Interest rate: 4.0-4.9%	5 545 649	3 075 192
Interest rate: 5.0-5.9%	1 606 899	1 734 790
Interest rate: 6.0-6.9%	61 952	62 798
Interest rate: 9.0-9.9%	2 081 464	1 334 913
Total	**10 765 481**	**7 657 985**

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.

Change in interest rate *in thousand euros*	**Change in the fair value of the portfolio**
Change in yield curve +50 base points	-95
Change in yield curve -50 base points	+113
Change in yield curve +100 base points	-189
Change in yield curve -100 base points	+191
Change in yield curve +200 base points	-372
Change in yield curve -200 base points	+404
Fair value 31.12.2011	**10 765**

13.3. Loans

in euros	**31.12.2011**	**31.12.2010**
Mortgage loans		
Loans to related parties with a term of up to 3 months	34 353	31 956
Loans to related parties with a term 3-12 months	283 518	0
Other mortgage loans with a term of up to 3 months	31 956	31 956
Other mortgage loans with a term of 3-12 months	62 089	60 716
Other mortgage loans with a term of 1-3 years	2 532	0
Total	**414 448**	**124 628**

Other loans

Loans with a term of up to 3 months	0	196
Loans with a term of 3-12 months	7 115	41 432
Loans with a term of 1-3 years	13 540	19 597
Total	20 655	61 225
Total loans	435 103	185 853

The annual interest rates for loans granted fall between 5.75% and 9%. Internal interest rates do not differ significantly from contractual interests. The result of the impact from the difference is inconsequential. The Management Board has evaluated that the collaterals are sufficient to fulfill the obligations from the mortgage loans.

13.4. Term deposits

Term deposits with credit institutions, by terms:

in euros	**31.12.2011**	**31.12.2010**
Up to 3 months	0	3 829 455
Term of 3-12 months	3 259 179	3 458 139
Total	**3 259 179**	**7 287 594**

The annual interest rates for term deposits fall between 1.97% and 2,4%.

Deposits are held in euros.

13.5 Evaluation of financial instruments under IFRS 7 levels

in thousand euros	**Level 1**		**Level 2**		**Level 3**		**Total**	
	31.12.11	**31.12.10**	**31.12.11**	**31.12.10**	**31.12.11**	**31.12.10**	**31.12.11**	**31.12.10**
Classified as held for trading								
Shares, equity funds and bond funds	458	704	0	0	509	511	967	1 215
Bonds and other fixed income securities	10 699	2 520	0	5104	66	34	10 765	7 658
Total	**11 157**	**3 224**	**0**	**5 104**	**575**	**545**	**11 732**	**8 873**

There were no movements in Level 3 during the financial year. Profit from revaluation of financial assets amounting to 30 thousand euros is recognised in investment income. There were no changes in valuation.

14. Receivables under reinsurance contracts

in euros	**Note**	**31.12.2011**	**31.12.2010**
Receivables from reinsurance		175 177	207 410
Reinsurer's share in provision for unearned premium	**20**	1 366 765	1 526 677
Reinsurer's share in provision for claims outstanding	**20**	4 287 045	5 054 639
Total		**5 828 987**	**6 788 726**

All receivables from reinsurance are paid within 12 months.

15. Receivables from insurance activities and other receivables

in euros	31.12.2011	31.12.2010
Policyholders	178 035	142 876
Insurance brokers	285 575	166 099
Recoveries and salvages	645 819	587 956
Prepaid taxes	4 307	14 416
Other accrued income	5 853	2 337
Other prepaid expenses	115 433	162 694
incl. Financial Supervision Authority's operation and maintenance costs	*50 381*	*23 438*
Total	**1 235 022**	**1 076 378**

Term of the receivables:

in euros	31.12.2011	31.12.2010
- not due yet	994 647	906 978
- due for up to 3 months	196 639	121 229
- due for 3-6 months	9 701	17 502
- due for 6-12 months	13 814	13 004
- due for over 1 year	20 221	17 665
Total	**1 235 022**	**1 076 378**

Impairment of receivables:

in euros	31.12.2011	31.12.2010
Allowance for doubtful receivables at the beginning of the period	0	-5 507
Collection of receivables recognised as doubtful in the reporting period	-15 746	-42 557
Receivables recognised as doubtful in the reporting period	15 746	48 064
Allowance for doubtful receivables at the end of the period	**0**	**0**

