SALVA KINDLUSTUS

SALVA KINDLUSTUSE AS ANNUAL REPORT 2012

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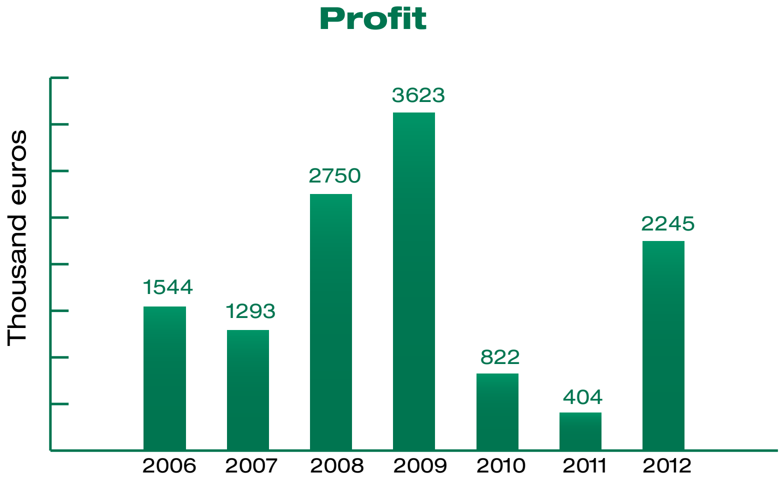
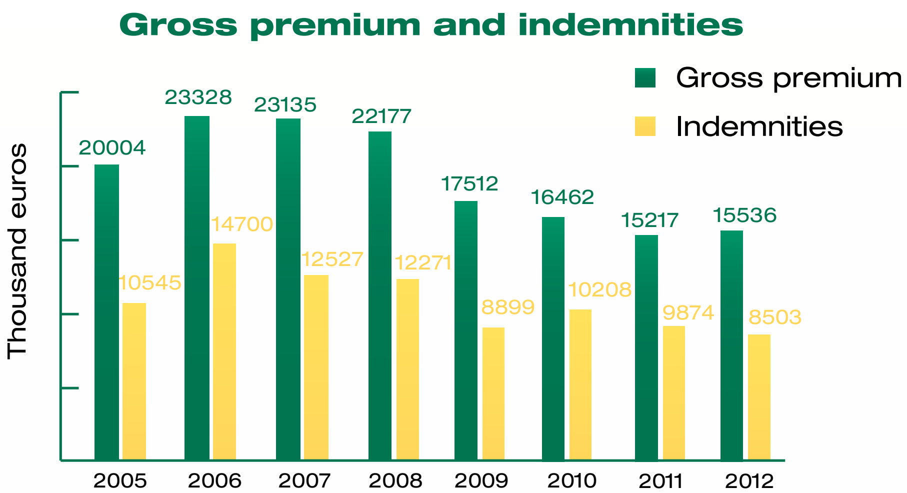
General information on Salva Kindlustuse AS

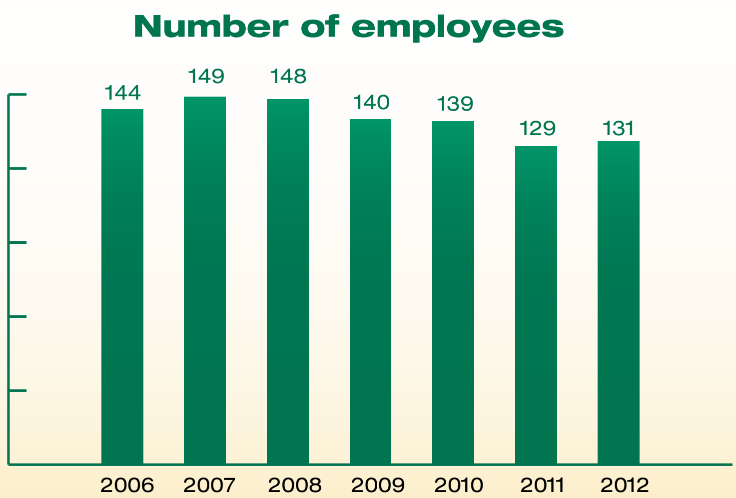
Business name:	**Salva Kindlustuse AS**
Address:	**Pärnu mnt.16, 10141 Tallinn**
Registry code:	**10284984**
Telephone:	**6800 500**
Fax:	**6800 501**
E-mail:	**salva@salva.ee**
Web page:	**http://www.salva.ee**
Main field of activity:	**Non-life insurance**
Beginning of financial year:	**01.01.2012**
End of financial year:	**31.12.2012**
Managing director:	**Tiit Pahapill**
Auditor:	**Ernst & Young Baltic AS**

Financial review by Management

Main financial indicators







Vision, mission and strategy

Vision

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

Mission

We are a continuously developing non-life insurance company 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 nearly twenty 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	Partici-pation (%)
Salva Kindlustuse AS	10284984	March 1993	Pärnu mnt.16, Tallinn	non-life insurance	100%
Salva Kahjukäsitluse OÜ*	10259383	September 1997	Tammsaare tee 118B, Tallinn	claims handling, rent of vehicles, asset management	100%
Business Information Systems OÜ*	11611994	March 2009	Pärnu mnt 16, Tallinn	research and development in the field of other natural and technical sciences	49%

The parent company is Salva Kindlustuse AS, whose main area of activity is non-life insurance.

*Consolidated subsidiaries of Salva Kindlustuse AS.

Economic environment

Economic growth of Estonia slowed down in 2012 as expected. The overall economic growth figure (GDP) in Estonia in 2012 reached 3,2%. This tendency is caused by decreasing growth of export demand and moderate domestic demand.

In the third quarter of 2012 the expenditures amongst households grew much faster than income and savings were slowing down. Record for the fourth quarter show that the growth of retail sale which characterizes domestic demand, has slowed down and the growth of industrial production which characterizes export demand, has accelerated.

Growth engine for the Baltics as a whole in 2013 has been mainly domestic demand, which is operated by low interest rates, a slight increase in income and improved level of unemployment.

Various experts estimate the overall GDP in Estonia for the year 2013 to reach 3%.

Estonia, being open and small economy, is highly dependent on the success of external trading partners in Scandinavia and Germany. Therefore it is unfortunate to admit the continuous uncertainties that impact those environments.

In conclusion, we can assume that in 2013 we will still operate in unstable environment. Only some indications show the growth of expectations to improvement and recovery.

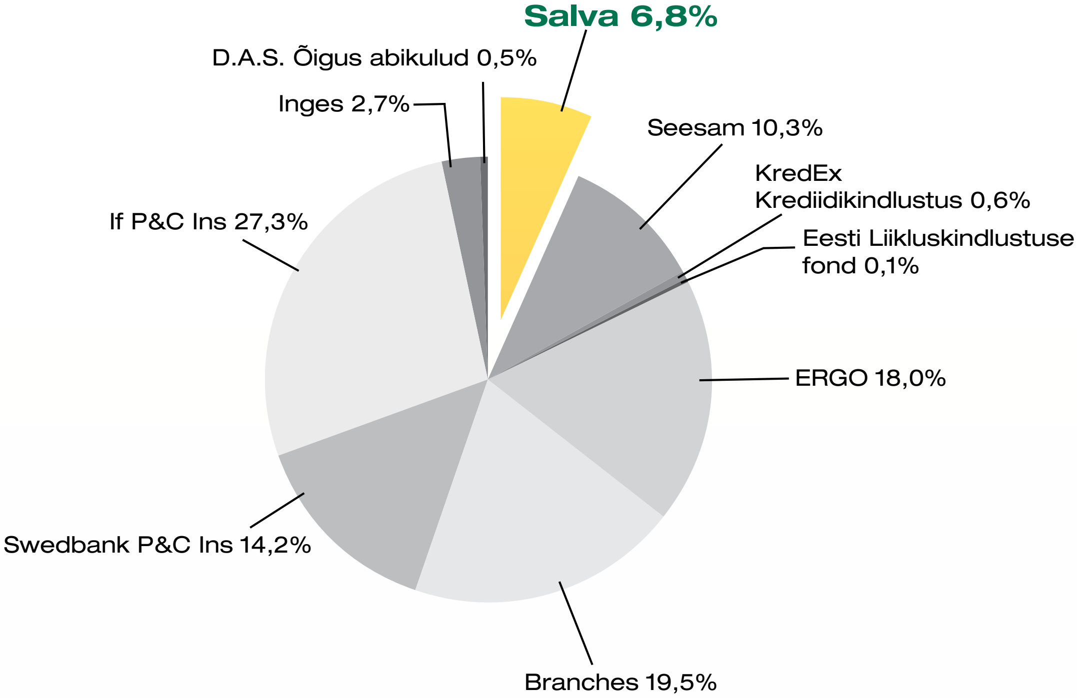
Non-life insurance market

In 2012, non-life insurance companies and branches on the Estonian insurance market collected a total of 230 284 thousand euros in insurance premiums. This constitutes a 6% increase in premiums from the same period in 2011 (216 278 thousand euros in 2011).

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 (27%) and the optional motor vehicle insurance (35%). The share of property insurance amounts to 26% and the aggregated share of all the remaining insurance categories 12% of the market. The amount of disbursements in 2012 was 129 494 thousand euros. This constitutes a 3% decrease in disbursements from the same period in 2011(134 123 thousand euros in 2011). The structure of insurance premiums has not changed significantly in recent years.

