# Annual Report 2013

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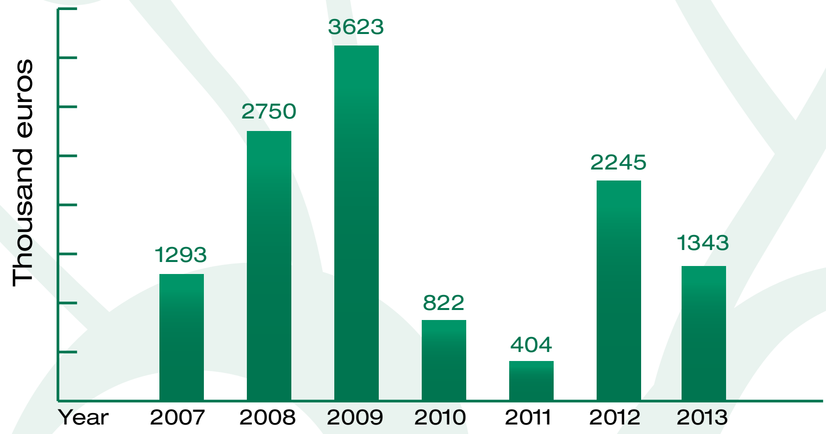
## General information on Salva Kindlustuse AS

| | |
|---|---|
| **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:** | **01.01.2013** |
| **End of financial year:** | **31.12.2013** |
| **Managing director:** | **Tiit Pahapill** |
| **Auditor:** | **Ernst & Young Baltic AS** |

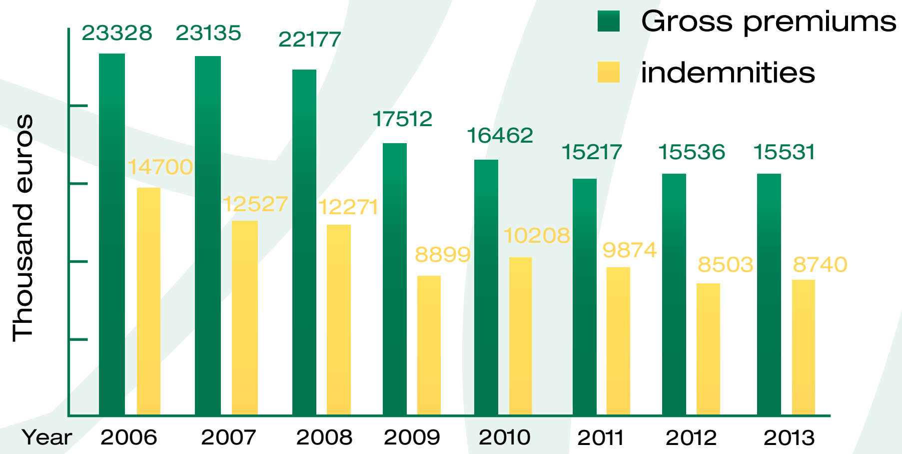
# Financial review by Management

## Main financial indicators

### Profit




### Gross premiums and indemnities incurred




### Number of employees

## Vision, mission and strategy

### Vision

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

### Mission

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

### Values

***Strong mutual customer relations***

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

***Motivating work environment***

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

***High-quality and reliable service***

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

## General information

Salva Kindlustuse AS (hereinafter the Company) has been operating in the Estonian insurance market since 1993. In its 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 (10) 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 in 2013 continually based on domestic demand. Support of export demand the Estonian economic growth was not enough due to the growth of the trading partners in Scandinavia and Western Europe being less than expected. The overall economic growth figure (GDP) in Estonia in the first half of the year declined. Despite the restoration of economic growth in the third quarter, the annual growth, however, was only 1%. In terms of economic growth wwith export markets improving, different forecasts  show picking up the paste  to 2.6% in 2014 and 3.9% by 2015.

The economy of the eurozones perked up in 2013  in the foreseeable pace. Six consecutive quarters of the recession ended in the second quarter. According to the forecast  made by the central banks of the euro area, the eurozone economy will  grow in 2014 1.1% and in 2015 1. 5%. Eurozone inflation will remain 1.4% this year and slows down in the next year to 1.1%  and is influenced by scarce domestic demand, falling food raw material prices and the price of energy is not incresing due to the depreciation of the oil. Inflation in the eurozone is expected to be up to 1.3% in the year 2015. Due to the limited price pressure the financial markets are expected to show  persistence of very low interest rates throughout the forecast period.

Interest rates have remained low in Estonian loan market, but nevertheless in 2013 investments to fixed asstes stalled. The main reason is the lack of need to invest of companies, because  the existing production capacity has been underapplied at times. The second reason has been the uncertainty of partner markets, which does not favor the complement to take risks. The recovery in export markets should encourage companies to invest in the further. Businesses  small activity in investing may be a threat to both their prospect of development and  the sustainability of economic growth. Demographic changes in population which lead to the decline and ageing of the workforce can also be brought out as one of the risk factors. In the light of the above, investments into the productive base are essential.

In conclusion, we look forward to some recovery of estonian economy in  2014, however, it clearly depends on the growth of  our trade partners.

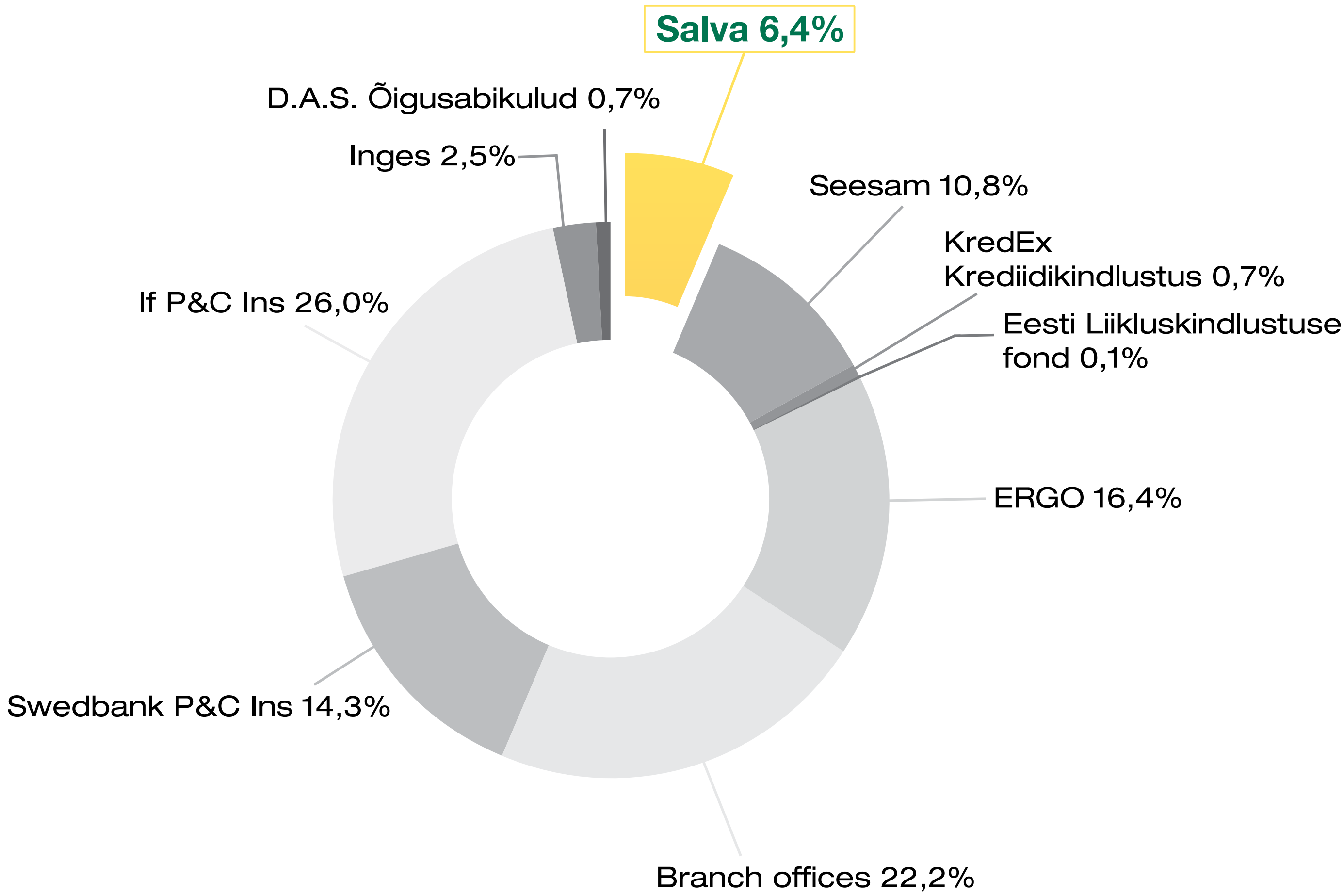
## Non-life insurance market

In 2013, non-life insurance companies and branches on the Estonian insurance market collected a total of 244 354 thousand euros in insurance premiums. This constitutes a 6% increase in premiums from the same period in 2012 (2012: 230 284 thousand euros).

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 (26%) 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 13% of the market. The amount of disbursements in 2013 was 141 540 thousand euros. This constitutes a 9% increase in disbursements from the same period in 2012 (2012: 129 494 thousand euros). 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 58% as of the end of 2013 (2012: 56%).

### Market shares of non-life insurance companies and foreign branches expressed in premiums received by the end of 2013:




In 2013 the non-life insurance market volume continued in growth direction . We saw the volume of the year 2012 growing 6% compared to the previous year. In 2013 insurance premiums grew 6,1%. It shows that the Estonian economic environment continued to pick up, and for both private individuals and companies, the rise of the insurable interest is stable.