16. Cash and cash equivalents

in euros	31.12.2011	31.12.2010
Cash in hand	7 398	15 471
Cash at bank	1 307 388	802 039
Total	**1 314 786**	**817 510**

Cash and cash equivalents by individual currencies:

in euros	**31.12.2011**	**31.12.2010**
EEK	0	736 285
EUR	1 028 056	76 316
USD	286 730	2 076
LVL	0	2 833
Total	**1 314 786**	**817 510**

17. 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 euros	**31.12.2011**	**31.12.2010**
Owner's equity	12 119 423	12 354 976
Solvency margin	10 352 493	11 203 994
Required minimum solvency margin	1 798 367	1 729 424
Surplus	8 554 126	9 474 569

The minimum solvency margin of an insurance undertaking has been established at 3.5 million euros.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 18.

Share capital

As of 31.12.2011, the registered share capital of the Group amounted to 3 200 000 euros (2010: 3 195 582 euros), divided into 1,000,000 shares with a nominal value of 3.2 euros (as of 31.12.2010, 1,000,000 shares had been issued). Share capital was rised due to Estonia joining Eurozone on Januari the 1st 2011. 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 2011, a total of 640 000 euros was paid in dividends, i.e. 0,64 euros per share.

The management board has proposed to the general meeting of the shareholders to pay 320,000 euros in dividends, i.e. 0,32 euros 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 319 558 euros, and the mandatory reserve of Salva Kahjukäsitluse OÜ (pursuant to subsection 160 (2) of the Commercial Code) in the amount of 1 278 euros.

Other reserves

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

18. 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 250 thousand euros, 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.

31.12.2011

Type of insurance in *thousand euros*	**Gross liabilities related to insurance contracts**	**Reinsurer's share of liabilities**	**Net liabilities**
Motor third party liability insurance	8 098	4 492	3 606
Motor vehicle insurance	1 530	619	911
Short-term health insurance	456	23	433
Household property insurance	1 002	130	872
Corporate property insurance	961	254	707
Monetary Damage	116	20	96
Liability insurance	69	56	13
Other	86	60	26
Total	**12 318**	**5 654**	**6 664**

31.12.2010

Type of insurance in *thousand euros*	**Gross liabilities related to insurance contracts**	**Reinsurer's share of liabilities**	**Net liabilities**
Motor third party liability insurance	8 817	5 105	3 712
Motor vehicle insurance	1 798	752	1 046
Short-term health insurance	385	34	351
Household property insurance	659	56	603
Corporate property insurance	886	267	619
Railway transport insurance	287	257	29
Liability insurance	70	56	14
Other	169	54	115
Total	**13 071**	**6 581**	**6 489**

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.

31.12.2011

Factors *in thousand euros*	**Value**	**Potential change**	**Effect on equity, thousands of euros**	**Effect on equity, %**
Net claims incurred	6 407	+5%	-320	-2,6
High net loss of motor third party liability insurance			-250	-2,0
High net loss of property insurance			-450	-3,7
Operating expenses	4 759	+5%	-238	-1,9

31.12.2010

Factors *in thousand euros*	**Value**	**Potential change**	**Effect on equity, thousands of euros**	**Effect on equity, %**
Net claims incurred	6 323	+5%	-316	-2,5
High net loss of motor third party liability insurance			-150	-1,2
High net loss of property insurance			-447	-3,6
Operating expenses	5 366	+5%	-268	-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 13 (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. 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 euros	*Financial risk*		**31.12.2011**	**31.12.2010**
Financial assets measured at fair value through profit and loss				
Shares, equity funds and bond funds	Market risk, liquidity risk	**13.1**	966 505	1 215 374
Bonds and other fixed income securities	Market risk, liquidity risk, interest risk	**13.2**	10 765 481	7 657 985
Financial assets held to maturity				
Loans and term deposits	Credit risk	**13.3,13.4**	3 694 282	7 473 447
Receivables under reinsurance contracts	Credit risk	**14**	5 828 987	6 788 726
Receivables from insurance activities and other receivables	Credit risk	15	1 235 022	1 076 378
Cash and cash equivalents	Credit risk	**16**	1 314 786	817 510
Total exposure to financial risk			**23 805 063**	**25 029 420**

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.