The same structure is evident in insurance indemnity disbursements, with the indemnity discharge amounting to 56% as of the end of 2012 (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 2012:



In 2012 the none-life insurance market volume turned to the growth direction. We saw the volume of the Year 2011 growing 0,5% compared to the previous year. In 2012 insurance premiums grew 6,5%. It shows the recovery in Estonian economy and private consumption being bolder. Also the assets that are insured are in growth.

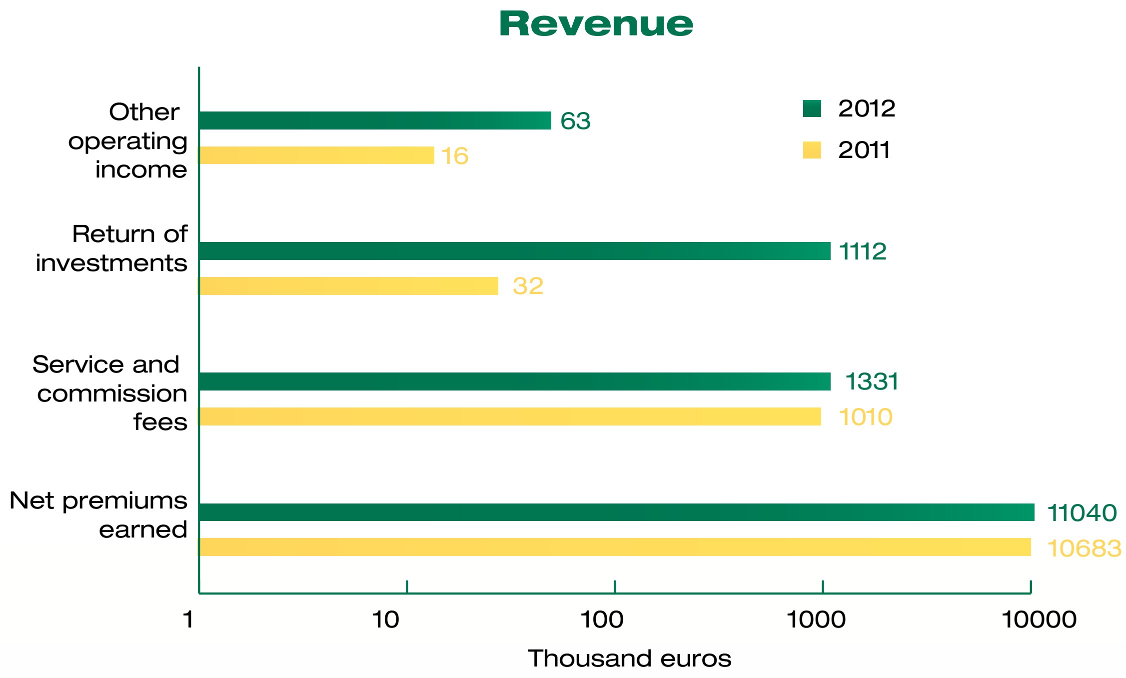
The increase in insurance premiums came mainly from new clients and new assets as in most insurance categories the tariffs remained the same or even slightly decreased. The only category where we saw increasing tariffs was travel insurance.

Motor insurance, that takes 62% of all non-life insurance market, performed well due to mild winter, which impacted motor insurance figures in both the first and the last quarter of the year. However, despite of the mild winter, Motor TPL market earned the technical loss of 1,5 mln euros. That indicates that prices are still undermined by the providers of insurance services in Motor TPL category and we are expecting a price rise in next years. A new Motor Third Party Liability Insurance Act is expected to enter in force in 2014 that should also have an impact on prices due to wider covers to the injured. Both the number and amount of property insurance losses in the year 2012 was relatively high. It should outcome to the rise in tariffs but due to continuing competitiveness on the Estonian market it is rather unlikely.

In 2013 we expect the none-life insurance market volume to maintain the same growth or slightly slow down. And that should be supported by higher prices in Motor MTPL market and continuing economic activity of our clients.

Financial results

Salva Kindlustuse AS's consolidated net profit in 2012 was 2 245 thousand euros (404.4 thousand euros in 2011).



Income in 2012 increased by 15,4% from the same period the year before largely at the expense of investment in net income. Among these, the premiums earned, net of re-insurance, increased by 3%, income from service and commission fees increased by 32%. Return on investments increased substantially over 33 times from income from investments accounted previous year.

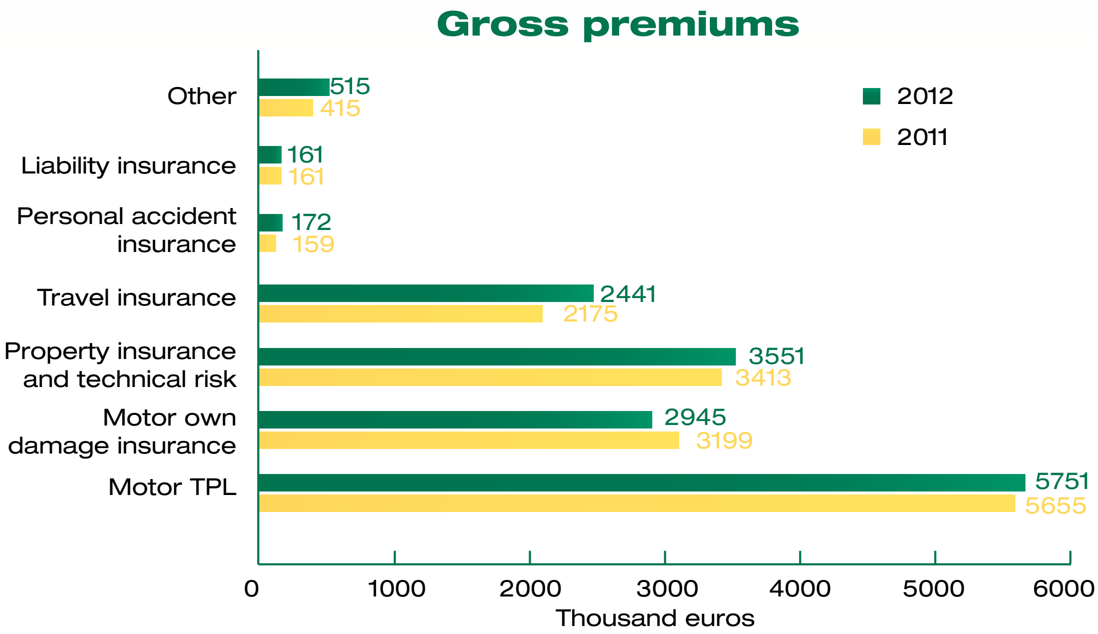
In 2012, Salva Kindlustuse AS gathered 15 536 thousand euros in gross insurance premiums, which is 2% more than in 2011 – 15 217 thousand euros.

Insurance premiums decreased in optional vehicle insurance, by 8%. Insurance premiums increased the most in travel insurance , by 12%. Premiums grew by 8% in personal accident insurance and by 4% in property insurance.

In 2012, the profit from insurance activity amounted to 1 385 thousand euros. The indicator for the previous year was 745 thousand euros.

The consolidated loss ratio, net of reinsurance, was 54,66% (59,98% in 2011) and it has fallen for the third year in a row.

Salva Kindlustuse AS insurance premiums by category, 2012–2011



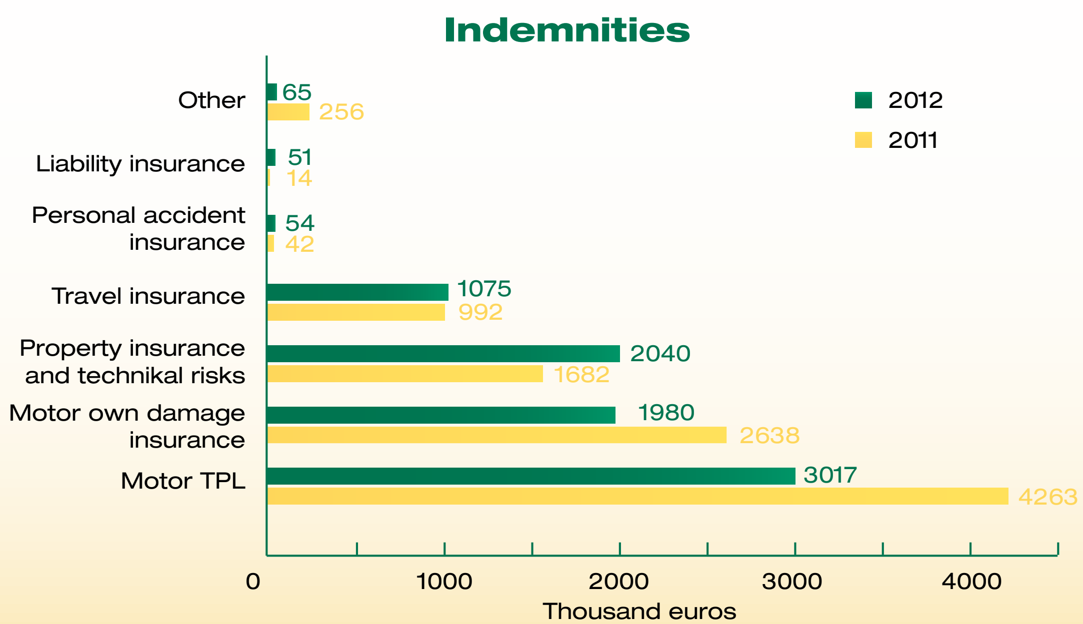
Claims

Total claims incurred in 2012 amounted to a total of 8 503 thousand euros – 6% less than in the same period last year (2011: 9 073.5 thousand euros).

