Salva Kindlustuse AS

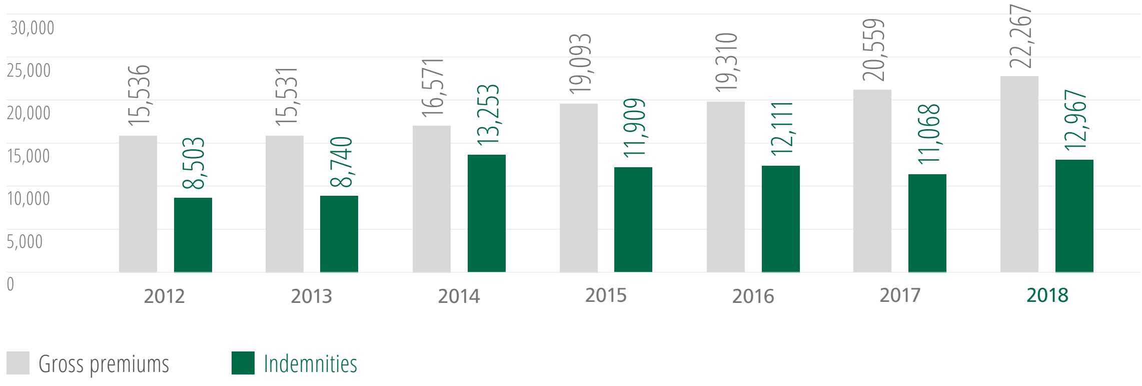
CONSOLIDATED ANNUAL REPORT 2018

Business name:	Salva Kindlustuse AS
Address:	Pärnu mnt 16, 10141 Tallinn
Registry code:	10284984
Telephone:	+372 6800 500
E-mail:	salva@salva.ee
Web page:	www.salva.ee
Main field of activity:	Non-life insurance
Beginning of financial year:	01.01.2018
End of financial year:	31.12.2018
Managing director:	Tiit Pahapill
Auditor:	KPMG Baltics OÜ

MANAGEMENT REPORT

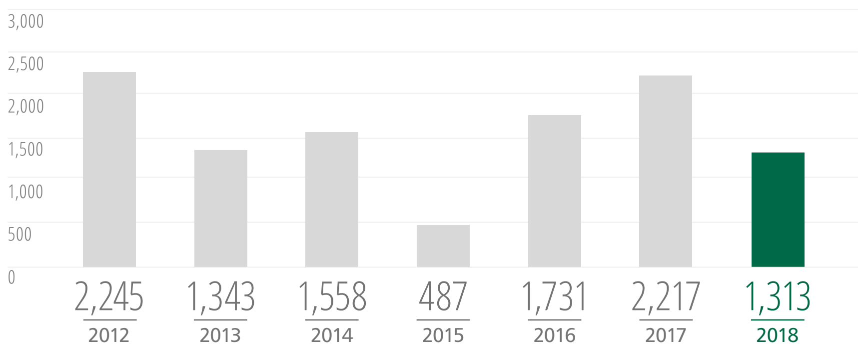
MAIN INDICATORS

GROSS PREMIUMS AND INDEMNITIES INCURRED / thousand euros

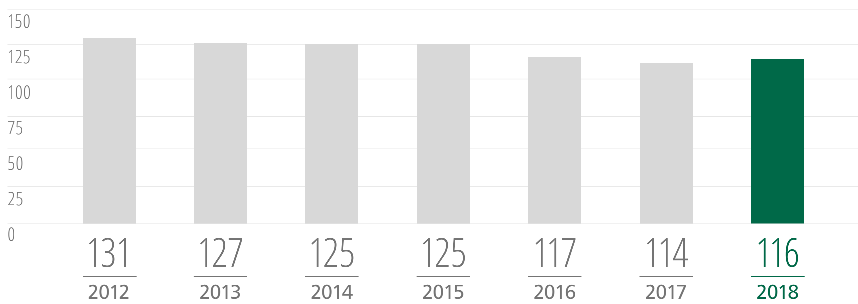


PROFIT

thousand euros



NUMBER OF EMPLOYEES



VISION, MISSION AND VALUES

VISION

To be the symbol of a reliable domestic insurance company for our customers.

MISSION

We are a continuously developing non-life insurance company rendering reliable insurance services to all customers and co-operation partners through the professional experience, proper administration and client-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 customer is special for us. Any contacts between ourselves and our clients are always aimed at achieving a mutually satisfying result. Our greatest value lies in the trust placed by our 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 improve our knowledge base, value 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 our services. We remain open and objective in any situation and will not compromise quality for purposes of quantity. Customers can always rely on us.