Concentration risk

Concentration risk means greater risk of loss related to an inadequately distributed portfolios of assets or/and liabilities. Concentration risk mainly concerns market and credit risks related to investment portfolios of single counterparties.

The below table provides an overview of the concentration of market- and credit risk in five greater single counterparties and financial classes:

in euros	Deposits	Bonds
Danske Bank A/S Estonian Branch	2 410 467	
Czech Republic		1 176 016
Republic of Latvia		2 227 024
Republic of Lithuania		2 081 464
Republic of Poland		1 074 477
Total	**2 410 467**	**6 558 981**

Currency risk

Currency risk involves the possibility of foreign exchange losses.

Estonia joined the euro area on 1 January 2011. 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 euros, and currencies pegged to the euro.

Interest risk

Interest risks are borne by short and 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 71 (3) of the Insurance Activities Act, the solvency margin minimum shall be 3.5 million euros. The Group's solvency margin was 10.4 million euros at the end of 2011, in line with the rules for accounting for the solvency margin, stipulated in the Insurance Activities Act. The minimum consolidated solvency margin is 1,8 million euros.

19. 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 thousand euros

First year of validity

Cumulative estimate of losses	Before 2001	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
As at 31December starting from the validity of the policy		5 688	8 462	8 817	10 066	14 385	16 754	14 364	11 762	10 321	11 155	0	Total
1 year later		5 473	8 392	8 759	9 844	13 755	16 358	14 015	11 603	10 055	0	0	
2 years...		5 351	8 716	8 496	9 591	13 446	16 225	13 794	11 453	0	0	0	
3 years...		5 282	8 668	8 268	9 611	13 399	16 147	13 590	0	0	0	0	
4 years...		5 240	8 192	8 215	9 535	13 311	15 742	0	0	0	0	0	
5 years...		4 993	8 143	8 132	9 524	13 199	0	0	0	0	0	0	
6 years…		4 971	8 165	8 132	9 475	0	0	0	0	0	0	0	
7 years…		5 036	8 160	8 091	0	0	0	0	0	0	0	0	
8 years…		5 031	8 129	0	0	0	0	0	0	0	0	0	
9 years…		5 002	0	0	0	0	0	0	0	0	0	0	
Cumulative estimate of claims		5 002	8 129	8 091	9 475	13 199	15 742	13 590	11 453	10 055	11 155		
the adequacy of estimate made 1 year after the end of validity of the policy as at 31.12.2011		114%	104%	109%	106%	109%	106%	106%	103%	103%	100%		
Total disbursements as at 31.12.2011		4 940	7 648	8 059	9 336	13 101	14 495	12 879	10 845	9 323	9 646	4 245	
Provision for outstanding claims as at 31.12.2011	42	61	481	32	139	98	1 247	711	608	732	1 509	2 415	8075

In the management's opinion, the amounts of technical reserves reported in the financial statements prepared as of the end of 2011 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.

20. Liabilities related to insurance contracts and reinsurance share

in euros	**31.12.2011**	**31.12.2010**
Gross		
Provision for losses incurred in the previous periods	2 499 792	3 349 242
Provision for losses incurred in the reporting period	2 556 552	2 378 086
Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR)	7 941	5 081
Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR)	508 073	443 141
Provision for pension under motor third party liability insurance incurred in the previous periods	2 397 234	1 942 382
Provision for pension under motor third party liability insurance incurred in the reporting period	105 494	313 748
Provision for unearned premiums	4 243 136	4 639 177
Total	**12 318 222**	**13 070 857**
Reinsurer's share		
Provision for losses incurred in the previous periods	1 707 473	2 453 038
Provision for losses incurred in the reporting period	840 700	903 757
Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR)	3 174	2 638
Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR)	171 917	160 095
Provision for pension under motor third party liability insurance incurred in the previous periods	1 521 583	1 385 879
Provision for pension under motor third party liability insurance incurred in the reporting period	42 198	149 232
Provision for unearned premiums	1 366 765	1 526 677
Total	**5 653 810**	**6 581 316**
Net		
Provision for losses incurred in the previous periods	792 319	896 204
Provision for losses incurred in the reporting period	1 715 852	1 474 329
Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR)	4 767	2 443
Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR)	336 156	283 046
Provision for pension under motor third party liability insurance incurred in the previous periods	875 651	556 503
Provision for pension under motor third party liability insurance incurred in the reporting period	63 296	164 516
Provision for unearned premiums	2 876 371	3 112 500
Total	**6 664 412**	**6 489 541**