Claims disbursements decreased by 13% compared to the same period last year; claims adjustment expenses decreased 3% and income from refunds and residual assets increased 24%. Claims incurred net of reinsurance decreased 6%.

Loss ratio 54,66% has slightly improved compared to previous year. It has positively impacted by the decrease in the number of vehicle insurance loss claims due to the mild winter and negatively impacted by the growth in the number of claims of agricultural machinery.

Salva Kindlustuse AS insurance indemnities, by type, 2012-2011



The number of loss claims satisfied in 2012 amounted to 7 965 and decreased by 21% compared to the year before (10 089 in 2011).

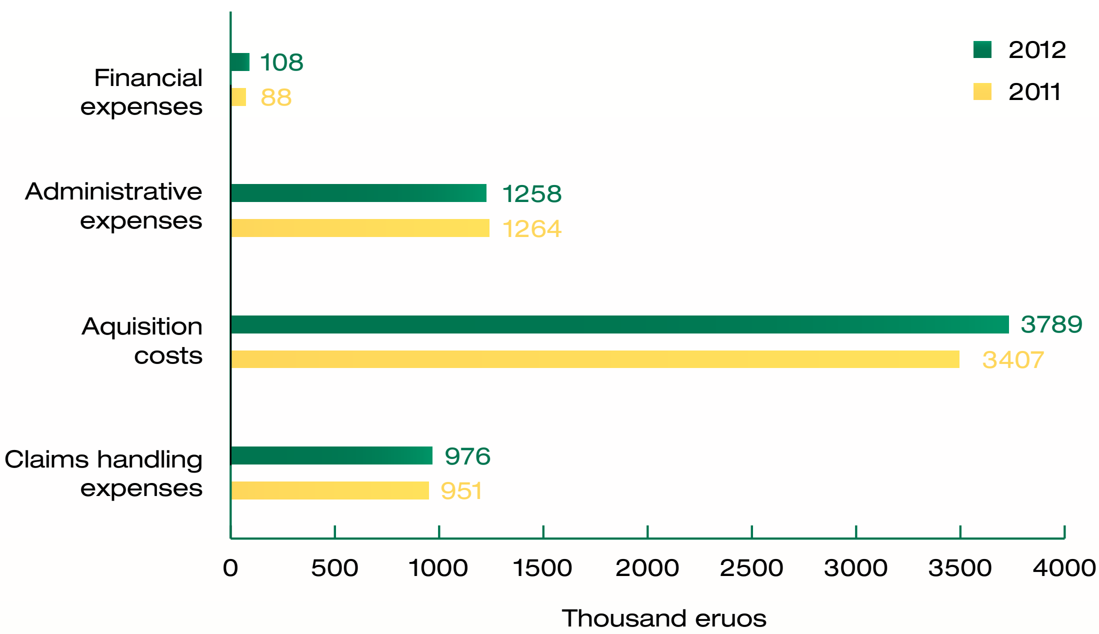
Still accounting for large share of the total number of loss claims were vehicle insurance-related loss claims. Motor TPL insurance loss claims make up 36% and Motor Own Damage insurance losses 23% of the total number of loss claims. In 2011, their proportions were 38% and 29%, respectively. The number of property insurance loss claims decreased by 7% compared to the previous year but their share has increased by 1%.

Operating expenses

Operating expenses for 2012 increased by 9% compared to 2011, amounting to 5 182 thousand euros. Acquisition costs increased by 11% and administrative expenses increased by 2%. Financial expenses increased 23%. Total payroll expenses and commissions paid to intermediaries are reflected in acquisition costs and they increased by 12% and decreased by 1% respectively compared to previous year. The increase in acquisition costs is in conformity with the rise in the volume of premiums and decreasing role of the intermediaries in our sales. Increase of acquisition costs is affected by growth of amortisation costs related to the acquisition of insurance software.

The ratio of consolidated expenses to premiums, net of reinsurance, made up 32.8% at the end of 2012 (33.04% in 2011).

Operating expenses



Balance sheet

The consolidated value of Salva Kindlustuse AS assets amounted to 28 694 thousand euros as of the end of 2012.

Insurance receivables decreased by 24% in 2012, with their share in total assets being 4%.

Investment volume has increased by 16% compared to the end of 2011, amounting to 17 543 thousand euros. The share of investments in total assets amounts to 61%.

Liabilities arising from insurance contracts made up 43% of total assets as of the end of 2012, having decreased by 1% compared to the end of last year, amounting to 12 197 thousand euros.

Prepayments from customers and liabilities to re-insurers decreased by 17%, making up 4% of total assets.

Owner's equity

In 2012, Salva Kindlustuse AS's shareholders' equity increased by 16%, and amounted to 14 044 thousand euros. 320 thousand euros was paid as dividends to owners in 2012.

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 2012 was managing previously taken risks and realization of their performance. Reinvestment of positions made the performance of the portfolio on the positive side and in summary we gained positive return on our investments by 1 004 thousand euros. The consolidated loss earned from investment activities in for the same period last year amounted to 55.1 thousand euros.

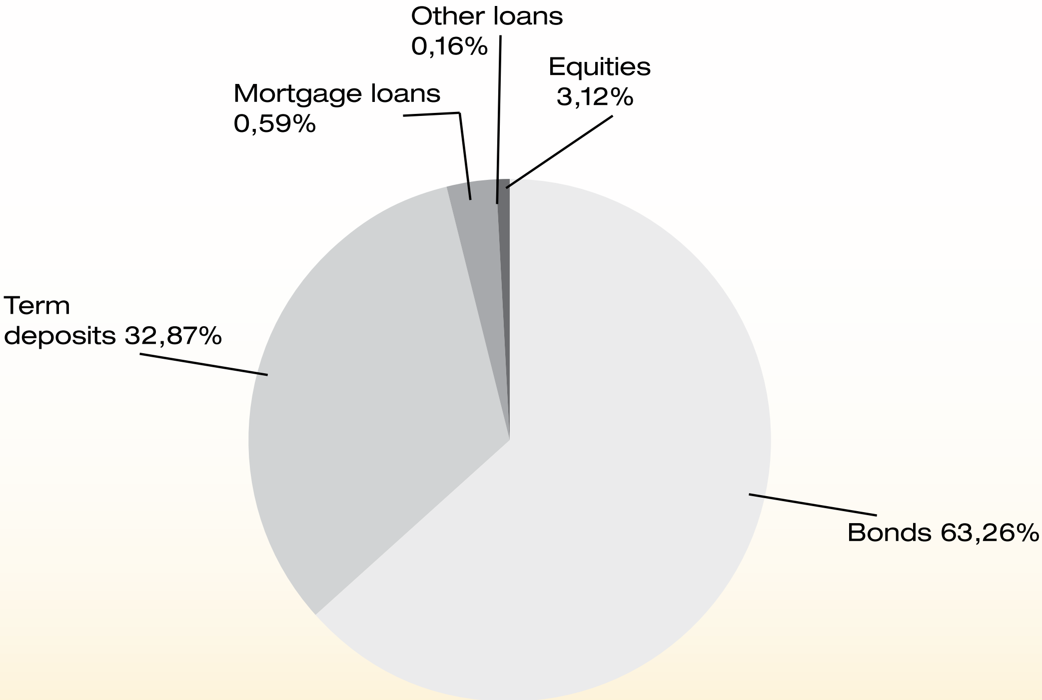
The consolidated annual rate of return on investment was 6.1%. The average rate of return of the bond portfolio was 6.7%.

The distribution of credit risk in the bond portfolio was the following: 26% of the bonds were rated A (S&P) or Aa (Moody's), 62% had a rating of BBB or Baa and Ba.

98% 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 10 663 thousand euros, securing a sufficient liquidity reserve for the Company.

Structure of financial investments as of 31.12.2012



Organisation and management

Salva Kindlustuse AS (hereinafter the Company) has been operating on the Estonian insurance market since 1993. In its nearly twenty 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 31 thousand euros (2011: 34 thousand euros).

The Company's management board has five members, with the total remuneration paid to members of the management board amounting to 363 thousand euros (2011: 326 thousand euros).

As of the end of 2012, the Group had 131employees, including 68 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 2 926.7 thousand euros in 2012. Payroll expenses have increased by 12% from last year (2011: 2 610.4 thousand euros).

The Group's development in the financial year and goals for 2013

20 years of Salva's effective insurance business

In 2013 Salva – one of the first insurance companies in Estonia – celebrates 20 years of business. During this time, we have proven our reliability, our commitment to customers and innovative character of our enterprise. In 2012 as a logical extension of our activities we took a major leap in the direction of development of e-services and insurance products, in order to further improve the company and to keep up with expectations of our customers and market developments.