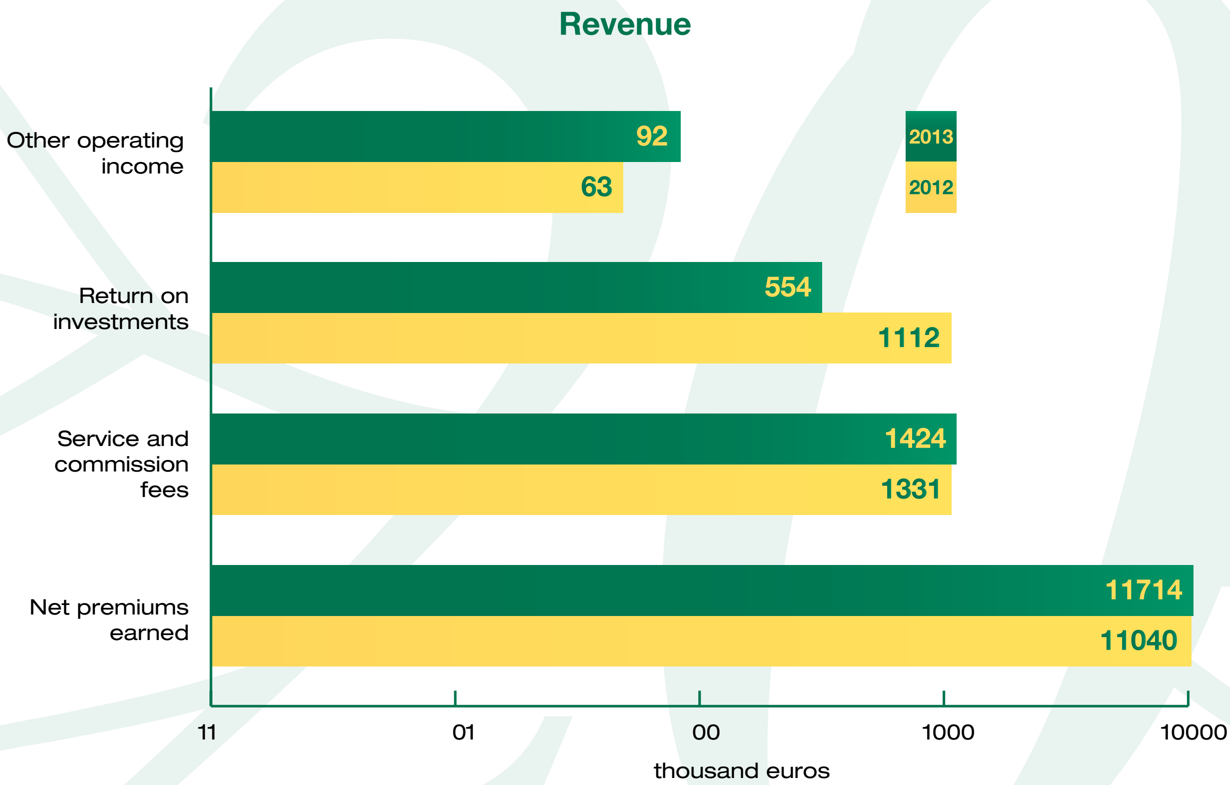
The watchword for the year 2013 was the losses of property insurance both in the form of damages arising from the forces of nature than the fires. In the second half of the year there were a couple of considerable storm periods, which led to major damage to commercial buildings as well as private property. During the year, a handful of major fires took place, which affected insurance portfolios.

The tariffs on the market were stable. Unfortunately in 2013 the long-awaited increase in tariffs level in the motor third party liability insurance , has not occurred . In 2013, the MTPL market earned the technical loss of 3, 1 mlneuros. 2012 year comparable number was 1,5 mln euros, which shows that, despite of favourable weather conditions at the end of the year 2013, the motor third party liability insurance loss deepened, and in the year 2014 there is certainly the need to adjust the tariffs upwards.

In 2013 we expect the none-life insurance market volume to maintain the same growth or even slightly increase due to higher prices in Motor MTPL market and growing activity in the sales of new vehicles. A New Motor Third Party Liability Insurance Act is expected to enter in force in the end of 2014 that should also have an impact on prices due to wider covers to the injured.

## Financial results

Salva Kindlustuse AS's consolidated net profit in 2013 was 1 343 thousand euros (2012: 245 thousand euros).




Income in 2013 decreased by 6 % 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, decreased by 3%, income from service and commission fees increased by 7%. Return on investments decreased by 50%.

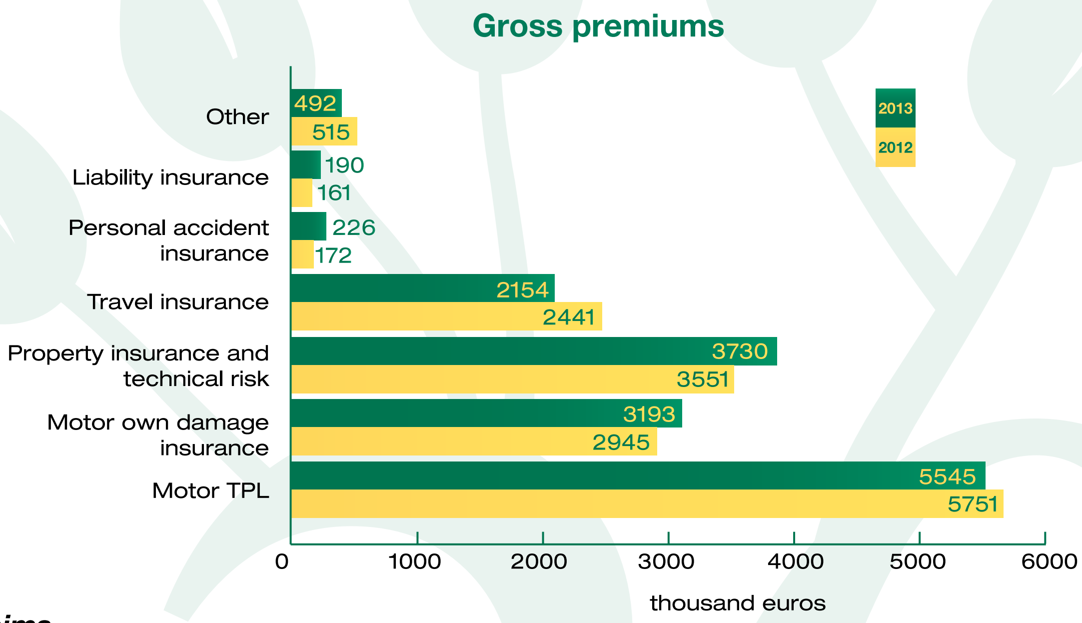
In 2013, Salva Kindlustuse AS gathered 15 531 thousand euros in gross insurance premiums, which is nearly the same as in 2012 – 15 536 thousand euros.

Insurance premiums decreased in MTPl insurance, by 4% and in travel insurance, by 12%. Insurance premiums increased the most in optional vehicle insurance, by 8%, in liability insurance, by 18%. Premiums also grew by 31% in personal accident insurance and by 5% in property insurance.

In 2013, the profit from insurance activity amounted to 1 300 thousand euros. The indicator for the previous year was 1 385 thousand euros.

The consolidated loss ratio, net of reinsurance, was 53,6 % (2012: 54,7%) and it has fallen for the fourth year in a row.

## Salva Kindlustuse AS insurance premiums by category, 2012- 2013



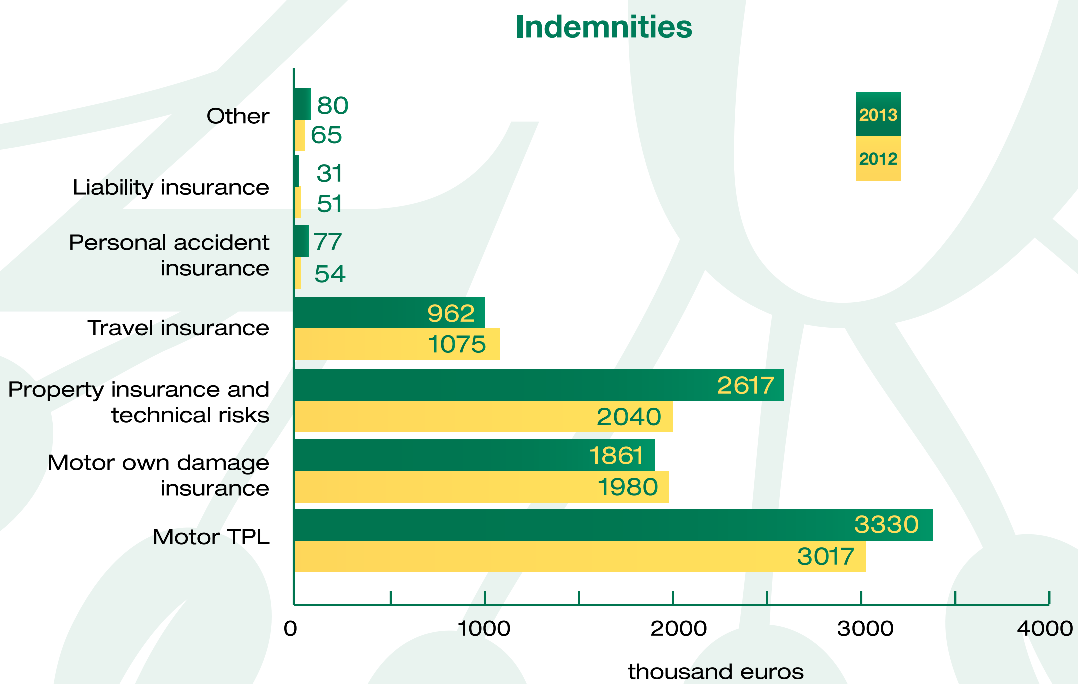

***Claims***

Total claims incurred in 2013 amounted to a total of 8 740 thousand euros –3% more than in the same period last year (2012: 8 503 thousand euros).

Claims disbursements increased by 8% compared to the same period last year; claims adjustment expenses stayed at the same level and income from refunds and residual assets decreased 31%. Claims incurred net of reinsurance decreased 5%.

Loss ratio 53,6 % 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 fire and natural forces.

## Salva Kindlustuse AS insurance indemnities, by type, 2012- 2013



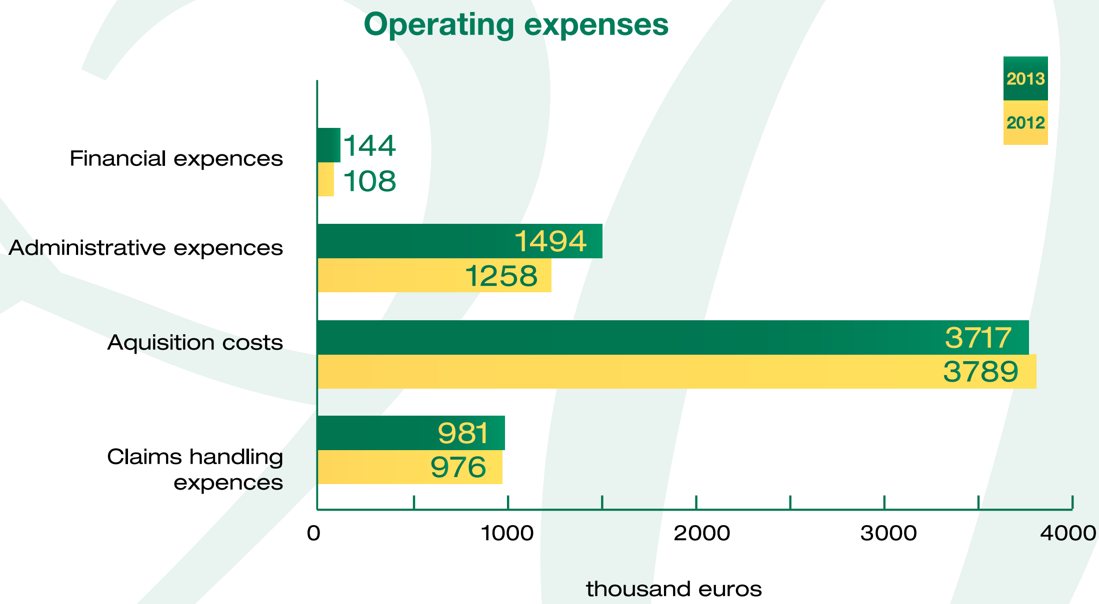

The number of loss claims satisfied in 2013 amounted to 8 231 and increased by 3% compared to the year before (2012:7 965).