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

20.1. Provision for unearned premiums

		2011	
in euros	Liabilities under insurance contracts	Reinsurer's share	Net
Balance 01.01.2011	**4 639 177**	**1 526 677**	**3 112 500**
Premiums written in the year	15 216 983	4 770 466	10 446 517
Premiums earned during the year	15 613 024	4 930 378	10 682 646
Balance 31.12.2011	**4 243 136**	**1 366 765**	**2 876 371**

		2010	
in euros	Liabilities under insurance contracts	Reinsurer's share	Net
Balance 01.01.2010	**4 456 474**	**2 219 993**	**2 236 481**
Premiums written in the year	16 461 927	5 559 274	10 902 653
Premiums earned during the year	16 279 224	6 252 590	10 026 634
Balance 31.12.2010	**4 639 177**	**1 526 677**	**3 112 500**

20.2. Provision for losses incurred

		2011	
in euros	Liabilities under insurance contracts	Reinsurer's share	Net
Balance 01.01.2011	**8 431 680**	**5 054 639**	**3 377 041**
Claims paid during the year that incurred in prior accident years	-2 518 445	-1 022 090	- 1 496 355
Claims paid during the year that incurred in the current accident year	-7 368 559	-2 411 777	-4 956 782
Adjustment to claims incurred in prior accident years	-1 008 269	-800 319	-207 950
Losses incurred during the year	10 538 679	3 466 592	7 072 087
Balance 31.12.2011	**8 075 086**	**4 287 045**	**3 788 041**

		2010	
in euros	Liabilities under insurance contracts	Reinsurer's share	Net
Balance 01.01.2011	**7 767 915**	**5 200 191**	**2 567 724**
Claims paid during the year that incurred in prior accident years	-1 526 530	-968 198	-558 332
Claims paid during the year that incurred in the current accident year	-8 017 852	-3 062 960	-4 954 892
Adjustment to claims incurred in prior accident years	-944 681	-390 438	-554 243
Losses incurred during the year	11 152 828	4 276 044	6 876 784
Balance 31.12.2011	**8 431 680**	**5 054 639**	**3 377 041**

21. Liabilities under reinsurance

in euros	**31.12.2011**	**31.12.2010**
Payables to reinsurers	680 925	595 296
Reinsurer's share in recoveries and salvage	371 587	371 587
Reinsurer's share of the deferred acquisition costs	176 934	214 599
Total	**1 229 446**	**1 181 482**

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

22. Liabilities from direct insurance activities

in euros	**31.12.2011**	**31.12.2010**
Policyholder prepayments	206 352	192 971
Payables to insurance brokers	87 700	82 818
Other liabilities	12 476	8 372
Total	**306 528**	**284 161**

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

23. Accrued expenses and other prepaid revenue

in euros	**31.12.2011**	**31.12.2010**
Payables to employees	148 028	24 319
Vacation accrual	122 907	135 985
Value added tax	5 571	1 275
Personal income tax	57 451	63 916
Social tax	113 121	117 018
Unemployment insurance	12 650	13 419
Funded pension liability	4 599	3 266
Corporate income tax	4 165	4 183
Accounts payable	128 633	98 739
Prepaid rent	831	831
Prepaid income	314 740	0
Total	**912 696**	**462 950**

All accruals are short-term (up to 12 months). Received government grants for research and development are recognized as prepaid income. The management Board has decided not to recognize them as revenue until it is clare that all terms and conditions for retaining are fulfilled.

24. Operating lease

Assets used under operating lease

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

in euros	**2011**	**2010**
Passenger car rental payments	15 488	13 294
Office space rental payments	205 873	221 773

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

in euros	
up to 1 year	65 252
1-5 years	67 555

The lease contracts have been concluded for a fixed term, for a period of 1-5 years.

Assets leased out under operating lease

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

in euros	**2011**	**2010**
Office space rental revenue	54 118	54 133

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

in euros	
up to 1 year	54 290
1-5 years	164 114
Over 5 years	10 017

25. Provisions and contingent liabilities

Income tax

As of 31.12.2011, the company's retained earnings amounted to 8 532 380 euros (last year: 8 774 130 euros) and net book value of intangible assets to maksumus 1 759 272 euros (last year: 878 376. The maximum possible income tax liability related to the payment of the company's retained earnings as dividends is 1 422 353 euros (last year: 1 558 108 euros). The company can thus pay a total of 5 350 775 euros in net dividends (last year 6 237 646 euros). 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 2012 would not exceed the distributable profit as of 31.12.2011.