In 2012 world economics was demonstrating signs of stabilization. Settlement of the European Union's debt crisis began to improve confidence in the entire Europe. According to the initial estimates, in 2012 the economic growth in Estonia remained on the moderate level of 3.2%, having picked up some steam in the final months of the year. These developments are also reflected in the insurance sector – where the first quarter showed a very modest growth of the total insurance market, by the end of the year the volume of payments has been gradually increasing. Insurance companies with strong roots and long-term strategies appeared as obvious market winners. For instance, exodus of QBE from the Estonian market provided a clear signal that development and growth require existence of long-term plans and knowledge of the Estonian market.

Unfortunately, in recent years, the Estonian insurance market shows signs of distortion more frequently. This was also the case in 2012. It is particularly obvious in the context of road insurance, where the legislations fails to keep up with 20 years of evolution of the market environment and the society. In creating the legal framework the state did not fully took into consideration the existing Estonian context and the specifics characteristic to its small size, which would ensure equal participation for all market participants. Many of the EU countries have been actively moving in this direction and the first signs of progress are already seen. The situation in Estonia is also reflected in the market statistics for the last year, according to which most of the companies suffered losses in the field of road insurance. Only few managed to gain profit, and Salva was among them. Hopefully, the state is prepared to consider and implement necessary legislative changes to ensure fair and competitive market for both insurance companies and customers.

In 2012 the entire travel insurance market demonstrated certain growth, which on the one hand certainly influenced some changes in tariffs, while on the other hand also stimulated the product development and resulted a significant increase in the number of passengers. These factors were able to increase travel insurance sales volume in Salva and help us to further strengthen our market position. For the last ten years, Salva is maintaining the leadership of the Estonian travel insurance market, and we do our best to continue this way in the future.

For Salva the most important advances in 2012 were the quick development of e-services and creation of the new online sales environment. We aim to be the first Estonian insurance company to ensure the level of e-services that allows to provide for quick and convenient sales of all products and for loss adjustment on a single website. We have made a big step towards achieving this goal and now the development of a modern and customer-friendly environment salva24.ee is finished. The environment allows to purchase travel, home and motor insurance at favorable prices from anywhere in the world at the time most convenient for the customer. By the end of the year, sales in our online environment were growing rapidly, and the entire system has gained positive user feedback.

In addition to facilitating customer convenience, in 2012 development of our information systems has reached the level that provides us with big advantage in analysis and development of the insurance products due to the employed common platform. I am certain that our competence and innovation spirit prevalent in our team will allow to use these benefits in the best manner possible and to ensure quick development of e-services in the coming years.

Certainly, strengths of any Estonian company are manifested not only in efficient performance in its area of business, but also in its contributions to the development of the society at large. Salva has been widely contributing to enriching Estonian cultural and sports life. In addition to providing scholarships of the National Culture Foundation, in 2012 Salva became one of the major sponsors of Eesti Kontsert. We believe that in 2013 this cooperation will result in many valuable cultural achievements. Since 2013 will also mark the 20th anniversary of Salva, we wish to extend the current cooperation and provide necessary assistance in new projects.

Looking to the near future, we will try to focus on maintaining and further improving our high level of customer service as well as on developing our products according to customer expectations and wishes. We want to be available to our customers at all times and to offer the best services on the market. Modern e-services, customer-centered work culture and expert employees provide an excellent platform for that. I believe that this anniversary year and the years to come will be successful for Salva and memorable for our customers in the best possible way.

Tiit Pahapill
Chairman of the Management Board

Main financial indicators

Group	2012	2011	2010
in euros			
For the reporting period			
Gross premiums	15 535 596	15 216 983	16 461 927
Premiums earned, net of reinsurance	11 040 398	10 682 646	10 026 634
Gross claims incurred	8 503 007	9 073 537	10 208 137
Claims incurred, net of reinsurance	6 034 930	6 407 264	6 322 470
Total operating expenses	5 181 598	4 759 379	5 561 853
Net operating expenses	3 850 358	3 749 226	3 943 712
Net loss ratio	54,66%	59,98%	63,06%
Net expenses ratio	32,80%	33,04%	36,18%
Net combined ratio	87,46%	93,02%	99,23%
As of the end of the reporting period			
Total assets	28 693 924	26 886 315	27 250 913
Financial investments	17 543 107	15 426 268	16 346 806

Efficiency indicators			
Technical result	1 384 768	745 473	76 734
Investment result	1 004 009	-55 160	953 325
Profit for the period	2 244 694	404 447	718 239
Return on equity	17%	3%	6%
Annual return on investments	6,09%	-0,35%	5,99%
Per share			
Earnings per share	2,24	0,40	0,72

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

Financial statements

Consolidated statement of comprehensive income

in euros	Note	2012	2011
REVENUE			
Gross premiums	3	15 535 596	15 216 983
Reinsurance premiums	3	-4 803 340	-4 770 466
Changes in the provision for unearned premiums	3	531 208	396 041
Reinsurer's share of the change in provision for unearned premiums	3	-223 066	-159 912
Premiums earned, net of reinsurance	3	**11 040 398**	**10 682 646**
Service and commission fee revenue	4	1 331 240	1 010 153
Net investment revenue	5	1 112 122	32 578
Other income	6	62 525	15 839
Total revenue		**13 546 285**	**11 741 216**
EXPENSES			
Claims incurred	7	-8 503 007	-9 073 537
Reinsurer's share in claims incurred	7	2 468 077	2 666 273
Claims incurred, net of reinsurance	7	**-6 034 930**	**-6 407 264**
Acquisition costs	8	-3 788 542	-3 407 473
Administrative expenses	8	-1 284 943	-1 264 168
Financial expenses	8	-108 113	-87 738
Total operating expenses		**-5 181 598**	**-4 759 379**
Income tax	9	-85 063	-170 126
Profit for the financial year		**2 244 694**	**404 447**
Comprehensive income for the financial year		**2 244 694**	**404 447**
Incl. profit attributable to owners of the parent company		**2 190 442**	**402 668**
Incl. profit attributable to minority shareholders		**54 252**	**1779**

Consolidated balance sheet

in euros	Note	31.12.2012	31.12.2011
ASSETS			
Property, plant and equipment	11	1 235 850	1 321 980
Intangible assets	12	1 986 726	1 759 272
Financial investments	13	17 543 107	15 426 268
Receivables under reinsurance contracts	14	5 476 431	5 828 987
Receivables from insurance activities and other receivables	15	1 155 398	1 235 022
Cash and cash equivalents	16	1 296 412	1 314 786
TOTAL ASSETS		**28 693 924**	**26 886 315**
LIABILITIES AND OWNER'S EQUITY			
Share capital		3 200 000	3 200 000
Reserve capital		320 836	320 836
Other reserves		64 428	64 428
Retained earnings		10 402 822	8 532 380
Total equity attributable to owners of the parent company		**13 988 086**	**12 117 644**
Minority interest		**56 156**	**1 779**
Total owner's equity	**17**	**14 044 242**	**12 119 423**
Liabilities under insurance contracts	20	12 196 659	12 318 222
Liabilities from reinsurance	21	958 086	1 229 446
Liabilities from direct insurance activities	22	322 854	306 528
Accrued expenses and prepaid revenue	23	1 172 083	912 696
Total liabilities		**14 649 682**	**14 766 892**
TOTAL LIABILITIES AND OWNER'S EQUITY		**28 693 924**	**26 886 315**

Consolidated statement of changes in equity

in euros	Share capital	Reserve capital	Other reserves	Retained earnings	Minority interest	Total
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**
Profit for the financial period	0	0	0	2 190 442	54 252	2 244 694
Dividends paid	0	0	0	-320 000	0	-320 000
Minority share	0	0	0	0	125	125
Total recognised income and expense for the year	**0**	**0**	**0**	**1 870 442**	**54 377**	**1 924 819**
As of 31.12.2012	**3 200 000**	**320 836**	**64 428**	**10 402 822**	**56 156**	**14 044 242**

See Note 17 for additional information about equity.

Consolidated cash flow statement

in euros		2012	2011
Cash flow from operating activities	**Note**	**808 044**	**2 152 980**
Insurance premiums received		14 508 157	14 213 980
Claims paid and claims handling expenses		-6 824 899	-8 633 497
Paid to reinsurers		-1 160 152	-252 599
Paid as operating expenses		-4 533 528	-3 889 706
Income tax paid		-85 063	-170 126
Acquisition of shares and other securities		-371 505	-301 879
Disposal of shares and other securities		930 458	347 567
Acquired fixed rate securities		-4 463 410	-5 472 171
Proceeds from disposals of fixed rate securities		4 435 184	1 962 777
Loans granted		-440 151	-255 682
Repayments of loans granted		731 382	379
Investments in term deposits		-6 195 000	-3 245 000
Return on term deposits		3 745 007	7 051 230
Interest received		594 038	844 167
Dividends received		11 148	11 500
Investment expenses paid		-73 622	-57 960
Cash flow from investing activities		**-506 543**	**-1 015 704**
Acquisition of property, plant and equipment, and intangible assets	**11,12**	-560 766	-1 015 704
Disposal of property, plant and equipment, and intangible assets	**11,12**	54 223	0
Cash flow from financing activities		**-319 875**	**-640 000**
Investment in share capital		125	0
Dividends paid	**17**	-320 000	-640 000
Total cash flow		**-18 374**	**497 276**
Cash and cash equivalents at the beginning of the period	**16**	**1 314 786**	**817 510**
Cash and cash equivalents at the end of the period	**16**	**1 296 412**	**1 314 786**

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 2012 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 18 March 2013. 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 2012.