ORGANIZATION

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

The Company is registered in Estonia and main operating market is Estonia. The cross-border insurance services are offered in small scale.

We find it important to maintain insurance competence in the counties and develop offices and sales points in various regions of Estonia. The Company's representative offices (8) and sales offices (8) are spread around Estonia, with the head office located in Tallinn.

COMPANIES OF THE CONSOLIDATION GROUP

SALVA KINDLUSTUSE AS
Registry code 10284984

SALVA KAHJUKÄSITLUSE OÜ
Registry code 10259383
Paricipation 100%

TAMMEPÄRJA ARENDUSE OÜ
Registry code 14484444
Paricipation 100%

BUSINESS INFORMATION SYSTEMS OÜ
Registry code 11611994
Paricipation 49%

Main activity of Salva Kahjukäsitluse OÜ is claim handling, rent of vehicles and asset management services mainly for the parent company. Business Information System OÜ provides software development services primarily for Salva Kindlustuse AS. Tammepärja Arenduse OÜ was founded in 2018 to implement a real estate project.

MAIN FINANCIAL INDICATORS

Konsolideerimisgrupp *In euros*	2018	2017
FOR THE REPORTING PERIOD		
Gross premiums	22,266,949	20,559,414
Premiums earned, net of reinsurance	15,204,001	13,739,850
Gross claims incurred	12,966,607	11,067,351
Claims incurred, net of reinsurance	7,771,413	7,367,631
Total operating expenses	6,918,884	6,511,117
Net operating expenses	5,364,986	4,967,229
Net loss ratio	51.1%	53.6%
Net expense ratio	35.3%	36.2%
Net combined ratio	86.4%	89.8%
AS OF THE END OF THE REPORTING PERIOD		
Total assets	43,915,048	40,807,782
Financial investments	15,226,476	15,763,829
Investment property	249,165	290,448
EFFICIENCY INDICATORS		
Technical result	2,067,602	1,404,990
Investment result	35,327	1,136,577
Profit for the year	1,312,623	2,227,095
Annual return on equity	7.5%	13.6%
Annual return on investments	0.2%	6.9%
PER SHARE		
Profit for a share (euros)	1.31	2.23

EXPLANATIONS ON FINANCIAL INDICATORS:

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 / start/end of year average equity for the period
Return on investments (ROI) — Investment result /start/end of year average investments for the period

ECONOMIC ENVIRONMENT

According to Statistics Estonia, in 2018, the gross domestic product (GDP) of Estonia increased 3.9% compared to 2017. Labour shortage and increasing cost of labour have affected the Estonian growth prospects in both the near and distant future. The key issue is and will be the conversion of the growth of labour costs to higher productivity.

Growth expectations in the economy are at the same level as in 2018, while by 2020 growth is expected to fall to 2%.

In 2019, we expect the economy to progress steadily and hopefully the possible political changes resulting from Estonia's spring parliamentary elections will not lead to excessive turbulence in the country's tax, financial and economic policies.

NON-LIFE INSURANCE MARKET

According to Statistics Estonia, the growth of the Estonian non-life insurance market was estimated to be 8% in 2018, which shows that the Estonian economic environment continues to favour both private and corporate insurance interests and economic confidence remains stable.

According to the statistical information submitted to Statistics Estonia, insurance companies and branches on the Estonian insurance market collected a total of 456,651 thousand euros in insurance premiums. There is no exact comparison with 2017 available as insurance companies started to record statistics on all insurance premium as written under the insurance contract instead of the insurance premiums received. 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 (23%) and the optional motor vehicle insurance (35%). The share of property insurance amounts to 29% and the aggregated share of all the remaining insurance categories 13% of the market. The amount of disbursements in 2018 was 199,437 thousand euros. This constitutes a 10% increase in disbursements from the previous year (2017: 181,433 thousand euros).

The structure of insurance premiums has not changed significantly in recent years. The same structure is evident in insurance claim payments, with the rate amounting to 44% (2017: 54%).

2018 passed without any unexpected events for the insurance market – no significant damages arose from the forces of nature, such as floods or storms. However, some major property losses, including those reported in the press (i.e. Ragn Sells, Nurmiko), were characteristic for the year 2018. This reminds both customers and insurers that losses that commonly fall within hundreds or thousands of euros can also reach millions and therefore insurance must be viewed in a longer perspective than a few years. For the first time since 2011 the motor insurance market was profitable and ended up with a positive technical result of nearly 4 million euros. This result is a healthy profit and we hope that market participants are able to behave sensibly and do not start with price campaigns in order to redistribute the market. If that were the case, neither customers nor insurers would win from it.