Still accounting for large share of the total number of loss claims were vehicle insurance-related loss claims. Motor TPL insurance loss claims make up 38% and Motor Own Damage insurance losses 23% of the total number of loss claims. In 2012, their proportions were 36% and 23%, respectively. The number of property insurance loss claims increased by 34% compared to the previous year and their share has increased from 8% to 11%. The number of travel insurance loss claims decreased by 15% compared to the previous year.

***Operating expenses***

Operating expenses for 2013 increased by 3% compared to 2012, amounting to 5 355 thousand euros. Administrative expenses increased by 16% and financial expenses increased by 33%. Acquisition costs decreased 2%. Total payroll expenses and commissions paid to intermediaries are reflected in acquisition costs and they increased by 5% and decreased by 2% 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 34,3% at the end of 2013 (2012: 32,8%).




***Balance sheet***

The consolidated value of Salva Kindlustuse AS assets amounted to 28 714 thousand euros as of the end of 2013.

Insurance receivables decreased by 10% in 2013, with their share in total assets being 3%.

Investment volume has decreased by 9% compared to the end of 2012, amounting to 15 897 thousand euros. The share of investments in total assets amounts to 55%.

Liabilities arising from insurance contracts made up 42% of total assets as of the end of 2013, having decreased by 2% compared to the end of last year, amounting to 11 956 thousand euros.

Prepayments from customers and liabilities to re-insurers increased by 10%, making up 5% of total assets.

***Owner's equity***

In 2013, Salva Kindlustuse AS's shareholders' equity increased by 0,3%, and amounted to 14 087 thousand euros. 1 300 thousand euros was paid as dividends to owners in 2013.

***Investing activities***

On the strategic level, the investment activities of Salva Kindlustuse AS are controlled by the financial director in cooperation with the respective specialist. The structure of liabilities and responsibilities has completely justified itself so far, guaranteeing sufficient control and prompt decision-making capability.Our investment activities are based on the interests of the policyholders and the best possible protection afforded to the beneficiaries.

The keyword for 2013 was managing previously taken risks and optimal realization of their performance. The changes made to the position were justified and consolidated profit from investing activities amounted to 410 thousand euros. The consolidated loss earned from investment activities in for the same period last year amounted to 1 004 thousand euros.

The consolidated annual rate of return on investment was 2,5%. The average rate of return of the bond portfolio was 3,6%.

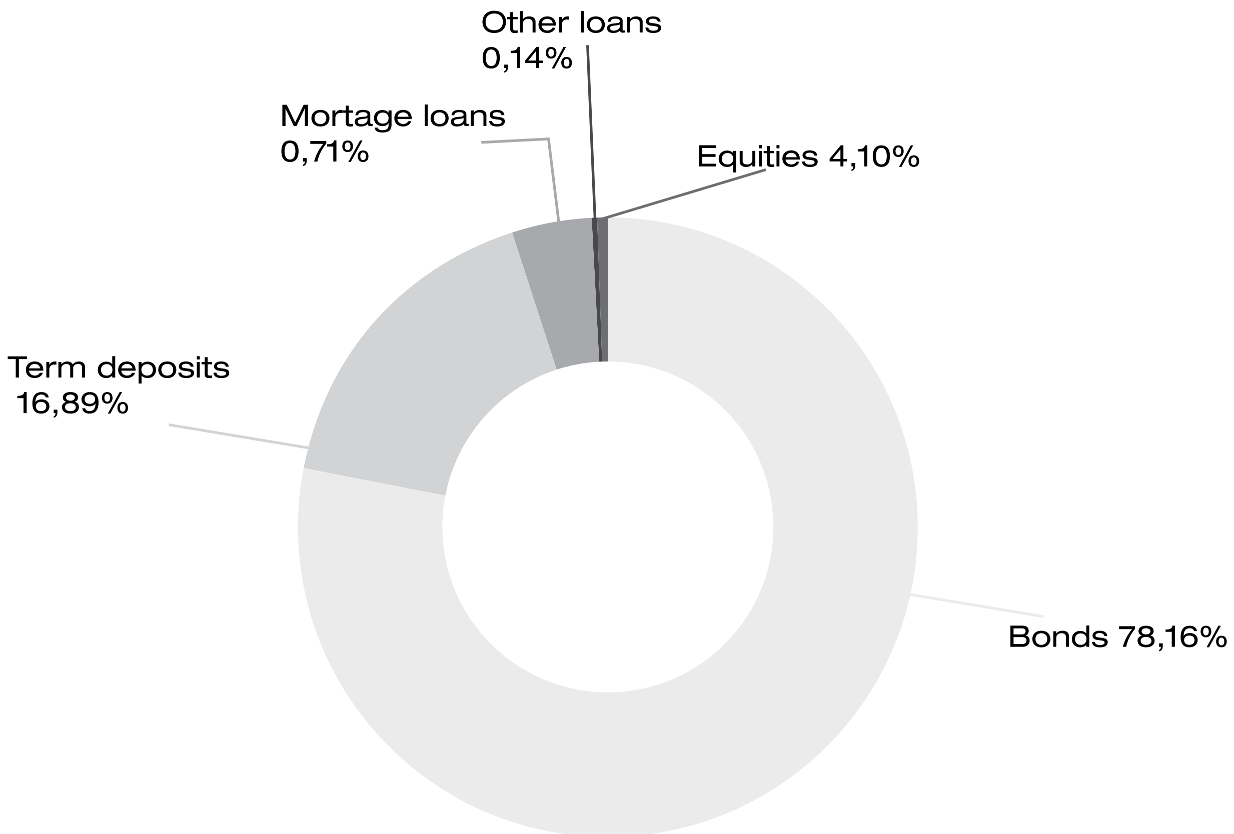
In conclusion it can be said that Salva Kindlustuse AS was able to grow the value of the investments, maintain an adequate dispersion and ensure a decent position for the upcoming period. The forthcoming period is characterised by low interest rates compared to the previous period and an unpredictable business environment.

The distribution of credit risk in the bond portfolio was the following: 22% of the bonds were rated A (S&P) or Aa (Moody's), 64% had a rating of B or Baa and Ba.

94% 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 9 481 thousand euros, securing a sufficient liquidity reserve for the Company.

**Structure of financial investments as of 31.12.2013**



## Organisation and management


The Company's supervisory board has six members, with the total remuneration paid to members of the supervisory board amounting to 31 thousand euros (2012: 31 thousand euros).

The Company's management board has five members, with the total remuneration paid to members of the management board amounting to 430 thousand euros (2012: 363 thousand euros).

As of the end of 2013, the Group had 127 employees, including 66 sales employees.

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 3 08 thousand euros in 2013. Payroll expenses have increased by 5% from last year (2012: 2 927 thousand euros).

## The Group's development in the financial year and goals for 2014

***Salva values quality***

The last year Salva Kindlustus has entered its third decade. Salva has grown to be one of the most stable insurance companies in Estonia – we have a strong network of branches across the country, we perform development of digital insurance services and platforms in Estonia and we are the market leader in travel insurance. During the last twenty years we have paid over 127 million euros in compensations.

Among the big insurance companies Salva is the only one based on Estonian capital – this gives us an advantage since we are able to react to market changes quickly and adequately. Where the market as a whole moves towards abandoning local county branches, we greatly value our regional representation and local competence. People on the ground know their particular region and customers as no one else does. In many aspects they are the very foundation of the strong insurance business of Salva.

The market expects equal rules for all sellers of insurance products and that customers have freedom of choice in selecting necessary insurance services. Different European countries demonstrate different developments, while the basic concept of freedom of customer's choice is common everywhere and for all.

Looking at the Estonian law-making it would be hard to suggest that it is able to keep up with rapid market development during the recent years or that it is considering the small size of the state or specifics of the market. In longer perspective unequal rules and narrowing of the choice may significantly impact functioning of the market.

Last year's expectations with regard to market regulation and putting an end to sales of motor third party liability insurance below its net cost has failed. The loss of the entire motor third party liability insurance market has doubled in comparison with the last year. At the same time Salva was the only market player who was able to maintain positive results in motor third party liability insurance due to growing sales.

Similarly to motor third party liability insurance during the recent years our property and travel insurance portfolio has improved. Contrary to general market trends we have chosen to focus on quality rather than on quantity and it proved to be a successful strategy. Investment in development of online sales have also contributed to reaching positive results – during the last year Salva24 environment demonstrated growth of the user-base by over one third.

In 2014 we primarily expect establishing of the respectful and market-promoting competitive situation in the field of motor third party liability insurance that would lead to overall positive turn of the market. Without doubt, the new Motor Third Party Liability Insurance Act that is to come into force this year will impact the market. Customers and the market in general expect new and effective regulation in this field that would make brokerage activities transparent and easier to understand.

This year Salva Kindlustus once again plans to focus on quality of its products and services as well as on in-depth studying insurance needs of its customers. We never compromise on quality.

Tiit Pahapill

Chairman of management board

## Main financial indicators

| Group | 2013 | 2012 | 2011 |
|---|---|---|---|
| in euros | | | |
| **For the reporting period** | | | |
| Gross premiums | 15 531 391 | 15 535 596 | 15 216 983 |
| Premiums earned, net of reinsurance | 10 713 856 | 11 040 398 | 10 682 646 |
| Gross claims incurred | 8 739 728 | 8 503 007 | 9 073 537 |
| Claims incurred, net of reinsurance | 5 741 188 | 6 034 930 | 6 407 264 |
| Total operating expenses | 5 355 413 | 5 181 598 | 4 759 379 |
| Net operating expenses | 3 931 190 | 3 850 358 | 3 749 226 |
| | | | |
| Neto kahjusuhe | 53,6% | 54,7% | 60,0% |
| Neto kulusuhe | 34,3% | 32,8% | 33,0% |
| Neto kombineeritud suhe | 87,9% | 87,5% | 93,0% |
| | | | |
| **Net loss ratio** | | | |
| Net expenses ratio | 28 713 786 | 28 693 924 | 26 886 315 |
| Net combined ratio | 15 896 949 | 17 543 107 | 15 426 268 |
| | | | |
| **Efficiency indicators** | | | |
| Technical result | 1 299 492 | 1 384 768 | 745 473 |
| Investment result | 410 379 | 1 004 010 | -55 160 |
| Profit for the period | 1 342 651 | 2 244 694 | 404 447 |
| Return on equity | 9,5% | 17% | 3% |
| Annual return on investments | 2,5% | 6,1% | -0,4% |