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 2.4.

(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 there under 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 2.4).

(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 2012 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 (31.12.2012) 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 evaluating 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

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 2012.

a) Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

During the year the Group has adopted the following IFRS amendments:

IFRS 7 Financial Instruments (Amendment)- Enhanced Derecognition Disclosure Requirements,

IAS 12 Income tax (Amendment)- Deferred tax - Recovery of Underlying Assets.

The amendments adopted in 2012 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.

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

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

- IAS 1 Financial Statement Presentation (Amended) – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The Group has not yet evaluated the impact of the implementation of this amendment.

- IAS 19 Employee Benefits (Amended) (effective for financial years beginning on or after 1 January 2013)

There are numerous amendments to IAS 19, they range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group has not yet evaluated the impact of the implementation of this amendment.

- IAS 27 Separate Financial Statements (Amended) (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 Separate Financial Statements requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. The implementation of this amendment will not have any impact on the financial statements of the Group.

- IAS 28 Investments in Associates and Joint Ventures (Amended) (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates. The implementation of this amendment will not have any impact on the financial statements of the Group.

- IAS 32 Financial Instruments: Presentation (Amended) -Offsetting Financial Assets and Financial Liabilities (effective for financial years beginning on or after 1 January 2014)

This amendment clarifies the meaning of “currently has a legally enforceable right to set-off” and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Group has not yet evaluated the impact of the implementation of this amendment.

• IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities (effective for financial years beginning on or after 1 January 2013)

The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity’s financial position. The amendments to IFRS 7 are to be retrospectively applied. The Group has not yet evaluated the impact of the implementation of this amendment.

• IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2015, once endorsed by the EU)

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

• IFRS 10 Consolidated Financial Statements (effective for financial years beginning on or after 1 January 2014)

IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. Examples of areas of significant judgment include evaluating de facto control, potential voting rights or whether a decision maker is acting as a principal or agent. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation — Special Purpose Entities. The Group has not yet evaluated the impact of the implementation of this standard.

• IFRS 11 Joint Arrangements (effective for financial years beginning on or after 1 January 2014)

IFRS 11 eliminates proportionate consolidation of jointly controlled entities. Under IFRS 11, jointly controlled entities, if classified as joint ventures (a newly defined term), must be accounted for using the equity method. Additionally, jointly controlled assets and operations are joint operations under IFRS 11, and the accounting for those arrangements will generally be consistent with today’s accounting. That is, the entity will continue to recognize its relative share of assets, liabilities, revenues and expenses. The Group has not yet evaluated the impact of the implementation of this standard.

• IFRS 12 Disclosures of Interests in Other Entities (effective for financial years beginning on or after 1 January 2014) IFRS 12 combines the disclosure requirements for an entity’s interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures also will be required such as disclosing the judgments made to determine control over another entity. The Group has not yet evaluated the impact of the implementation of this standard.

• Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities (effective for financial years beginning on or after 1 January 2014, once endorsed by the EU)

The amendments apply to entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through profit or loss, rather than consolidate them. The implementation of this amendment will not have any impact on the financial statements of the Group, as the parent of the Group is not an investment entity.

• IFRS 13 Fair Value Measurement (effective for financial years beginning on or after 1 January 2013)

The main reason of issuance of IFRS 13 is to reduce complexity and improve consistency in application when measuring fair value. It does not change when an entity is required to use fair value but, rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS. The Group has not yet evaluated the impact of the implementation of this standard.

- Improvements to IFRSs (effective for financial years beginning on or after 1 January 2013, once endorsed by the EU)

In May 2012 IASB issued omnibus of necessary, but non-urgent amendments to its five standards:

- IFRS 1 First-time adoption of IFRS;
- IAS 1 Presentation of Financial Statements;
- IAS 16 Property, Plant and Equipment;
- IAS 32 Financial instruments: Presentation;
- IAS 34 Interim Financial Reporting.

The adoption of these amendments may result in changes to accounting policies but will not have any impact on the financial position or performance of the Group.

- IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine (effective for financial years beginning on or after 1 January 2013)

This interpretation applies to stripping costs incurred in surface mining activity during the production phase of the mine (‘production stripping costs’). Interpretation will have no impact on the Group’s financial statements, as the Group is not involved in mining activity.

The Group plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

2.4. 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 revalued. 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 2012. 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	7 648	2 391	984	1 174	12 197

Evaluating the expected cash flows from insurance contracts are evaluated using claims development history.

The accounting principles regarding liabilities under insurance contracts are disclosed in subsections (e) and (f) of Note 2.2.

As of the end of 2012, the technical reserve amounted to 12 197 thousand euros (2011: 12 318 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 evaluated 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 17% of the total receivables is estimated to be collected in the next seven years. As of the end of 2012, receivables amounted to 2 359 915 euros. The management has estimated 584 759 euros of these receivables to be recoverable (2011: 645 819 euros). Estimate was not evaluated in the balance sheet as the net change (2 154 euro) will be insignificant.

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 2012, the value of financial assets measured at fair value amounted to 17 543 107 euros (2011: 15 426 268 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

2012					
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	5 751 439	303 045	-2 461 793	-121 217	3 471 474
Short-term health insurance	2 612 987	-36 132	-110 238	-6 145	2 460 472
Motor vehicle insurance	2 945 034	268 922	-1 180 416	-107 569	1 925 971
Railway rolling stock and small craft	39 662	-3 213	-35 465	3 197	4 181
Insurance of goods in transit	36 122	-692	-23 696	271	12 005
Property insurance	3 550 760	25 068	-658 523	1 405	2 918 710
Motor vehicle owner's liability	265 506	-11 532	-175 670	5 584	83 888
Liability insurance	160 571	-10 370	-128 447	8 296	30 050
Monetary damage	173 515	-3 888	-29 092	-6 888	133 647

Total	**15 535 596**	**531 208**	**-4 803 340**	**-223 066**	**11 040 398**

2011					
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	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**

4. Service and commission fee revenue

in euros	**Note**	**2012**	**2011**
Reinsurer commission revenue	**10**	1 318 988	948 295
Reinsurer's profit sharing	**10**	17 891	19 471
Reinsurance share of changes in acquisition costs	**10**	-16 833	37 665
Other technical income, net of reinsurance		11 194	4 722
Total		**1 331 240**	**1 010 153**

5. Net investment revenue

in euros	**2012**	**2011**
Dividend revenue	11 147	11 500
Interest income from deposits	103 929	78 977
Other financial revenue, incl. interest revenue from loans granted	27 350	15 015
Trade portfolio revenue	969 696	-72 914
Total	**1 112 122**	**32 578**

6. Other income

in euros	2012	2011
Other income	62 525	15 893
Total	**62 525**	**15 893**

7. Claims incurred

in euros	Note	2012	2011
Claims paid, gross		-7 926 583	-9 190 914
Claims handling expenses	**8**	-975 931	-950 944
Amounts received from recoveries and salvage		809 153	653 863
Estimated amounts receivable for recoveries and salvage		0	57 864
Total claims, gross		**-8 093 361**	**-9 430 131**
Change in the provision for claims outstanding		-409 646	356 594
Claims incurred, gross		**-8 503 007**	**-9 073 537**
Reinsurer's share in claims	**10**	2 582 659	3 433 867
Reinsurer's share of the change in the provision for claims outstanding	**10**	-114 582	-767 594
Reinsurer's share in claims incurred		**2 468 077**	**2 666 273**
Total claims incurred		**-6 034 930**	**-6 407 264**

8. Operating expenses

in euros	Lisa	2012	2011
Claims handling expenses	**7**	**-975 931**	**-950 944**
Insurance contract acquisition expenses		-3 788 542	-3 407 473
Administrative expenses		-1 284 943	-1 264 168
incl. other expenses		***-121 545***	***-131 579***
Financial expenses		-108 113	-87 738
Total operating expenses		**-5 181 598**	**-4 759 379**
Total expenses		**-6 157 529**	**-5 710 323**

in euros	2012	2011
Payroll expenses	-2 926 707	-2 610 440
Brokers' commission fees	-1 149 335	-1 160 790
Outsourced services	-181 612	-179 457
Depreciation and impairment of PPE and intangible assets	-360 489	-208 827
Other operating expenses	-1 494 183	-1 500 176
Change in deferred acquisition costs	-45 203	-50 633
Total expenses	**-6 157 529**	**-5 710 323**

9. Income tax

in euros	2012	2011
Profit before taxes	2 329 757	574 573
Income tax on dividends	-85 063	-170 126
Net profit for the financial period	**2 244 694**	**404 447**

10. Reinsurance result

in euros	Note	2012	2011
Reinsurance premiums	3	-4 803 340	-4 770 466
Reinsurer’s share of the change in provision for unearned premiums	3	-223 066	-159 912
Reinsurer’s share in claims paid	7	2 582 659	3 433 867
Reinsurer’s share of the change in the provision for claims outstanding	7	-114 582	-767 594
Reinsurance commission fees and profit sharing	**4**	1 320 046	1 005 431
Total		**-1 238 283**	**-1 258 674**

11. Property, plant and equipment

in euros	Land and buildings	Other PPE	Total
Acquisition cost			
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**
Acquisition	0	86 454	86 454
Disposal	0	-54 223	-54 223
Write-off	0	-76 626	-76 626
31.12.2012	**1 508 408**	**649 482**	**2 157 890**
Accumulated depreciation			
31.12.2010	**-408 110**	**- 333 958**	**-742 068**
Depreciation charge for the year	-55 984	-97 876	-153 860
Depreciation charge of write-offs	0	15 623	15 623
31.12.2011	**-464 094**	**-416 211**	**-880 305**
Depreciation charge for the year	-55 984	-102 850	-158 834
Depreciation charge of disposals	0	30 816	30 816
Depreciation charge of write-offs	0	86 283	86 283
31.12.2012	**-520 078**	**-401 962**	**-922 040**
Net book value			
31.12.2011	**1 044 314**	**277 666**	**1 321 980**
31.12.2012	**988 330**	**247 520**	**1 235 850**

Carrying amount of property fully amortised yet in use as at 31.12.2012 was 142 895 euros. (2011: 183 735 euros).