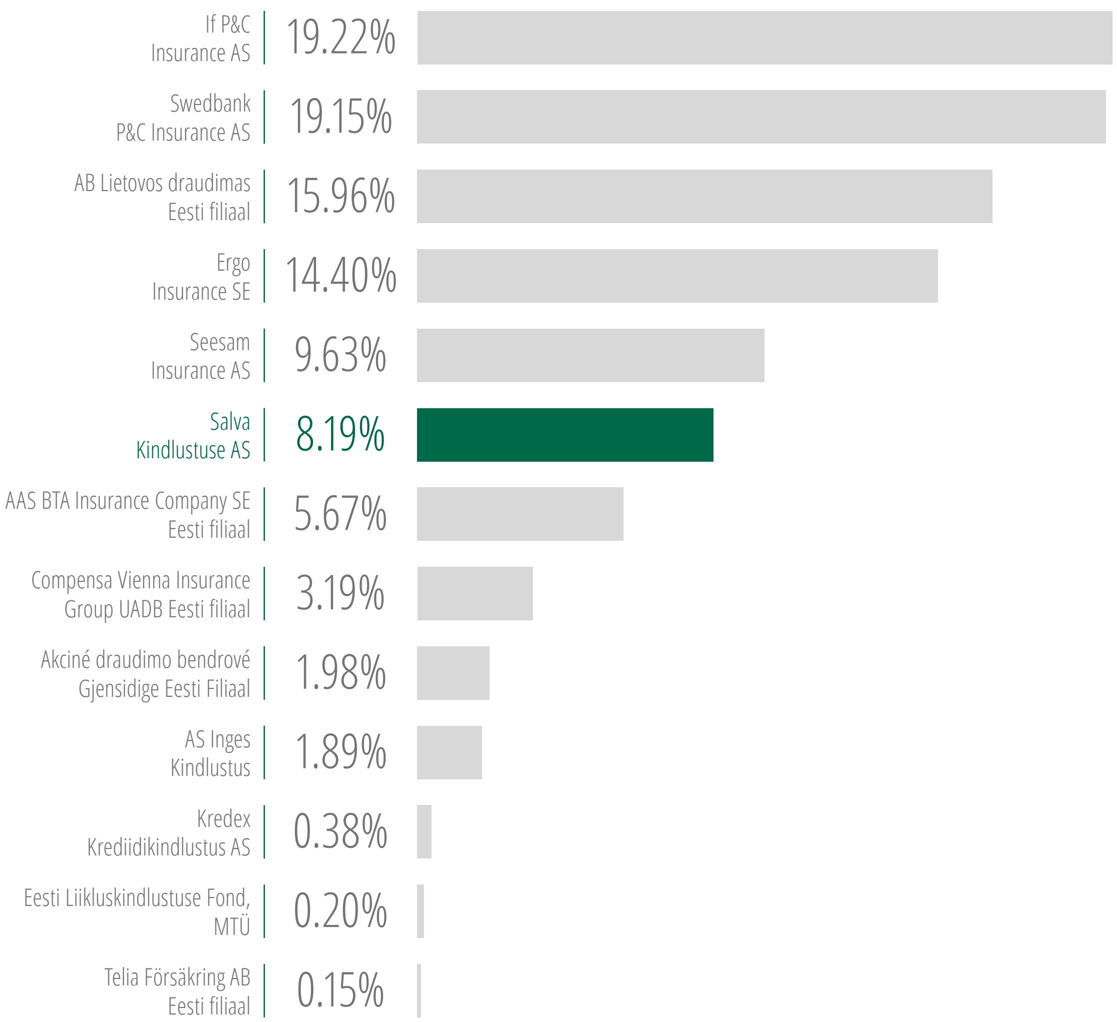
Travel insurance market grew faster than overall market and the results should be positive for the majority of the market. However, the market only grew mainly in the banking card segment.

Due to the change in the principles of reporting statistical data, it is not possible to estimate the growth of different insurance products very accurately and compare it with 2017, but probably most of the main insurance classes grew.

In 2019 we expect a growth trend similar to or slightly slowing down from the previous year. This is mainly due to the improvement in MTPL performance and the calming of sales growth for new vehicles, which directly affects the volume of voluntary vehicle insurance payments. In 2019 a more accurate picture of market developments based on new statistics will be available.

In 2019 we expect the state to take steps to adopt a law for mandatory patient 's insurance and if these steps are to be taken, the market will also begin to prepare for new compulsory insurance.