| **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 | 2013 | 2012 |
|---|---|---|---|
| **REVENUE** | | | |
| Gross premiums | 3 | 15 531 391 | 15 535 596 |
| Reinsurance premiums | 3 | -4 880 170 | -4 803 340 |
| Changes in the provision for unearned premiums | 3 | 21 811 | 531 208 |
| Reinsurer's share of the change in provision for unearned premiums | 3 | 40 824 | -223 066 |
| **Premiums earned, net of reinsurance** | **3** | **10 713 856** | **11 040 398** |
| Service and commission fee revenue | 4 | 1 424 223 | 1 331 240 |
| Net investment revenue | 5 | 554 379 | 1 112 122 |
| Other income | 6 | 92 363 | 62 525 |
| **Total revenue** | | **12 784 821** | **13 546 285** |
| **EXPENSES** | | | |
| Claims incurred | 7 | -8 739 728 | -8 503 007 |
| Reinsurer's share in claims incurred | 7 | 2 998 540 | 2 468 077 |
| **Claims incurred, net of reinsurance** | **7** | **-5 741 188** | **-6 034 930** |
| Acquisition costs | 8 | -3 717 002 | -3 788 542 |
| Administrative expenses | 8 | -1 494 411 | -1 284 943 |
| Financial expenses | 8 | -144 000 | -108 113 |
| **Total operating expenses** | | **-5 355 413** | **-5 181 598** |
| **Profit before taxes** | | **1 688 220** | **2 329 757** |
| **Income tax** | 9 | -345 569 | -85 063 |
| **Profit for the financial year** | | **1 342 651** | **2 244 694** |
| **Comprehensive income for the financial year** | | **1 342 651** | **2 244 694** |
| **Incl. profit attributable to owners of the parent company** | | **1 333 350** | **2 190 442** |
| **Incl. profit attributable to minority shareholders** | | 9 301 | **54 252** |

## Consolidated statement of financial position

| in euros | Note | 31.12.2013 | 31.12.2012 |
|---|---|---|---|
| **ASSETS** | | | |
| Property, plant and equipment | **11** | 1 200 532 | 1 235 850 |
| Intangible assets | **12** | 1 958 741 | 1 986 726 |
| Financial investments | **13** | 15 896 949 | 17 543 107 |
| Receivables under reinsurance contracts | **14** | 6 051 197 | 5 476 431 |
| Receivables from insurance activities and other receivables | **15** | 1 055 826 | 1 155 398 |
| Cash and cash equivalents | **16** | 2 550 541 | 1 296 412 |
| **TOTAL ASSETS** | | **28 713 786** | **28 693 924** |
| **KOHUSTUSED JA OMAKAPITAL** | | | |
| Share capital | | 3 200 000 | 3 200 000 |
| Reserve capital | | 320 836 | 320 836 |
| Other reserves | | 64 428 | 64 428 |
| Retained earnings | | 10 436 172 | 10 402 822 |
| **Total equity attributable to owners of the parent company** | | **14 021 436** | **13 988 086** |
| Minority interest | | 65 457 | 56 156 |
| **Total owner's equity** | **17** | **14 086 893** | **14 044 242** |
| Liabilities under insurance contracts | **20** | 11 955 956 | 12 196 659 |
| Liabilities from reinsurance | **21** | 1 068 468 | 958 086 |
| Liabilities from direct insurance activities | **22** | 357 515 | 322 854 |
| Liabilities from financial investments | | 2 829 | 0 |
| Accrued expenses and prepaid revenue | **23** | 1 242 125 | 1 172 083 |
| **Total liabilities** | | **14 626 893** | **14 649 682** |
| **TOTAL LIABILITIES AND OWNER`S EQUITY** | | **28 713 786** | **28 693 924** |

## Consolidated statement of changes in equity

| in euros | Share capital | Reserve capital | Other reserves | Retained earnings | Minority interest | Total |
|---|---|---|---|---|---|---|
| **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** |
| | | | | | | |
| Profit for the financial period | 0 | 0 | 0 | 1 333 350 | 9 301 | 1 342 651 |
| Dividends paid | 0 | 0 | 0 | -1 300 000 | 0 | -1 300 000 |
| **Total recognised income and expense for the year** | **0** | **0** | **0** | **33 350** | **9 301** | **42 651** |
| **As of 31.12.2013** | **3 200 000** | **320 836** | **64 428** | **10 436 172** | **65 457** | **14 086 893** |

See Note 17 for additional information about equity.

## Consolidated cash flow statement

| in euros | | 2013 | 2012 |
|---|---|---|---|
| **Cash flow from operating activities** | **Note** | **2 706 971** | **808 044** |
| | | | |
| Insurance premiums received | | 14 608 656 | 14 508 157 |
| Claims paid and claims handling expenses | | -7 978 035 | -6 824 899 |
| Paid to reinsurers | | -887 227 | -1 160 152 |
| Paid as operating expenses | | -4 789 995 | -4 533 528 |
| Income tax paid | | -345 569 | -85 063 |
| Acquisition of shares and other securities | | -366 974 | -371 505 |
| Disposal of shares and other securities | | 325 706 | 930 458 |
| Acquired fixed rate securities | | -1 836 766 | -4 463 410 |
| Proceeds from disposals of fixed rate securities | | 303 207 | 4 435 184 |
| Loans granted | | -122 700 | -440 151 |
| Repayments of loans granted | | 106 472 | 731 382 |
| Investments in term deposits | | -2 675 000 | -6 195 000 |
| Return on term deposits | | 5 695 000 | 3 745 007 |
| Interest received | | 750 008 | 594 038 |
| Dividends received | | 10 986 | 11 148 |
| Investment expenses paid | | -90 798 | -73 622 |
| | | | |
| **Cash flow from investing activities** | | **-152 842** | **-506 543** |
| | | | |
| Acquisition of property, plant and equipment, and intangible assets | **11,12** | -169 492 | -560 766 |
| Disposal of property, plant and equipment, and intangible assets | **11,12** | 16 650 | 54 223 |
| | | | |
| **Cash flow from financing activities** | | **-1 300 000** | **-319 875** |
| | | | |
| Investment in share capital | | 0 | 125 |
| Dividends paid | **17** | -1 300 000 | -320 000 |
| **Total cash flow** | | **1 254 129** | **-18 374** |
| **Cash and cash equivalents at the beginning of the period** | **16** | **1 296 412** | **1 314 786** |
| **Cash and cash equivalents at the end of the period** | **16** | **2 550 541** | **1 296 412** |

# 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 2013 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 17. March 2014. 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 2013.

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.

### 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 2013 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, amortisation 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) 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.

Internally developed intangible fixed assets are recognised in the consolidated financial report at the amount which corresponds to that of the internal labour costs and investments in external development costs. Sales gains are amortised over the life of the same acquired asset.

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 instruments – initial recognition and subsequent measurement***

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument od another entity.

***Financial assets***

Initial recognition and measurement

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;
- derivatives.

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the 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.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in four categories:

- financial assets measured at fair value through profit and loss;
- financial assets held to maturity;
- loans and other receivables;
- available-for-sale financial assets;

Financial assets measured at fair value through profit and loss

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, derivatives and other securities which are held for trading or which are not intended to be held to maturity.

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.

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. 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.

Loans and receivables

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.

Held-to-maturity investments

“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. The Group had no such assets in the reporting period.

Financial assets held for sale

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.

Derecognition of financial assets

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.

***(q) Fair value***

Shares and investment fund units and are measured at fair value beginning from the initial recognition. The price of the securities is based on the price that would be received to sell an asset on an orderly transaction between market participants at the measurement date on the main markets. We rely on Bloomberg CBBT quotations, which is taking into account, if possible, at least three of the major dealer quotations for one credit instrument. If the financial assets market is not active, the Group shall apply other 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.

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.

The designation of financial assets measured at fair value through profit and loss in accordance with IFRS 13 has been presented in Note 13.5.

Level 1 includes financial assets traded in active markets, with the inputs based on quoted prices in active markets for identical assets that the entity can access at the measurement date.

Level 2 includes financial assets traded in the free market, with the inputs based on prices that are observable for the asset or liability, either directly or indirectly.

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

***(r) 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.

***(s) 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.

*(t) 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.

***(u) 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.

***(v) 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.

***(x) 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 (31.12.2013) and the date of the signature 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 2013.

***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:

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

This amendment changes 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. Since the Group has no OCI item, the change does not impact to its presentation.

- **IAS 19 Employee Benefits (Amended)**

These amendments 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. This amendment did not impact the financial statements of the Group, because the Group does not have material defined benefit obligations.

- **IFRS 7 Financial Instruments: Disclosures (Amended)** - Offsetting Financial Assets and Financial Liabilities

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. This amendment did not impact the financial statements of the Group, because the Group does not have netting arrangements.

- **IFRS 13 Fair Value Measurement**

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 implementation of this standard did not have a material impact on the amounts recognised in these financial statements, however it resulted in additional disclosures (see Note 13.5).

**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:

- **Amendments to IAS 19 Employee Benefits** (effective for financial years beginning on or after 1 July 2014, once endorsed by the EU)

The amendments address accounting for the employee contributions to a defined benefit plan. Since the Group's employees do not make such contributions, the implementation of this amendment will not have any impact on the financial statements of the Group.

- **Amendment to IAS 27 Separate Financial Statements** (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.

- **Amendment to IAS 28 Investments in Associates and Joint Ventures** (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.

- **Amendment to IAS 32 Financial Instruments: Presentation - 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.

- **Amendment to IAS 36 Impairment of Assets** (effective for financial years beginning on or after 1 January 2014)

This amendment adds a few additional disclosure requirements about the fair value measurement when the recoverable amount is based on fair value less costs of disposal and removes an unintended consequence of IFRS 13 to IAS 36 disclosures. The amendment will not have any impact on the financial position or performance of the Group, however may result in additional disclosures.

- **Amendment to IAS 39 Financial Instruments: Recognition and Measurement** (effective for financial years beginning on or after 1 January 2014)

The amendment provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendment will not have any impact on the financial position or performance of the Group, since it does not apply hedge accounting.

- **IFRS 9 Financial Instruments** (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

IFRS 9 will eventually replace IAS 39. The IASB has issued the first three parts of the standard, establishing a new classification and measurement framework for financial assets, requirements on the accounting for financial liabilities and hedge accounting. 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 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.

- **Improvements to IFRSs (**effective for financial years beginning on or after 1 January 2013)

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.

- **Improvements to IFRSs** (effective for financial years beginning on or after 1 July 2014, once endorsed by the EU)

In December 2013 IASB issued omnibus of necessary, but non-urgent amendments to the following standards:

IFRS 1 First-time adoption of IFRS;

IFRS 2 Share-based Payment;

IFRS 3 Business Combinations;

IFRS8 Operating Segments;

IFRS 13 Fair value Measurement;

IAS 16 Property, Plant and Equipment;

IAS 24 Related Party Disclosures;

IAS 38 Intangible Assets;

IAS 40 Investment property.