12. Intangible assets

in euros	Other intangible assets	Prepayments for intangible assets	Total intangible assets
Acquisition cost			
31.12.2010	**525 318**	**289 875**	**815 193**
Acquisition	711 629	274 865	986 494
31.12.2011	**1 236 947**	**564 740**	**1 801 687**
Acquisition	474 312		474 312
Reclassification	521 812	-521 812	0
31.12.2012	**2 233 071**	**42 928**	**2 275 999**

Accumulated amortisation			
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**
Amortisation charge for the year	-201 655	0	-201 655
31.12.2012	**-560 830**	**0**	**-560 830**

Net book value			
31.12.2011	**877 772**	**564 740**	**1 442 512**
31.12.2012	**1 672 241**	**42 928**	**1 715 169**

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 in use.
Acquisitions made during the financial year 2012 include internally capitalised development costs amounting to 271 293.
Carrying amount of intangible assets fully amortised yet in use as at 31.12.2012 was 292 367 euros and it remained unchanged compared to previous year.

Deferred acquisition costs

in euros	
31.12.2010	**367 393**
Deferred	1 464 589
Amortised	-1 515 222
31.12.2011	**316 760**
Deferred	1 435 608
Amortised	-1 480 811
31.12.2012	**271 557**
Net book value	
31.12.2011	**316 760**
31.12.2012	**271 557**

13. Financial assets

in euros	Note	31.12.2012	31.12.2011
Shares, equity funds and bond funds	**13.1**	547 199	966 505
Bonds and other fixed income securities	**13.2**	11 096 939	10 765 481
Loans	**13.3**	131 705	435 103
Term deposits	**13.4**	5 767 264	3 259 179
Total		**17 543 107**	**15 426 268**

in euros	31.12.2012	31.12.2011
Financial assets measured at fair value through profit and loss		
Designated at fair value through profit and loss at inception		
Shares, equity funds and bond funds	547 199	966 505
Bonds and other fixed income securities	11 096 939	10 765 481
Financial assets measured at amortised cost		
Loans and receivables		
Loans and term deposits	5 898 969	3 694 282
Total	**17 543 107**	**15 426 268**

in euros	31.12.2012		31.12.2011	
	Fair value	Acquisition cost	Fair value	Acquisition cost
Financial assets measured at fair value through profit and loss				
Designated at fair value through profit and loss at inception				
Shares, equity funds and bond funds	547 199	585 416	966 505	1 106 738
Bonds and other fixed income securities	11 096 939	10 879 887	10 765 481	11 163 680
Financial assets measured at amortised cost				
Term deposits	5 767 264	5 695 000	3 259 179	3 245 000
Loans granted to related parties	66 308	63 912	317 871	313 912
Other loans	65 397	114 411	117 232	129 884
Total	**17 543 107**	**17 338 626**	**15 426 268**	**15 959 214**

The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity. The value of using above-mentioned method does not significantly differ from the value measured at amortised cost.

13.1. Shares and participations

in euros	31.12.2012	31.12.2011
Listed shares	547 199	457 642
Bond and equity funds	0	508 863
Total	**547 199**	**966 505**

Shares and investment fund units and are measured at fair value beginning from the initial recognition. 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	31.12.2012	31.12.2011
EUR	275 435	667 582
USD	169 964	195 010
GBP	23 781	17 613
DKK	25 640	0
LTL	52 379	86 300
Total	**547 199**	**966 505**

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

Change in share prices	Change in the fair value of the portfolio
Share prices +10%	55
Share prices +20%	109
Share prices - 10%	-55
Share prices - 20%	-109
Fair value 31.12.2012	**547**

13.2. Bonds

Bonds are measured at fair value beginning from the initial recognition.

	31.12.2012	31.12.2011
in euros	At fair value	At fair value
Bonds with a fixed interest rate		
Government and government owned institutions bonds	8 045 693	10 637 705
Bonds of financial institutions	63 182	61 952
Other bonds	2 932 424	0
Total	**11 041 299**	**10 699 657**
Bonds with a floating interest rate		
Other bonds	55 640	65 824
Total	**55 640**	**65 824**
Total bonds	**11 096 939**	**10 765 481**

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

Standard & Poor's	**Moody's**	**31.12.2012**	**31.12.2011**
AAA	Aaa	0	1 575 499
AA	Aa	0	521 639
A	A	2 870 533	2 762 514
BBB	Baa	5 829 474	4 777 423
BB	Ba	1 114 051	955 897
CCC	Ca	640	106 685
N/A		1 282 241	65 824
Total		**11 096 939**	**10 765 481**

By individual currencies, bonds are divided as follows:

in euros	**31.12.2012**	**31.12.2011**
EUR	10 924 078	10 765 481
USD	172 861	0
Total	**11 096 939**	**10 765 481**

The bond portfolio is divided by maturity terms as follows:

in euros	**31.12.2012**	**31.12.2011**
Up to 6 months	0	696 814
6-12 months	55 640	1 618 052
1-3 years	9 427 437	7 868 657
Over 3 years	1 613 862	581 958
Total	**11 096 939**	**10 765 481**

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

in euros	**31.12.2012**	**31.12.2011**
Interest rate: 0.0-2.9%	202 448	532 113
Interest rate: 3.0-3.9%	0	937 404
Interest rate: 4.0-4.9%	5 572 005	5 545 649
Interest rate: 5.0-5.9%	2 926 609	1 606 899
Interest rate: 6.0-6.9%	284 358	61 952
Interest rate: 9.0-9.9%	2 111 519	2 081 464
Total	**11 096 939**	**10 765 481**

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. We have made the assumption that rates can be reduced to zero, and the redumption any lower is unlikely and/or we will exit the positions as the value creating process will stop.

Change in interest rate	Change in the fair value of the portfolio
in thousands euros	
Change in yield curve +50 base points	-101
Change in yield curve -50 base points	+99
Change in yield curve +100 base points	-200
Change in yield curve -100 base points	+171
Change in yield curve +200 base points	-393
Change in yield curve -200 base points	+291
Fair value 31.12.2012	**11 097**

13.3. Loans

in euros	**31.12.2012**	**31.12.2011**
Mortgage loans		
Loans to related parties with a term of up to 3 months	0	34 353
Loans to related parties with a term 3-12 months	66 308	283 518
Other mortgage loans with a term of up to 3 months	0	31 956
Other mortgage loans with a term of 3-12 months	37 442	62 089
Other mortgage loans with a term of 1-3 years	0	2 532
Total	**103 750**	**414 448**
Other loans		
Loans with a term of up to 3 months	202	0
Loans with a term of 3-12 months	2 489	7 115
Loans with a term of 1-3 years	25 264	13 540
Total	**27 955**	**20 655**
Total loans	**131 705**	**435 103**

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	**31.12.2012**	**31.12.2011**
Up to 3 months	406 390	0
Term of 3-12 months	5 360 874	3 259 179
Total	**5 767 264**	**3 259 179**

The annual interest rates for term deposits fall between 1.45% and 1,93%. Deposits are held in euros.

13.5. Evaluation of financial instruments under IFRS 7 levels

in thousand euros	Level 1		Level 3		Total	
	31.12.12	31.12.11	31.12.12	31.12.11	31.12.12	31.12.11
Shares, equity funds and bond funds	547	458	0	509	547	967
Bonds and other fixed income securities	11 041	10 699	56	66	11 097	0 765
Total	**11 588**	**11 157**	**56**	**575**	**11 644**	**11 732**

Movements in Level 3 during the financial year includes the realization of EVLI Fund, otherwise there were no transactions. Profit from revaluation of financial assets amounting to 347 thousand euros is recognized in investment income. There were no changes in valuation policy.

14. Receivables under reinsurance contracts

in euros	Note	31.12.2012	31.12.2011
Receivables from reinsurance		160 269	175 177
Reinsurer's share in provision for unearned premium	**20**	1 143 699	1 366 765
Reinsurer's share in provision for claims outstanding	**20**	4 172 463	4 287 045
Total		**5 476 431**	**5 828 987**

All receivables from reinsurance are paid within 12 months.