Other

Claims of action in the amount of 29 536 euros have been submitted against Salva Kindlustuse AS in connection with insurance losses. The management board estimates approximately 21 079 euros of these claims to be satisfied, with the corresponding amount charged to the outstanding claims reserve.

26. 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 2011, insurance contracts with aggregate premiums of 4 505 euros were concluded with members of the management board. The wages of the members of the management board amounted to 326,4 thousand euros and the remuneration paid to members of the supervisory board to 34,0 thousand euros. Remuneration of the members of the board is based on the basic salary. Performance pay members of the board are intitled to does not exceed one-third of bacic salary and will directly depend on the size of consolidated profit. 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 euros	**2011**	**2010**
Companies related to a management board member	25 029	26 207

As of 31.12.2011, the balance of loans granted to own employees and related parties amounted to 338 526 euros. (31.12.2010: 93 181)

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.

27. Subsidiaries

in euros	**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	2 556	2 556
Acquisition cost	2 556	2 556

28. 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 euros	**2 011**	**2 010**
REVENUE		
Gross premiums	15 233 358	16 481 289
Reinsurance premiums	-4 770 466	-5 559 274
Changes in the provision for unearned premiums	396 041	-182 702
Reinsurer's share of the change in provision for unearned premiums	-159 912	-693 316
Premiums earned, net of reinsurance	**10 699 021**	**10 045 996**
Service and commission fee revenue	1 010 153	1 618 141
Net investment revenue	3 946 399	1 492 784
Other income	26 083	11 443
Total revenue	**15 681 656**	**13 168 364**

EXPENSES		
Claims incurred	-9 472 546	-10 494 871
Reinsurer's share in claims incurred	2 666 273	3 885 668
Claims incurred, net of reinsurance	**-6 806 273**	**-6 609 203**
Acquisition costs	-3 508 605	-3 743 173
Administrative expenses	-1 226 958	-1 204 344
Financial expenses	-81 954	-99 948
Total operating expenses	**-4 817 517**	**-5 047 465**
Income tax	-85 063	-339 783
Profit for the financial year	**3 972 803**	**1 171 912**

Balance sheet of Salva Kindlustuse AS

in euros	**31.12.2011**	**31.12.2010**
ASSETS		
Property, plant and equipment	62 431	38 737
Intangible assets	1 286 693	680 663
Subsidiaries	7 215 921	3 557 450
Financial investments	13 503 366	14 491 682
Receivables under reinsurance contracts	5 828 987	6 788 727
Receivables from insurance activities and other receivables	1 368 476	1 371 836
Cash and cash equivalents	1 274 701	757 107
TOTAL ASSETS	**30 540 575**	**27 686 202**

LIABILITIES AND OWNER'S EQUITY		
Share capital	3 200 000	3 195 582
Reserve capital	319 558	319 558
Other reserves	64 429	64 428
Retained earnings	8 318 685	7 791 191
Profit for the financial year	3 972 803	1 171 912
Total owner's equity	**15 875 475**	**12 542 672**
Liabilities under insurance contracts	12 318 222	13 070 857
Liabilities from reinsurance	1 229 446	1 181 482
Liabilities from direct insurance activities	306 528	284 161
Other liabilities	434 772	308 892
Accrued expenses and prepaid revenue	376 132	298 138
Total liabilities	**14 665 100**	**15 143 530**
TOTAL LIABILITIES AND OWNER'S EQUITY	**30 540 575**	**27 686 202**