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

- **IFRIC Interpretation 21 Levies** (effective for financial years beginning on or after 1 January 2014, once endorsed by the EU)

This interpretation addresses the accounting for levies imposed by governments. Liability to pay a levy is recognized in the financial statements when the activity that triggers the payment of the levy occurs. The Group has not yet evaluated the impact of the implementation of this intepretation.

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 revaluated. The changes are reported in the income statement.

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

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

The provision for claims is not discounted, except for the motor third party liability pension which is calculated as annuities. Survival estimates are based on the estimates given in the gender-dependent mortality table, calculated on the basis of the data provided by the Estonian Statistical Office for 2013. 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 | 7 876 | 2 479 | 743 | 856 | 11 956 |

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 2013, the technical reserve amounted to 11 956 thousand euros (2012: 12 197 thousand euros).

### *(b) Recoveries and salvages*

Amounts estimated to be recovered from sale of salvage assets and subrogation is 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 16% of the total receivables is estimated to be collected in the next seven years. As of the end of 2013, receivables amounted to 2 351 thousand euros. The management has estimated 593 thousand euros of these receivables to be recoverable (2012: 585 thousand euros).

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

| thousand euros | up to 1 | 1-5 | 5-10 | Total |
|---|---|---|---|---|
| Recoveries and salvages | 224 | 317 | 52 | 593 |

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 (q) of Note 2.2.

As of the end of 2013, the value of financial assets measured at fair value amounted to 15 896 949 euros (2012: 17 543 107 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

**2013**

| 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 | 5 545 911 | 51 790 | -2 333 970 | -20 716 | 3 243 015 |
| Short-term health insurance | 2 380 729 | 7 320 | -119 596 | 0 | 2 268 453 |
| Motor vehicle insurance | 3 192 907 | -64 573 | -1 282 287 | 25 830 | 1 871 877 |
| Railway rolling stock and small craft | 42 664 | 103 | -36 653 | -100 | 6 014 |
| Insurance of goods in transit | 43 409 | 164 | -28 216 | -107 | 15 250 |
| Property insurance | 3 730 184 | 824 | -709 199 | 28 643 | 3 050 452 |
| Motor vehicle owner's liability | 287 289 | 13 | -186 738 | -9 | 100 555 |
| Liability insurance | 189 951 | -6 567 | -151 962 | 5 253 | 36 675 |
| Monetary damage | 118 347 | 32 737 | -31 549 | 2 030 | 121 565 |
| **Total** | **15 531 391** | **21 811** | **-4 880 170** | **40 824** | **10 713 856** |

**2012**

| 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 | 5 751 439 | 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** |

## 4. Service and commission fee revenue

| in euros | Note | 2013 | 2012 |
|---|---|---|---|
| Reinsurer commission revenue | 10 | 1 386 765 | 1 318 988 |
| Reinsurer's profit sharing | 10 | 2 465 | 17 891 |
| Reinsurance share of changes in acquisition costs | 10 | 30 234 | -16 833 |
| Other technical income, net of reinsurance | | 4 759 | 11 194 |
| **Total** | | **1 424 223** | **1 331 240** |

## 5. Net investment revenue

| in euros | 2013 | 2012 |
|---|---|---|
| Dividend revenue | 10 986 | 11 147 |
| Interest income from deposits | 51 253 | 103 929 |
| Other financial revenue, incl. interest revenue from loans granted | 9 052 | 27 350 |
| Trade portfolio revenue | 484 572 | 969 696 |
| Revenue from derivative instruments | -1 484 | 0 |
| **Total** | **554 379** | **1 112 122** |

## 6. Other income

| in euros | 2013 | 2012 |
|---|---|---|
| Other income | 92 363 | 62 525 |
| **Total** | **92 363** | **62 525** |

Other income reflects mostly profit from the sales of fixed assets and the revaluation of currencies and rental income.

## 7. Claims incurred

| in euros | Note | 2013 | 2012 |
|---|---|---|---|
| Claims paid, gross | | -8 533 472 | -7 926 583 |
| Claims handling expenses | 8 | -980 571 | -975 931 |
| Amounts received from recoveries and salvage | | 607 764 | 809 153 |
| Estimated amounts receivable for recoveries and salvage | | -52 341 | 0 |
| **Total claims, gross** | | **-8 958 620** | **-8 093 361** |
| Change in the provision for claims outstanding | | 218 892 | -409 646 |
| **Claims incurred, gross** | | **-8 739 728** | **-8 503 007** |
| Reinsurer’s share in claims | 10 | 2 812 519 | 2 582 659 |
| Reinsurer’s share of the change in the provision for claims outstanding | 10 | 186 021 | -114 582 |
| **Reinsurer’s share in claims incurred** | | **2 998 540** | **2 468 077** |
| **Total claims incurred** | | **-5 741 188** | **-6 034 930** |

## 8. Operating expenses

| in euros | Note | 2013 | 2012 |
|---|---|---|---|
| Claims handling expenses | **7** | **-980 571** | **-975 931** |
| Insurance contract acquisition expenses | | -3 717 002 | -3 788 542 |
| Administrative expenses | | -1 494 411 | -1 284 943 |
| *incl. other expenses* | | *-114 014* | *-121 545* |
| Financial expenses | | -144 000 | -108 113 |
| **Total operating expenses** | | **-5 355 413** | **-5 181 598** |
| **Total expenses** | | **-6 335 984** | **-6 157 529** |

| in euros | 2013 | 2012 |
|---|---|---|
| Payroll expenses | -3 083 188 | -2 926 707 |
| Brokers' commission fees | -1 125 959 | -1 149 335 |
| Outsourced services | -208 826 | -181 612 |
| Depreciation and impairment of PPE and intangible assets | -417 957 | -360 489 |
| Other operating expenses | -1 502 947 | -1 494 183 |
| Change in deferred acquisition costs | 2 893 | -45 203 |
| **Total expenses** | **-6 335 984** | **-6 157 529** |

## 9. Income tax

| in euros | 2013 | 2012 |
|---|---|---|
| Profit before taxes | 1 688 220 | 2 329 757 |
| Income tax on dividends | -345 569 | -85 063 |
| **Net profit for the financial period** | **1 342 651** | **2 244 694** |

## 10. Reinsurance result

| in euros | Note | 2013 | 2012 |
|---|---|---|---|
| Reinsurance premiums | 3 | -4 880 170 | -4 803 340 |
| Reinsurer's share of the change in provision for unearned premiums | 3 | 40 824 | -223 066 |
| Reinsurer's share in claims paid | 7 | 2 812 519 | 2 582 659 |
| Reinsurer's share of the change in the provision for claims outstanding | 7 | 186 021 | -114 582 |
| Reinsurance commission fees and profit sharing | **4** | 1 419 464 | 1 320 046 |
| **Total** | | **-421 342** | **-1 238 283** |

## 11. Property, plant and equipment

| in euros | Land and buildings | Other PPE | Total |
|---|---|---|---|
| **Acquisition cost** | | | |
| | | | |
| ***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** |
| Acquisition | 0 | 132 228 | 132 228 |
| Disposal | 0 | --37 348 | -37 348 |
| Write-off | 0 | -4 975 | -4 975 |
| | | | |
| ***31.12.2013*** | **1 508 408** | **739 387** | **2 247 795** |
| **Accumulated depreciation** | | | |
| | | | |
| ***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 | 40 473 | 40 473 |
| Depreciation charge of write-offs | 0 | 76 626 | 76 626 |
| | | | |
| ***31.12.2012*** | **-520 078** | **-401 962** | **-922 040** |
| Depreciation charge for the year | -55 984 | -108 470 | -164 454 |
| Depreciation charge of disposals | 0 | 34 256 | 34 256 |
| Depreciation charge of write-offs | 0 | 4 975 | 4 975 |
| | | | |
| ***31.12.2013*** | **-576 062** | **-471 201** | **-1 047 263** |
| **Net book value** | | | |
| ***31.12.2012*** | **988 330** | **247 520** | **1 235 850** |
| ***31.12.2013*** | **932 346** | **268 186** | **1 200 532** |

Carrying amount of property fully amortised yet in use as at 31.12.2013 was 135 240 euros (2012: 142 895 euros).

## 12. Intangible assets

| in euros | Other intangible assets | Prepayments for intangible assets | Total intangible assets |
|---|---|---|---|
| **Acquisition cost** | | | |
| | | | |
| ***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** |
| | | | |
| Acquisition | 222 625 | 0 | 222 625 |
| Reclassification | 41 988 | -41 988 | 0 |
| ***31.12.2013*** | **2 497 684** | **940** | **2 498 624** |
| | | | |
| **Accumulated amortisation** | | | |
| ***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** |
| Amortisation charge for the year | -253 503 | 0 | -253 503 |
| ***31.12.2013*** | **-814 333** | **0** | **-814 333** |
| **Net book value** | | | |
| ***31.12.2012*** | **1 672 241** | **42 928** | **1 715 169** |
| ***31.12.2013*** | **1 683 351** | **940** | **1 684 291** |

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 2013 include internally capitalised development costs amounting to 164 120 euros.

Carrying amount of intangible assets fully amortised yet in use as at 31.12.2013 was 292 367 euros and it remained unchanged compared to previous year.

### Deferred acquisition costs

| in euros | |
|---|---|
| ***31.12.2011*** | **316 760** |
| Deferred | 1 435 608 |
| Amortised | -1 480 811 |
| ***31.12.2012*** | **271 557** |
| Deferred | 1 438 255 |
| Amortised | -1 435 362 |
| ***31.12.2013*** | **274 450** |
| | |
| **Net book value** | |
| ***31.12.2012*** | **271 557** |
| ***31.12.2013*** | **274 450** |

## 13. Financial assets

| in euros | Note | 31.12.2013 | 31.12.2012 |
|---|---|---|---|
| Shares and equity funds | **13.1** | 655 421 | 547 199 |
| Bonds and other fixed income securities | **13.2** | 12 422 595 | 11 096 939 |
| Loans | **13.3** | 134 830 | 131 705 |
| Term deposits | **13.4** | 2 684 103 | 5 767 264 |
| **Total** | | **15 896 949** | **17 543 107** |

| in euros | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Financial assets measured at fair value through profit and loss** | | |
| ***Designated at fair value through profit and loss at inception*** | | |
| Shares and equity funds | 655 421 | 547 199 |
| Bonds and other fixed income securities | 12 422 595 | 11 096 939 |
| **Financial assets measured at amortised cost** | | |
| ***Loans and receivables*** | | |
| Loans | 134 830 | 131 705 |
| **Term deposits** | **2 684 103** | **5 767 264** |
| **Total** | **15 896 949** | **17 543 107** |

| in euros | 31.12.2013 | | 31.12.2012 | |
|---|---|---|---|---|
| | 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 and equity funds | 655 421 | 682 424 | 547 199 | 585 416 |
| Bonds and other fixed income securities | 12 422 595 | 12 446 714 | 11 096 939 | 10 879 887 |
| **Financial assets measured at amortised cost** | | | | |
| Loans | 134 830 | 223 178 | 131 705 | 178 323 |
| Term deposits | 2 684 103 | 2 675 000 | 5 767 264 | 5 695 000 |
| **Total** | **15 896 949** | **16 027 316** | **17 543 107** | **17 338 626** |

### 13.1. Shares and equity funds

| in euros | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Listed shares | 655 421 | 547 199 |
| **Total** | **655 421** | **547 199** |

The shares of Goldman Sachs Group, ISIN code US38141G1040, at purchase price of 22 817 euros, are recognised among the shares. The shares have been pledged by the Swedbank AS, in accordance with the contract 37/2013. The transaction is related to the sales option, for which the implementation deadline is April 2014 (see note 23). The timing of the put option is not yet known but the effect on the financial results arising from this event is irrelevant.