15. Receivables from insurance activities and other receivables

in euros	31.12.2012	31.12.2011
Policyholders	184 302	178 035
Insurance brokers	234 838	285 575
Recoveries and salvages	645 820	645 820
Accrued interest	1	0
Prepaid taxes	2 600	4 307
Other accrued income	4 688	5 853
Other prepaid expenses	83 149	115 432
incl. Financial Supervision Authority's operation and maintenance costs	***50 102***	***50 381***
Total	**1 155 398**	**1 235 022**

Term of the receivables:

in euros	31.12.2012	31.12.2011
- not due yet	883 298	994 647
- due for up to 3 months	245 885	196 639
- due for 3-6 months	18 630	9 701
- due for 6-12 months	7 585	13 814
- due for over 1 year	0	20 221
Total	**1 155 398**	**1 235 022**

Impairment of receivables:

in euros	31.12.2012	31.12.2011
Allowance for doubtful receivables at the beginning of the period	**0**	**0**
Collection of receivables recognised as doubtful in the reporting period	-20 870	-15 746
Receivables recognised as doubtful in the reporting period	20 870	15 746
Allowance for doubtful receivables at the end of the period	**0**	**0**

16. Cash and cash equivalents

in euros	31.12.2012	31.12.2011
Cash in hand	10 869	7 398
Cash at bank	1 285 543	1 307 388
Total	**1 296 412**	**1 314 786**

Cash and cash equivalents by individual currencies:

in euros	31.12.2012	31.12.2011
EUR	1 164 997	1 028 056
USD	131 415	286 730
Total	**1 296 412**	**1 314 786**

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	31.12.2012	31.12.2011
Owner's equity	14 044 242	12 119 423
Solvency margin	11 024 655	10 352 493
Required minimum solvency margin	1 841 977	1 798 367
Surplus	9 182 678	8 554 126

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 31.12.2012, the registered share capital of the Group amounted to 3 200 000 euros (2011: 3 200 000 euros), divided into 1,000,000 shares with a nominal value of 3.2 euros (as of 31.12.2011, 1,000,000 shares had been issued). 55% of the Group's shares are held by Estonian private persons. Each share grants its holder the right to receive dividends if dividends are declared, as well as one vote at the general meeting of the shareholders. No transactions involving the shares of the Company were carried out in the reporting period.

Dividends

In 2012, a total of 320 000 euros was paid in dividends, i.e. 0,32 euros per share.

The management board has proposed to the general meeting of the shareholders to pay 1 300,000 euros in dividends, i.e. 1,3 euros per share, in 2013.

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 when there are changes in outside environment or inside the company. The commitee 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 activityt

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.

31.12.2012 **Type of insurance** in thousand euros	**Gross liabilities related to insurance contracts**	**Reinsurer's share of liabilities**	**Net liabilities**
Motor third party liability insurance	8 055	4 291	3 764
Motor vehicle insurance	1 262	508	753
Short-term health insurance	452	17	435
Household property insurance	917	80	837
Corporate property insurance	1 216	281	935
Monetary Damage	121	13	107
Liability insurance	71	57	14
Other	103	69	34
Total	**12 197**	**5 316**	**6 880**

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
Railway transport insurance	116	20	96
Liability insurance	69	56	13
Other	86	60	26
Total	**12 318**	**5 654**	**6 664**

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.

31.12.2012 **Factors** in thousand euros	**Value**	**Potential change**	**Effect on equity, thousands of euros**	**Effect on equity, %**
Net claims incurred	6 035	+5%	-302	-2,15
High net loss of motor third party liability insurance			-250	-1,78
High net loss of property insurance			-450	-3,20
Operating expenses	5 182	+5%	-259	-1,84

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

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***		**31.12.2012**	**31.12.2011**
Financial assets measured at fair value through profit and loss				
Shares, equity funds and bond funds	Market risk, liquidity risk	**13.1**	547 199	966 505
Bonds and other fixed income securities	Market risk, liquidity risk, interest risk	**13.2**	11 096 939	10 765 481
Financial assets at amortized cost				
Loans and term deposits	**Credit risk**			
Receivables under reinsurance contracts	Credit risk	**13.3,13.4**	5 898 969	3 694 282
Receivables from insurance activities and other receivables		**14**	5 476 431	5 828 987
Cash and cash equivalents	Credit risk	**15**	1 155 398	1 235 022
Total exposure to financial risk	Credit risk	**16**	1 296 412	1 314 786
Kokku avatud finantsriskidele			**25 471 348**	**23 805 063**

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
Swedbank	4 786 910	
Czech Republic		1 195 922
Republic of Latvia		2 469 082
Republic of Lithuania		2 111 519
Republic of Poland		1 112 527
Total	**4 786 910**	**6 889 050**

Currency risk

Currency risk involves the possibility of foreign exchange losses.

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

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 11 million euros at the end of 2012, 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. The table discloses the estimates of cumulative incurred claims for the last ten years (including provisions for reported claims and incurred but not reported claims together with cumulative payments to date net of recoveries and salvages) as at the end of the first year after the inception of the policy, which have been compared to the estimates as at the end of subsequent years.

in thousand euros **Cumulative estimate of losses**	Before 2002	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
As at 31 December starting from the validity of the policy		8 462	8 817	10 066	14 385	16 754	14 364	11 762	10 321	11 155	7 572		Total
1 year later		8 392	8 759	9 844	13 755	16 358	14 015	11 603	10 055	10 749	0		
2 years...		8 716	8 496	9 591	13 446	16 225	13 794	11 453	9 963	0	0		
3 years...		8 668	8 268	9 611	13 399	16 147	13 590	11 306	0	0	0		
4 years...		8 192	8 215	9 535	13 311	15 742	13 312	0	0	0	0		
5 years...		8 143	8 132	9 524	13 199	15 763	0	0	0	0	0		
6 years…		8 165	8 132	9 475	13 184	0	0	0	0	0	0		
7 years…		8 160	8 091	9 471	0	0	0	0	0	0	0		
8 years…		8 129	8 907	0	0	0	0	0	0	0	0		
9 years…		8 125	0	0	0	0	0	0	0	0	0		
Cumulative estimate of claims		8 125	8 097	9 471	13 184	15 763	13 312	11 306	9 963	10 749	7 572		
the adequacy of estimate made 1 year after the end of validity of the policy as at 31.12.2012		104%	109%	106%	109%	106%	108%	104%	104%	104%			
Total disbursements as at 31.12.2012		7 644	8 061	9 338	13 090	14 530	12 908	10 841	9 335	9 782	8 410	3 890	
Provision for outstanding claims as at 31.12.2012	46	481	36	133	94	1 233	404	465	628	967	1 577	2 421	8 485

In the management's opinion, the amounts of technical reserves reported in the financial statements prepared as of the end of 2012 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	31.12.2012	31.12.2011
Gross		
Provision for losses incurred in the previous periods	2 636 830	2 499 792
Provision for losses incurred in the reporting period	2 741 504	2 556 552
Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR)	14 251	7 941
Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR)	407 256	508 073
Provision for pension under motor third party liability insurance incurred in the previous periods	2 548 398	2 397 234
Provision for pension under motor third party liability insurance incurred in the reporting period	136 493	105 494
Provision for unearned premiums	3 711 927	4 243 136
Total	**12 196 659**	**12 318 222**
Reinsurer's share		
Provision for losses incurred in the previous periods	1 569 358	1 707 473
Provision for losses incurred in the reporting period	845 044	840 700
Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR)	5 244	3 174
Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR)	134 110	171 917
Provision for pension under motor third party liability insurance incurred in the previous periods	1 564 110	1 521 583
Provision for pension under motor third party liability insurance incurred in the reporting period	54 597	42 198
Provision for unearned premiums	1 143 699	1 366 765
Total	**5 316 162**	**5 653 810**
Net		
Provision for losses incurred in the previous periods	1 067 472	792 319
Provision for losses incurred in the reporting period	1 896 460	1 715 852
Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR)	9 007	4 767
Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR)	273 146	336 156
Provision for pension under motor third party liability insurance incurred in the previous periods	984 288	875 651
Provision for pension under motor third party liability insurance incurred in the reporting period	81 896	63 296
Provision for unearned premiums	2 568 228	2 876 371
Total	**6 880 497**	**6 664 412**

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

20.1 Provision for unearned premiums

in euros	2012		
	Liabilities under insurance contracts	**Reinsurer's share**	**Net**
Balance 01.01.2012	**4 243 136**	**1 366 765**	**2 876 371**
Premiums written in the year	15 535 596	4 803 340	10 732 256
Premiums earned during the year	16 066 805	5 026 406	11 040 399
Balance 31.12.2012	**3 711 927**	**1 143 699**	**2 568 228**

in euros	2011		
	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**

20.2 Provision for losses incurred

in euros	2012		
	Liabilities under insurance contracts	**Reinsurer's share**	**Net**
Balance 01.01.2012	**8 075 086**	**4 287 045**	**3 788 041**
Claims paid during the year that incurred in prior accident years	-2 034 775	-754 087	-1 280 688
Claims paid during the year that incurred in the current accident year	-6 247 010	-1 828 572	-4 418 438
Adjustment to claims incurred in prior accident years	-840 831	-394 246	-446 585
Losses incurred during the year	9 532 262	2 862 323	6 669 939
Balance 31.12.2012	**8 484 732**	**4 172 463**	**4 312 269**