Cash flow statement of Salva Kindlustuse AS

in euros	**2011**	**2010**
Cash flow from operating activities	**1 679 833**	**2 156 954**
Insurance premiums received	14 238 191	16 739 253
Claims paid and claims handling expenses	-9 591 326	-9 521 092
Paid to reinsurers	-252 599	265 987
Paid as operating expenses	-3 522 003	-5 030 640
Income tax paid	-85 063	-339 783
Acquisition of shares and other securities	-301 879	-1 988 577
Disposal of shares and other securities	347 567	1 445 958
Acquired fixed rate securities	-4 397 689	-5 653 571
Proceeds from disposals of fixed rate securities	1 962 777	4 299 406
Loans granted	-255 682	-35 535
Repayment of loans granted	379	692 341
Investments in term deposits	-3 071 000	6 544 067
Return on term deposits	6 047 186	7 101 192
Disposal of other investments	0	178 440
Interest received	602 888	636 891
Dividends received	11 500	10 283
Investment expenses paid	-53 414	-99 532
Cash flow from investing activities	**-522 239**	**-443 898**
Acquisition of property, plant and equipment, and intangible assets	-522 239	-443 898
Cash flow from financing activities	**-640 000**	**-1 278 233**
Dividends paid	-640 000	-1 278 233
Total cash flow	**517 594**	**434 823**
Cash and cash equivalents at the beginning of the period	**757 107**	**322 284**
Cash and cash equivalents at the end of the period	**1 274 701**	**757 107**

Statement of changes in equity of Salva Kindlustuse AS

in euros	Share capital	Reserve capital	Other reserves	Retained earnings	Total
As of 31.12.2009	**3 195 582**	**319 558**	**64 429**	**9 069 424**	**12 648 993**
Profit for the financial period	0	0	0	1 171 912	1 171 912
Dividends paid	0	0	0	-1 278 233	-1 278 233
Total recognised income and expense for the year	**0**	**0**	**0**	**-106 321**	**-106 321**
As of 31.12.2010	**3 195 582**	**319 558**	**64 429**	**8 963 103**	**12 542 672**
Profit for the financial period	0	0	0	3 972 803	3 972 803
Dividends paid	0	0	0	-640 000	-640 000
Change in share capital	4 418	0	0	-4 418	0
Total recognised income and expense for the year	**4 418**	**0**	**0**	**3 328 385**	**3 332 803**
As of 31.12.2011	**3 200 000**	**319 558**	**64 429**	**12 291 488**	**15 875 475**

See Note 17 for additional information.

Parent company's adjusted unconsolidated equity in accordance with the requirements of the Commercial Code, as of 31 December 2011:

	2011	2010
Parent company's unconsolidated equity	15 875 474	12 542 672
Investment in the parent company's balance sheet	-7 215 921	- 3 557 450
Subsidiary's value under the equity method	3 458 111	3 266 241
Total	**12 117 664**	**12 251 463**

Signatures of the Management Board to the Annual Report 2011

The Management Board of Salva Kindlustuse AS has prepared the management report and financial statements for 2011.

Management Board:

Tiit Pahapill	*Chairman of the Management Board*	....	*19.03.2012*
Irja Elias	*Member of the Management Board*	....	*19.03.2012*
Urmas Kivirüüt	*Member of the Management Board*	....	*19.03.2012*
Algor Orav	*Member of the Management Board*	....	*19.03.2012*
Andres Lõhmus	*Member of the Management Board*	....	*19.03.2012*

Auditor's report

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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 consolidated financial statements of Salva Kindlustuse AS, which comprise the balance sheet as at 31 December 2011, 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 consolidated financial statements present fairly, in all material respects, the financial position of Salva Kindlustuse AS as at 31 December 2011, 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 28 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 a whole.

Tallinn, 20 March 2012

Ivar Kiigemägi
Authorised Auditor's number 527
Ernst & Young Baltic AS
Audit Company's Registration number 58

A member firm of Ernst & Young Global

Profit allocation proposal

Retained earnings	*8 129 712*
Net profit for 2011	*402 668*
Intangible assets at book value (Subsection 59 (2) of the Insurance Activities Act)	*-1 759 272*
Total distributable profit as of 31.12.2011	*6 773 108*

The Management Board proposes to allocate the profit as follows:

To be distributed as dividends:	*320 000*
Balance of distributable profit after profit allocation	*6 453 108*

Tiit Pahapill	*Chairman of the Management Board*	*……………*	*19.03.2012*
Irja Elias	*Member of the Management Board*	*……………*	*19.03.2012*
Urmas Kivirüüt	*Member of the Management Board*	*……………*	*19.03.2012*
Algor Orav	*Member of the Management Board*	*……………*	*19.03.2012*
Andres Lõhmus	*Member of the Management Board*	*……………*	*19.03.2012*