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

| in euros | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **EUR** | 259 553 | 275 435 |
| **USD** | 310 763 | 169 964 |
| **GBP** | 23 835 | 23 781 |
| **DKK** | 0 | 25 640 |
| **LTL** | 61 270 | 52 379 |
| **Total** | **655 421** | **547 199** |

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

| **Change in share prices thousand euros** | **31.12.2013** | **31.12.2012** |
|---|---|---|
| Share prices +10% | 66 | 55 |
| Share prices +20% | 131 | 109 |
| Share prices –10% | -66 | -55 |
| Share prices –20% | -131 | -109 |
| **Change in the fair value of the portfolio** | **655** | **547** |

### 13.2. Bonds

| | **31.12.2013** | **31.12.2012** |
|---|---|---|
| in euros | At fair value | At fair value |
| **Bonds with a fixed interest rate** | | |
| Government and government owned institutions bonds | 7 601 167 | 8 045 693 |
| Bonds of financial institutions | 1 299 791 | 63 182 |
| Other bonds | 3 513 293 | 2 932 424 |
| **Total** | **12 417 251** | **11 041 299** |
| **Bonds with a floating interest rate** | | |
| Other bonds | 5 344 | 55 640 |
| **Total** | **5 344** | **55 640** |
| **Total bonds** | **12 422 595** | **11 096 939** |

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

| Standard & Poor's | Moody's | 31.12.2013 | 31.12.2012 |
|---|---|---|---|
| A | A | 2 767 273 | 2 870 533 |
| BBB | Baa | 6 124 213 | 5 829 474 |
| BB | Ba | 1 020 596 | 1 114 051 |
| B | Ba | 813 119 | 0 |
| CCC | Ca | 1 106 | 640 |
| N/A | | 1 696 288 | 1 282 241 |
| **Total** | | **12 422 595** | **11 096 939** |

By individual currencies, bonds are divided as follows:

| in euros | 31.12.2013 | 31.12.2012 |
|---|---|---|
| EUR | 11 645 961 | 10 924 078 |
| USD | 159 443 | 172 861 |
| NOK | 617 191 | 0 |
| **Total** | **12 422 595** | **11 096 939** |

The bond portfolio is divided by maturity terms as follows:

| in euros | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Up to 6 months | 7 764 235 | 0 |
| 6-12 months | 0 | 55 640 |
| 1-3 years | 1 073 753 | 9 427 437 |
| Over 3 years | 3 584 607 | 1 613 862 |
| **Total** | **12 422 595** | **11 096 939** |

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

| in euros | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Interest rate: 0.0-2.9% | 1 559 967 | 202 448 |
| Interest rate: 4.0-4.9% | 5 234 223 | 5 572 005 |
| Interest rate: 5.0-5.9% | 2 809 638 | 2 926 609 |
| Interest rate: 6.0-6.9% | 856 738 | 284 358 |
| Interest rate: 9.0-9.9% | 1 962 029 | 2 111 519 |
| Intressimäär 9,0-9,9% | 2 111 519 | 2 081 464 |
| **Total** | **12 422 595** | **11 096 939** |

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 redemption any lower is unlikely and/or we will exit the positions as the value creating process will stop.

| Change in interest rate | 31.12.2013 | 31.12.2012 |
|---|---|---|
| thousand euros | | |
| Change in yield curve +50 base points | -52 | -101 |
| Change in yield curve -50 base points | +53 | +99 |
| Change in yield curve +100 base points | -104 | -200 |
| Change in yield curve -100 base points | +101 | +171 |
| Change in yield curve +200 base points | -204 | -393 |
| Change in yield curve -200 base points | +184 | +291 |
| **Change in the fair value of the portfolio** | **12 423** | **11 097** |

## 13.3. Loans

| in euros<br>**Mortgage loans** | **31.12.2013** | **31.12.2012** |
|---|---|---|
| Loans to related parties with a term of up to 3 months | 34 353 | 0 |
| Loans to related parties with a term 3-12 months | 29 000 | 66 308 |
| Other mortgage loans with a term of 3-12 months | 48 830 | 37 442 |
| **Total** | **112 183** | **103 750** |
| | | |
| **Other loans** | | |
| Loans with a term of up to 3 months | 461 | 202 |
| Loans with a term of 3-12 months | 0 | 2 489 |
| Loans with a term of 1-3 years | 4 982 | 25 264 |
| Loans with a term of over 3 years | 17 204 | 0 |
| **Total** | **22 647** | **27 955** |
| **Total loans** | **134 830** | **131 705** |

The annual interest rates for loans granted fall between 5% and 8,5%. 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 | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Up to 3 months | 0 | 406 390 |
| Term of 3-12 months | 2 684 103 | 5 360 874 |
| **Total** | **2 684 103** | **5 767 264** |

The annual interest rates for term deposits fall between 0,6% and 3 %. Deposits are held in euros.

### 13.5. Evaluation of financial instruments under IFRS 13 levels

**Receivables**

in euros

| **31.12.2013** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Shares and equity funds | 655 421 | 0 | 0 | 655 421 |
| Bonds and other fixed income securities | 12 417 251 | 0 | 5 344 | 12 422 595 |
| Term deposits | 0 | 2 684 103 | 0 | 2 684 103 |
| Loans | 0 | 0 | 134 830 | 134 830 |
| **Total** | **13 072 672** | **2 684 103** | **140 174** | **15 896 949** |

| **31.12.2012** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Shares, equity funds and bond funds | 547 199 | 0 | 0 | 547 199 |
| Bonds and other fixed income securities | 11 041 299 | 0 | 55 640 | 11 096 939 |
| Term deposits | 0 | 5 767 264 | 0 | 5 767 264 |
| Loans | 0 | 0 | 131 705 | 131 705 |
| **Total** | **11 588 498** | **5 767 264** | **187 345** | **17 543 107** |

**Liabilities**

in euros

| **31.12.2013** | **Level 1** | **Total** |
|---|---|---|
| Derivatives | -2 829 | -2 829 |
| **Total** | **-2 829** | **-2 829** |

Profit from revaluation of financial assets amounting to 242 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 | | 508 190 | 160 269 |
| Reinsurer’s share in provision for unearned premium | **20** | 1 184 523 | 1 143 699 |
| Reinsurer’s share in provision for claims outstanding | **20** | 4 358 484 | 4 172 463 |
| **Total** | | **6 051 197** | **5 476 431** |

All receivables from reinsurance are paid within 12 months.

## 15. Receivables from insurance activities and other receivables

| in euros | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Policyholders | 181 119 | 184 302 |
| Insurance brokers | 186 540 | 234 838 |
| Recoveries and salvages | 593 479 | 645 820 |
| Accrued interest | | |
| Prepaid taxes | 305 | 2 600 |
| Other accrued income | 4 911 | 4 689 |
| Other prepaid expenses | 89 472 | 83 149 |
| *incl. Financial Supervision Authority's operation and maintenance costs* | *52 438* | *50 102* |
| **Total** | **1 055 826** | **1 155 398** |

Term of the receivables:

| in euros | 31.12.2013 | 31.12.2012 |
|---|---|---|
| - not due yet | 881 450 | 883 298 |
| - due for up to 3 months | 157 431 | 245 885 |
| - due for 3-6 months | 10 591 | 18 630 |
| - due for 6-12 months | 6 354 | 7 585 |
| **Total** | **1 055 826** | **1 155 398** |

Impairment of receivables:

| in euros | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Allowance for doubtful receivables at the beginning of the period | **0** | **0** |
| Collection of receivables recognised as doubtful in the reporting period | 0 | -20 870 |
| Receivables recognised as doubtful in the reporting period | 0 | 20 870 |
| **Allowance for doubtful receivables at the end of the period** | **0** | **0** |

## 16. Cash and cash equivalents

| in euros | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Cash in hand | 5 504 | 10 869 |
| Cash at bank | 2 545 037 | 1 285 543 |
| **Total** | **2 550 541** | **1 296 412** |

Raha ja raha ekvivalendid valuutade lõikes:

| eurodes | 31.12.2013 | 31.12.2012 |
|---|---|---|
| EUR | 2 517 082 | 1 164 997 |
| USD | 19 702 | 131 415 |
| NOK | **13 757** | **0** |
| **Kokku** | **2 550 541** | **1 296 412** |

## 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 | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Owner's equity | 14 086 893 | 14 044 242 |
| Solvency margin | 11 502 602 | 11 024 655 |
| Required minimum solvency margin | 1 669 020 | 1 841 977 |
| Surplus | 9 833 582 | 9 182 678 |

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 31.12.2013, the registered share capital of the Group amounted to 3 200 000 euros (2012:

3 200 000 euros), divided into 1 000 000 shares (2012: 1 000 000) with a nominal value of 3.2 euros. 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 2013, a total of 1 300 000 euros was paid in dividends, i.e. 1,30 euros per share (2012: 320 000 euros, i.e.0,32 euros per share).

The management board has proposed to the general meeting of the shareholders to pay 900 000 euros in dividends, i.e. 0,9 euros per share, in 2014.

### 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, which 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 lays in the improvement of the risk awareness of all staff members, as well as creation of a control environment.

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

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

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

***Reinsurance strategy***

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

***Reinsurance risk***

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

## Property insurance

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

**Property insurance risk management.** The main risks associated with property insurance include acquisition risk, competition risk, risk of insufficient experience in the claims segment, and risk of fraud. Acquisition risk involves the Company's failure to collect sufficient insurance premiums for different property items insured.

Risk associated with any policy differs by various features, like the location of the object, the applied safety measures, the field of activity insured, the age of the property, etc. In the property insurance segment, risks are managed primarily through balanced pricing and risk selection. In order to maintain acceptability of risks, stringent acquisition rules are applied.

## Motor vehicle insurance

**Product features.** The insured object of motor vehicle insurance is a land vehicle registered in the Republic of Estonia, or a vehicle associated with an Estonian-based customer in a foreign country. Motor vehicle insurance protects the policyholder, under certain limitations established in the insurance contract, against losses caused by possible damage, destruction or loss of the insured object.