	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 31.12.2012	**8 075 086**	**4 287 045**	**3 788 041**

21. Liabilities under reinsurance

in euros	31.12.2012	31.12.2011
Payables to reinsurers	392 732	680 925
Reinsurer’s share in recoveries and salvage	371 587	371 587
Reinsurer’s share of the deferred acquisition costs	193 767	176 934
Total	**958 086**	**1 229 446**

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

22. Liabilities from direct insurance activities

in euros	31.12.2012	31.12.2011
Policyholder prepayments	222 025	206 352
Payables to insurance brokers	89 168	87 700
Other liabilities	11 661	12 476
Total	**322 854**	**306 528**

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

23. Accrued expenses and other prepaid revenue

in euros	31.12.2012	31.12.2011
Payables to employees	287 380	148 028
Vacation accrual	97 022	122 907
Value added tax	534	5 571
Personal income tax	58 586	57 451
Social tax	114 563	113 121
Unemployment insurance	11 402	12 650
Funded pension liability	5 444	4 599
Corporate income tax	5 086	4 165
Accounts payable	65 268	128 633
Prepaid rent	831	831
Prepaid income	525 967	314 740
Total	**1 172 083**	**912 696**

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 clear 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	2012	2011
Passenger car rental payments	10 448	15 488
Office space rental payments	210 585	205 873

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

in euros	
up to 1 year	44 076
1-5 years	48 492

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	2012	2011
Office space rental revenue	54 118	54 118

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

in euros	
up to 1 year	53 884
1-5 years	131 879

25. Provisions and contingent liabilities

Income tax

As of 31.12.2012, the company's retained earnings amounted to 10 402 822 euros (last year: 8 532 380 euros) and net book value of intangible assets to maksumus 1 986 726 euros (last year: 1 759 272. The maximum possible income tax liability related to the payment of the company's retained earnings as dividends is 1 767 380 euros (last year: 1 422 353 euros). The company can thus pay a total of 6 648 716 euros in net dividends (last year 5 350 775 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 2013 would not exceed the distributable profit as of 31.12.2012.

Other

Claims of action in the amount of 39 676 euros have been submitted against Salva Kindlustuse AS in connection with insurance losses. The management board estimates approximately 19 903 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 2012, insurance contracts with aggregate premiums of 6 070 euros were concluded with members of the management board. The wages of the members of the management board amounted to 363 thousand euros and the remuneration paid to members of the supervisory board to 31 thousand euros. Remuneration of the members of the board is based on the basic salary. The members of the board are entitled to performance fee that does not exceed one-third of basic 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	**2012**	**2011**
Companies related to a management board member	27 201	25 029

As of 31.12.2012, the balance of loans granted to own employees and related parties amounted to 66 308 euros. (31.12.2011: 338 526)

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:	septembris 1997	märtsis 2009
Participation %	100	49
Number of shares	1	1
Share capital	2 556	2 800
Acquisition cost	2 556	2 800

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	2012	2011
REVENUE		
Gross premiums	15 552 020	15 233 358
Reinsurance premiums	-4 803 340	-4 770 466
Changes in the provision for unearned premiums	531 208	396 041
Reinsurer's share of the change in provision for unearned premiums	-223 066	-159 912
Premiums earned, net of reinsurance	**11 056 822**	**10 699 021**
Service and commission fee revenue	1 331 240	1 010 153
Net investment revenue	1 312 242	3 946 399
Other income	1 566	26 083
Total revenue	**13 701 870**	**15 681 656**
EXPENSES		
Claims incurred	-8 691 431	-9 472 546
Reinsurer's share in claims incurred	2 468 077	2 666 273
Claims incurred, net of reinsurance	**-6 223 354**	**-6 806 273**
Acquisition costs	-3 791 492	-3 508 605
Administrative expenses	-1 284 443	-1 226 958
Financial expenses	-101 943	-81 954
Total operating expenses	**-5 177 878**	**-4 817 517**
Income tax	0	-85 063
Profit for the financial year	**2 300 638**	**3 972 803**

Balance sheet of Salva Kindlustuse AS

in euros	31.12.2012	31.12.2011
ASSETS		
Property, plant and equipment	54 350	62 431
Intangible assets	2 140 181	1 286 693
Subsidiaries	7 215 921	7 215 921
Financial investments	15 504 334	13 503 366
Receivables under reinsurance contracts	5 476 431	5 828 987
Receivables from insurance activities and other receivables	1 136 204	1 368 475
Cash and cash equivalents	658 300	1 274 701
TOTAL ASSETS	**32 185 721**	**30 540 574**
LIABILITIES AND OWNER'S EQUITY		
Liabilities under insurance contracts	3 200 000	3 200 000
Liabilities from reinsurance	319 558	319 558
Liabilities from direct insurance activities	64 428	64 428
Other liabilities	11 971 488	8 318 685
Accrued expenses and prepaid revenue	2 300 638	3 972 803
Total owner's equity	**17 856 112**	**15 875 474**
Liabilities under insurance contracts	12 196 659	12 318 222
Liabilities from reinsurance	958 086	1 229 446
Liabilities from direct insurance activities	322 854	306 528
Other liabilities	363 143	434 772
Accrued expenses and prepaid revenue	488 867	376 132
Total liabilities	**14 329 609**	**14 665 100**
TOTAL LIABILITIES AND OWNER'S EQUITY	**32 185 721**	**30 540 574**

Cash flow statement of Salva Kindlustuse AS

in euros	2012	2011
Cash flow from operating activities	**818 933**	**1 679 833**
Insurance premiums received	14 540 015	14 238 191
Claims paid and claims handling expenses	-7 829 685	-9 591 326
Paid to reinsurers	-1 160 152	-252 599
Paid as operating expenses	-3 636 347	-3 522 003
Income tax paid	0	-85 063
Acquisition of shares and other securities	-371 505	-301 879
Disposal of shares and other securities	930 458	347 567
Acquired fixed rate securities	-3 682 216	-4 397 689
Proceeds from disposals of fixed rate securities	3 914 390	1 962 777
Loans granted	-440 151	-255 682
Repayment of loans granted	731 382	379
Investments in term deposits	-6 195 000	-3 071 000
Return on term deposits	3 571 007	6 047 186
Interest received	503 857	602 888
Dividends received	11 148	11 500
Investment expenses paid	-68 268	-53 414
Cash flow from investing activities	**-1 115 334**	**-522 239**
Acquisition of property, plant and equipment, and intangible assets	-1 115 334	-522 239
Cash flow from financing activities	**-320 000**	**-640 000**
Dividends paid	-320 000	-640 000
Total cash flow	**-616 401**	**517 594**
Cash and cash equivalents at the beginning of the period	**1 274 701**	**757 107**
Cash and cash equivalents at the end of the period	**658 300**	**1 274 701**

Statement of changes in equity of Salva Kindlustuse AS

in euros	Share capital	Reserve capital	Other reserves	Retained earnings	Total
As of 31.12.2010	**3 195 582**	**319 558**	**64 428**	**8 963 104**	**12 542 672**
Profit for the financial period	0	0	0	3 972 802	3 972 802
Dividends paid	0	0	0	-640 000	-640 000
Change in share capital	4 418	0	0	-4 418	0
As of 31.12.2010	**3 200 000**	**319 558**	**64 428**	**12 291 488**	**15 875 474**
Profit for the financial period	0	0	0	2 300 638	2 300 638
Dividends paid				-320 000	-320 000
As of 31.12.2010	**3 200 000**	**319 558**	**64 428**	**14 272 126**	**17 856 112**

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 2012:

in euros	**2012**	**2011**
Parent company's unconsolidated equity	17 856 112	15 875 474
Investment in the parent company's balance sheet	-7 215 921	-7 215 921
Subsidiary's value under the equity method	3 347 895	3 458 111
Total	**13 988 086**	**12 117 664**

Signatures of the Management Board to the Annual Report 2012

The Management Board of Salva Kindlustuse AS has prepared the management report and financial statements for 2012.

Management Board:

Tiit Pahapill	Chairman of the Management Board	....	18.03.2013
Irja Elias	Member of the Management Board	....	18.03.2013
Urmas Kivirüüt	Member of the Management Board	....	18.03.2013
Algor Orav	Member of the Management Board	....	18.03.2013
Andres Lõhmus	Member of the Management Board	....	18.03.2013

Auditor's report

ERNST & YOUNG

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Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Salva Kindlustuse AS

We have audited the accompanying consolidated financial statements of Salva Kindlustuse AS, which comprise the balance sheet as at 31 December 2012, 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 2012, 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, 22 March 2013

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	8 212 380
Net profit for 2012	2 190 442
Intangible assets at book value	-1 986 726
(Subsection 59 (2) of the Insurance Activities Act)	
Total distributable profit as of 31.12.2012	8 416 096

The Management Board proposes to allocate the profit as follows:

To be distributed as dividends:	1 300 000
Balance of distributable profit after profit allocation	7 116 096

Tiit Pahapill	Chairman of the Management Board	....	18.03.2013
Irja Elias	Member of the Management Board	....	18.03.2013
Urmas Kivirüüt	Member of the Management Board	....	18.03.2013
Algor Orav	Member of the Management Board	....	18.03.2013
Andres Lõhmus	Member of the Management Board	....	18.03.2013