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

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

## Motor third party liability insurance

**Product features.** Motor third party liability covers traffic losses incurred in the European Union member states, and in member states covered by the Green Card agreement. In the case of indemnification of losses in an insurance case covered by a motor third party liability insurance contract, the liability limits effective in the country where the traffic accident occurred are applied; these limits are absent in some countries altogether. Motor third party liability insurance indemnifies for property and personal damage caused to a third person. Pursuant to the laws of the Republic of Estonia, medical expenses of the person driving the vehicle that caused the accident are covered as well.

**Motor third party liability insurance risk management.** Risks which arise from motor third party liability insurance are hedged through pricing and reinsurance. Conscious risk selection is impossible - by law, the Company may not refuse to serve an obligatory customer, if the customer turns to the Company. The accuracy and adequacy of rates is continuously monitored, and modified in accordance with changes in the environment. Moreover, the motor third party liability insurance involves a highly long-term component, i.e. annuity payments. The pricing of the motor third party liability insurance products takes into consideration the fact that personal damage expenses grow over time. Thus, the uncertainty level of annuity provision estimates is one of the highest.

In the motor third party liability insurance segment, the Company has limited the extent of its liability by applying reinsurance with an excess of loss of 250 thousand euros, i.e. any expenses above this amount are indemnified by the reinsurer.

### *Concentration risk involved in the insurance activity*

A string of similar events or one event can influence the liabilities and the equity of the Group.

In order to avoid emergence of concentration deriving from one insurance contract or related contracts, control procedures and underwriting limits have been established. Geographical spread of insurance risks is essential because external factors, e.g. storm, flood, fire and crime rate increase may occur in certain areas, thus affecting the insured objects in the area and having a negative bearing on the Group’s cash flows.

The danger of culmination of various risks is mainly handled by the management that evaluates the materiality and probability of the risk, and applies hedging measures if necessary.

The concentration of liabilities arising from insurance contracts has been brought out below, by insurance categories.

| **31.12.2013**<br>**Type of insurance**<br>in thousand euros | **Gross liabilities related to insurance contracts** | **Reinsurer's share of liabilities** | **Net liabilities** |
|---|---|---|---|
| Motor third party liability insurance | 7 637 | 4 033 | 3 605 |
| Motor vehicle insurance | 1 373 | 550 | 823 |
| Short-term health insurance | 451 | 13 | 437 |
| Household property insurance | 711 | 21 | 690 |
| Corporate property insurance | 1 519 | 778 | 741 |
| Monetary Damage | 88 | 15 | 73 |
| Liability insurance | 107 | 86 | 21 |
| Other | 70 | 47 | 23 |
| **Total** | **11 956** | **5 543** | **6 413** |

| **31.12.2012**<br>**Type of insurance**<br>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 |
| Railway transport insurance | 121 | 13 | 107 |
| Liability insurance | 71 | 57 | 14 |
| Other | 103 | 69 | 34 |
| **Total** | **12 197** | **5 316** | **6 880** |

***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.

| **31.12.2013**<br>**Factors**<br>in thousand euros | **Value** | **Potential change** | **Effect on equity, thousands of euros** | **Effect on equity, %** |
|---|---|---|---|---|
| Net claims incurred | 5 741 | +5% | -287 | -2,04 |
| High net loss of motor third party liability insurance | | | -250 | -1,77 |
| High net loss of property insurance | | | -450 | -3,19 |
| Operating expenses | 5 355 | +5% | -268 | -1,90 |

| **31.12.2012**<br>**Factors**<br>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 |

## 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*** | **Note** | **31.12.2013** | **31.12.2012** |
|---|---|---|---|---|
| **Financial assets measured at fair value through profit and loss** | | | | |
| Shares and equity funds | Market risk, liquidity risk | **13.1** | 655 421 | 547 199 |
| Bonds and other fixed income securities | Market risk, liquidity risk, interest risk | **13.2** | 12 422 595 | 11 096 939 |
| **Financial assets at amortized cost** | | | | |
| Loans and term deposits | Credit risk | **13.3,13.4** | 2 818 933 | 5 898 969 |
| Receivables under reinsurance contracts | Credit risk | **14** | 6 051 197 | 5 476 431 |
| Receivables from insurance activities and other receivables | Credit risk | **15** | 1 055 826 | 1 155 398 |
| Cash and cash equivalents | Credit risk | **16** | 2 550 541 | 1 296 412 |
| **Total exposure to financial risk** | | | **25 554 513** | **25 471 348** |

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 as at 31.12.2013:

| in euros | Deposits | Bonds |
|---|---|---|
| Nordea Bank | 2 684 103 | **1 299 791** |
| Czech Republic | | 2 896 102 |
| Republic of Latvia | | 2 423 240 |
| Republic of Lithuania | | 1 962 029 |
| Republic of Poland | | 1 147 962 |
| **Total** | **2 684 103** | **9 729 124** |

***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 11,5 million euros at the end of 2013, in line with the rules for accounting for the solvency margin, stipulated in the Insurance Activities Act. The minimum consolidated solvency margin is 1,7 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 comparing 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<br>**Cumulative estimate of losses** | Before 2003 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Kokku |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| As at 31December starting from the validity of the policy | | 8 817 | 10 066 | 14 385 | 16 754 | 14 364 | 11 762 | 10 321 | 11 155 | 7 572 | 9 239 | | Kokku |
| 2 year later | | 8 759 | 9 844 | 13 755 | 16 358 | 14 015 | 11 603 | 10 055 | 10 749 | 7 550 | | | |
| 3 years... | | 8 496 | 9 591 | 13 446 | 16 225 | 13 794 | 11 453 | 9 963 | 10 370 | | | | |
| 4 years... | | 8 268 | 9 611 | 13 399 | 16 147 | 13 590 | 11 306 | 9 557 | | | | | |
| 5 years... | | 8 215 | 9 535 | 13 311 | 15 742 | 13 312 | 11 160 | | | | | | |
| 6 years... | | 8 132 | 9 524 | 13 199 | 15 763 | 13 199 | | | | | | | |
| 7 years… | | 8 132 | 9 475 | 13 184 | 15 759 | | | | | | | | |
| 8 years… | | 8 091 | 9 471 | 13 152 | | | | | | | | | |
| 9 years… | | 8 097 | 9 419 | | | | | | | | | | |
| 10 years… | | 8 093 | | | | | | | | | | | |
| Cumulative estimate of claims | | 8 093 | 9 419 | 13 152 | 15 759 | 13 199 | 11 160 | 9 557 | 10 370 | 7 550 | 9 239 | | |
| the adequacy of estimate made 1 year after the end of validity of the | | 109% | 107% | 109% | 106% | 109% | 105% | 108% | 108% | 100% | | | |
| policy as at 31.12.2013 | | 8 066 | 9 338 | 13 083 | 14 593 | 12 936 | 10 862 | 9 350 | 9 826 | 9 001 | 8 287 | 4 073 | |
| Total disburse-ments as at 31.12.2013 | 483 | 27 | 81 | 69 | 1166 | 263 | 298 | 207 | 544 | 964 | 952 | 3211 | 8 266 |
| Provision for outstanding claims as at 31.12.2013 | | | | | | | | | | | | | |

In the management's opinion, the amounts of technical reserves reported in the financial statements prepared as of the end of 2013 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 | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Gross** | | |
| Provision for losses incurred in the previous periods | 2 261 183 | 2 636 830 |
| Provision for losses incurred in the reporting period | 3 208 077 | 2 741 504 |
| Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR) | 15 959 | 14 251 |
| Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR) | 412 819 | 407 256 |
| Provision for pension under motor third party liability insurance incurred in the previous periods | 2 367 802 | 2 548 398 |
| Provision for pension under motor third party liability insurance incurred in the reporting period | 0 | 136 493 |
| Provision for unearned premiums | 3 690 116 | 3 711 927 |
| **Total** | **11 955 956** | **12 196 659** |
| | | |
| **Reinsurer's share** | | |
| Provision for losses incurred in the previous periods | 1 384 945 | 1 569 358 |
| Provision for losses incurred in the reporting period | 1 402 771 | 845 044 |
| Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR) | 5 050 | 5 244 |
| Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR) | 137 266 | 134 110 |
| Provision for pension under motor third party liability insurance incurred in the previous periods | 1 428 452 | 1 564 110 |
| Provision for pension under motor third party liability insurance incurred in the reporting period | 0 | 54 597 |
| Provision for unearned premiums | 1 184 523 | 1 143 699 |
| **Total** | **5 543 007** | **5 316 162** |
| | | |
| **Net** | | |
| Provision for losses incurred in the previous periods | 876 238 | 1 067 472 |
| Provision for losses incurred in the reporting period | 1 805 306 | 1 896 460 |
| Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR) | 10 909 | 9 007 |
| Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR) | 275 553 | 273 146 |
| Provision for pension under motor third party liability insurance incurred in the previous periods | 939 350 | 984 288 |
| Provision for pension under motor third party liability insurance incurred in the reporting period | 0 | 81 896 |
| Provision for unearned premiums | 2 505 593 | 2 568 228 |
| **Total** | **6 412 949** | **6 880 497** |

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 | 2013 | | |
|---|---|---|---|
| | **Liabilities under insurance contracts** | **Reinsurer's share** | **Net** |
| **Balance 01.01.2013** | **3 711 927** | **1 143 699** | **2 568 228** |
| Premiums written in the year | 15 531 391 | 4 880 170 | 10 651 221 |
| Premiums earned during the year | -15 553 202 | -4 839 346 | -10 713 856 |
| **Balance 31.12.2013** | **3 690 116** | **1 184 523** | **2 505 593** |

| 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** |

## 20.2. Provision for losses incurred

| in euros | 2013 | | |
|---|---|---|---|
| | **Liabilities under insurance contracts** | **Reinsurer's share** | **Net** |
| **Balance 01.01.2013** | **8 484 732** | **4 172 463** | **4 312 269** |
| Claims paid during the year that incurred in prior accident years | -2 400 312 | -807 728 | -1 592 584 |
| Claims paid during the year that incurred in the current accident year | -6 827 228 | -1 936 410 | -4 890 818 |
| Adjustment to claims incurred in prior accident years | -1 439 476 | -546 288 | -893 188 |
| Losses incurred during the year | 10 448 124 | 3 476 447 | 6 971 677 |
| **Balance 31.12.2013** | **8 265 840** | **4 358 484** | **3 907 356** |

| | 2012 | | |
|---|---|---|---|
| in euros | **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** |

## 21. Liabilities under reinsurance

| in euros | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Payables to reinsurers | 601 729 | 392 732 |
| Reinsurer’s share in recoveries and salvage | 303 206 | 371 587 |
| Reinsurer’s share of the deferred acquisition costs | 163 533 | 193 767 |
| **Total** | **1 068 468** | **958 086** |

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

## 22. Liabilities from direct insurance activities

| in euros | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Policyholder prepayments | 280 968 | 222 025 |
| Payables to insurance brokers | 64 937 | 89 168 |
| Other liabilities | 11 610 | 11 661 |
| **Total** | **357 515** | **322 854** |

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

## 23. Accrued expenses and other prepaid revenue

| in euros | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Payables to employees | 326 707 | 287 380 |
| Vacation accrual | 80 672 | 97 022 |
| Value added tax | 34 437 | 534 |
| Personal income tax | 60 636 | 58 586 |
| Social tax | 119 210 | 114 563 |
| Unemployment insurance | 9 520 | 11 402 |
| Funded pension liability | 5 910 | 5 444 |
| Corporate income tax | 5 024 | 5 086 |
| Accounts payable | 73 211 | 65 268 |
| Prepaid rent | 831 | 831 |
| Prepaid income | 525 967 | 525 967 |
| **Total** | **1 242 125** | **1 172 083** |

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 | 2013 | 2012 |
|---|---|---|
| Passenger car rental payments | 10 736 | 10 448 |
| Office space rental payments | 202 001 | 210 585 |

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

| in euros | |
|---|---|
| up to 1 year | 40 326 |
| 1-5 years | 18 630 |

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 | 2013 | 2012 |
|---|---|---|
| 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 | 57 116 |
| 1-5 years | 109 385 |

## 25. Provisions and contingent liabilities

### *Income tax*

As of 31.12.2013, the company's retained earnings amounted to 10 436 172 euros (last year: 10 402 822 euros) and net book value of intangible assets to maksumus 1 958 741 euros (last year: 1 986 726). The maximum possible income tax liability related to the payment of the company's retained earnings as dividends is 1 780 261 euros (last year: 1 767 380 euros). The company can thus pay a total of 6 697 170 euros in net dividends (last year 6 648 716 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 2014 would not exceed the distributable profit as of 31.12.2013.

### *Other*

Claims of action in the amount of 15 023 euros have been submitted against Salva Kindlustuse AS in connection with insurance losses. The management board estimates approximately 7 500 euros of these claims to be satisfied, with the corresponding amount charged to the outstanding claims reserve.

## 26. Related party transactions

***Related party***

Related parties are considered:

- the Company's shareholders:

Tiit Pahapill 45%

ING Luxembourg S.A. AIF Account 45%

Private individuals 10%

- other companies belonging to the same consolidation group
- the Company's management board and supervisory board members
- close relatives and other individuals and enterprises over whom the above persons have significant influence

***Transactions with members of the management board and supervisory board***

In 2013, insurance contracts with aggregate premiums of 5 823 euros were concluded with members of the management board. The wages of the members of the management board amounted to 430,3 thousand euros and the remuneration paid to members of the supervisory board to 30,6 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** | **2013** | **2012** |
|---|---|---|
| Companies related to a management board member | 0 | 27 201 |

As of 31.12.2013, the balance of loans granted to own employees and related parties amounted to 86 000 euros. (31.12.2012: 284 409)

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 |
| Asutatud | septembris 1997 | märtsis 2009 |
| Osalus % | 100 | 49 |
| Osade arv | 1 | 1 |
| Osakapital | 2 556 | 2 800 |
| Soetusmaksumus | 2 556 | 2 800 |

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

### Comprehensive income statement of Salva Kindlustuse AS

| in euros | 2013 | 2012 |
|---|---|---|
| **REVENUE** | | |
| Gross premiums | 15 550 052 | 15 552 020 |
| Reinsurance premiums | -4 880 170 | -4 803 340 |
| Changes in the provision for unearned premiums | 21 811 | 531 208 |
| Reinsurer's share of the change in provision for unearned premiums | 40 824 | -223 066 |
| **Premiums earned, net of reinsurance** | **10 732 517** | **11 056 822** |
| Service and commission fee revenue | 1 424 223 | 1 331 240 |
| Net investment revenue | -534 975 | 1 312 242 |
| Other income | 17 985 | 1 566 |
| **Total revenue** | **11 639 750** | **13 701 870** |
| **EXPENSES** | | |
| Claims incurred | -9 060 989 | -8 691 431 |
| Reinsurer's share in claims incurred | 2 998 540 | 2 468 077 |
| **Claims incurred, net of reinsurance** | **-6 062 449** | **-6 223 354** |
| Acquisition costs | -3 727 807 | -3 791 492 |
| Administrative expenses | -1 512 199 | -1 284 443 |
| Financial expenses | -132 821 | -101 943 |
| **Total operating expenses** | **-5 372 827** | **-5 177 878** |
| **Income tax** | -260 506 | 0 |
| **Profit/loss for the financial year** | **-56 032** | **2 300 638** |
| **Comprehensive profit/loss for the financial year** | **-56 032** | **2 300 638** |

## Statement of financial position of Salva Kindlustuse AS

| in euros | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **ASSETS** | | |
| Property, plant and equipment | 69 955 | 54 350 |
| Intangible assets | 2 157 271 | 2 140 181 |
| Subsidiaries | 5 849 879 | 7 215 921 |
| Financial investments | 13 819 603 | 15 504 334 |
| Receivables under reinsurance contracts | 6 051 197 | 5 476 431 |
| Receivables from insurance activities and other receivables | 1 033 889 | 1 136 204 |
| Cash and cash equivalents | 1 805 884 | 658 300 |
| **TOTAL ASSETS** | **30 787 678** | **32 185 721** |
| **LIABILITIES AND OWNER'S EQUITY** | | |
| Share capital | 3 200 000 | 3 200 000 |
| Reserve capital | 319 558 | 319 558 |
| Other reserves | 64 428 | 64 428 |
| Retained earnings | 12 972 126 | 11 971 488 |
| Profit for the financial year | -56 032 | 2 300 638 |
| **Total owner's equity** | **16 500 080** | **17 856 112** |
| Liabilities under insurance contracts | 11 955 956 | 12 196 659 |
| Liabilities from reinsurance | 1 068 468 | 958 086 |
| Liabilities from direct insurance activities | 357 515 | 322 854 |
| Other liabilities | 385 919 | 363 143 |
| Derivatives | 2 829 | 0 |
| Accrued expenses and prepaid revenue | 516 911 | 488 867 |
| **Total liabilities** | **14 287 598** | **14 329 609** |
| **TOTAL LIABILITIES AND OWNER'S EQUITY** | **30 787 678** | **32 185 721** |

## Cash flow statement of Salva Kindlustuse AS

| in euros | 2013 | 2012 |
|---|---|---|
| **Cash flow from operating activities** | **2 764 096** | **818 933** |
| | | |
| Insurance premiums received | 14 627 092 | 14 540 015 |
| Claims paid and claims handling expenses | -8 936 781 | -7 829 685 |
| Paid to reinsurers | -887 227 | -1 160 152 |
| Paid as operating expenses | -3 887 232 | -3 636 347 |
| Income tax paid | -260 506 | 0 |
| Acquisition of shares and other securities | -366 974 | -371 505 |
| Disposal of shares and other securities | 325 706 | 930 458 |
| Acquired fixed rate securities | -1 737 198 | -3 682 216 |
| Proceeds from disposals of fixed rate securities | 303 207 | 3 914 390 |
| Loans granted | -122 700 | -440 151 |
| Repayment of loans granted | 106 472 | 731 382 |
| Investments in term deposits | -2 675 000 | -6 195 000 |
| Return on term deposits | 5 695 000 | 3 571 007 |
| Interest received | 645 722 | 503 857 |
| Dividends received | 10 986 | 11 148 |
| Investment expenses paid | -76 471 | -68 268 |
| **Cash flow from investing activities** | **-316 512** | **-1 115 334** |
| Acquisition of property, plant and equipment, and intangible assets | -316 512 | -1 115 334 |
| **Cash flow from financing activities** | **-1 300 000** | **-320 000** |
| Dividends paid | -1 300 000 | -320 000 |
| Loans received | 475 000 | 0 |
| Repayment of loans granted | -475 000 | 0 |
| **Total cash flow** | **1 147 584** | **-616 401** |
| **Cash and cash equivalents at the beginning of the period** | **658 300** | **1 274 701** |
| **Cash and cash equivalents at the end of the period** | **1 805 884** | **658 300** |

### Statement of changes in equity of Salva Kindlustuse AS

| *in euros* | Share capital | Reserve capital | Other reserves | Retained earnings | Total |
|---|---|---|---|---|---|
| **As of 31.12.2011** | **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 | 0 | 0 | 0 | -320 000 | -320 000 |
| **Total recognised income and expense for the year** | **3 200 000** | **319 558** | **64 428** | **14 272 126** | **17 856 112** |
| **As of 31.12.2012** | **3 200 000** | **319 558** | **64 428** | **14 272 126** | **17 856 112** |
| Profit for the financial period | 0 | 0 | 0 | -56 032 | -56 032 |
| Dividends paid | **0** | **0** | **0** | -1 300 000 | -1 300 000 |
| **Total recognised income and expense for the year** | **3 200 000** | **319 558** | **64 428** | **12 916 094** | **16 500 080** |
| **As of 31.12.2013** | **3 200 000** | **319 558** | **64 428** | **12 916 094** | **16 500 080** |

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 2013:

| in euros | 2013 | 2012 |
|---|---|---|
| Parent company's unconsolidated equity | 16 500 080 | 17 856 112 |
| Investment in the parent company's balance sheet | -5 849 879 | -7 215 921 |
| Subsidiary's value under the equity method | 3 371 235 | 3 347 895 |
| **Total** | **14 021 436** | **13 988 086** |

## Signatures of the Management Board to the Annual Report 2013

The Management Board of Salva Kindlustuse AS has prepared the management report and financial statements for 2013.

**Management Board:**

| | | | |
|---|---|---|---|
| Tiit Pahapill | Chairman of the Management Board | ............... | 17.03.2014 |
| Irja Elias | Member of the Management Board | ............... | 17.03.2014 |
| Urmas Kivirüüt | Member of the Management Board | ............... | 17.03.2014 |
| Algor Orav | Member of the Management Board | ............ | 17.03.2014 |
| Andres Lõhmus | Member of the Management Board | ............... | 17.03.2014 |

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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 consolidated statement of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 2013, 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, 19 March 2014

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

Tiina Sõmer
Authorised Auditor's number 441

# Profit allocation proposal

The Management Board proposes to allocate the profit as follows:

| | |
|---|---|
| Retained earnings | 10 402 822 |
| Net profit for 2013 | 1 333 350 |
| Intangible assets at book value | -1 958 741 |
| (Subsection 59 (2) of the Insurance Activities Act) | |
| Total distributable profit as of 31.12.2013 | 9 777 431 |
| | |
| To be distributed as dividends: | 900 000 |
| Balance of distributable profit after profit allocation | 8 877 431 |

| | | | |
|---|---|---|---|
| Tiit Pahapill | juhatuse esimees | ………………………………… | 17.03.2014 |
| Irja Elias | juhatuse liige | ………………………………… | 17.03.2014 |
| Urmas Kiviräüt | juhatuse liige | ………………………………… | 17.03.2014 |
| Algor Orav | juhatuse liige | ………………………………… | 17.03.2014 |
| Andres Lõhmus | juhatuse liige | ………………………………… | 17.03.2014 |