ACCORDING TO THE DATA OF STATISTICS ESTONIA MARKET SHARES OF NON-LIFE INSURANCE COMPANIES AND FOREIGN BRANCHES EXPRESSED IN PREMIUMS WRITTEN BY THE END OF 2018:



FINANCIAL RESULTS

Salva Kindlustuse AS's consolidated net profit in 2018 was 1,313 thousand euros (2017: 2,227 thousand euros). The technical result grew 47% up to 2,068 thousand euros (2017: 1,405 thousand euros). The insurance technical performance was positively impacted by the growth of insurance premiums and the projected level of claims. Investment income did not support last year's results. Exceptionally, the result was affected by the income tax expense paid on dividends received from the subsidiary.

REVENUE

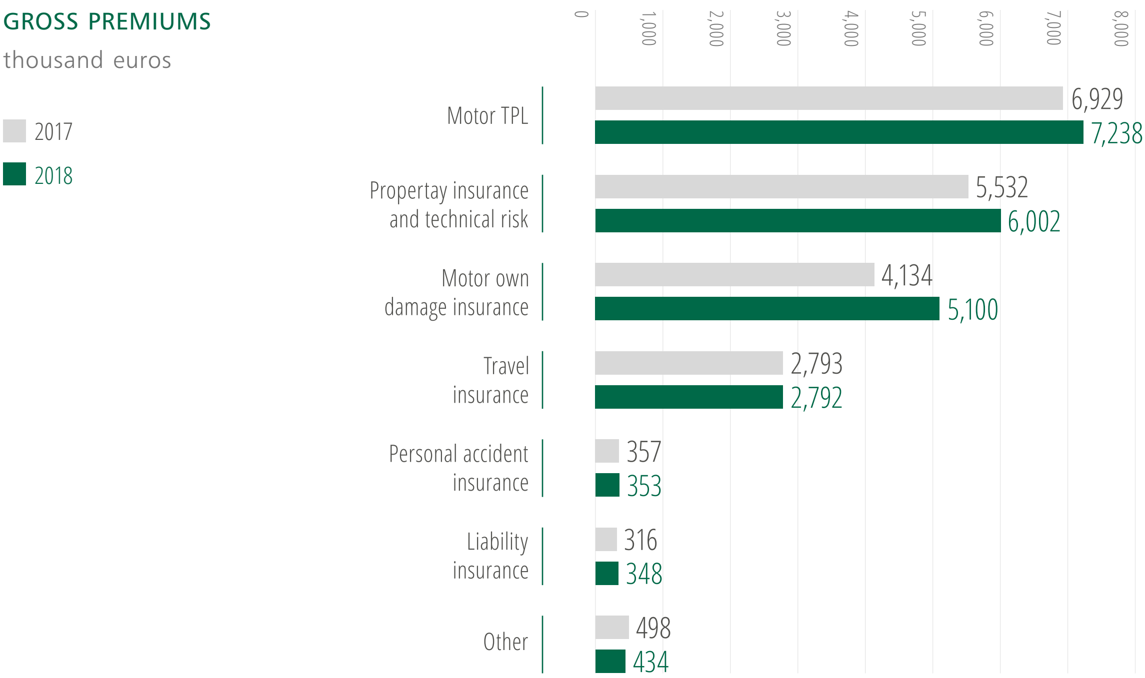
In 2018 total revenues increased by 3% compared to the previous year. Revenues increased as the volume of insurance premiums increased. Among revenues the premiums earned, net of re-insurance, increased by 11%. Revenue was negatively impacted by the modest return on investment.

In 2018, Salva Kindlustuse AS gathered 22,267 thousand euros in gross insurance premiums. This increased by 8% compared to the last year. (2017: 20,559 thousand euros). The growth of insurance premiums is comparable to the growth of the total market. The consolidated loss ratio, net of reinsurance, changed slightly reaching 51% by the end of the year (2017: 54.2%).

Insurance premiums have increased in almost all lines of insurance. The premiums of accident and motor own damage insurance grew faster than the overall market. The Company could not grow enough in other lines of insurance due to intense price competition and the desire to assess the risks and prices so that the loss ratio would not get worse.

GROSS PREMIUMS

thousand euros



CLAIMS AND OPERATING EXPENSES

Total claims incurred in 2018 amounted to a total of 12,967 thousand euros growing 17% compared to the last year (2017: 11,067 thousand euros). The growth is mainly due to one claim by which the provision for outstanding claims was increased.

Claims disbursements increased by 5% compared to the last year; claims adjustment expenses increased by 2% and income from refunds and residual assets decreased 57%. Claims incurred, net of reinsurance increased 5%.

The number of loss claims satisfied in 2018 amounted to 11,968 and increased by 1,166 claims compared to the year before (2017: 10,802).

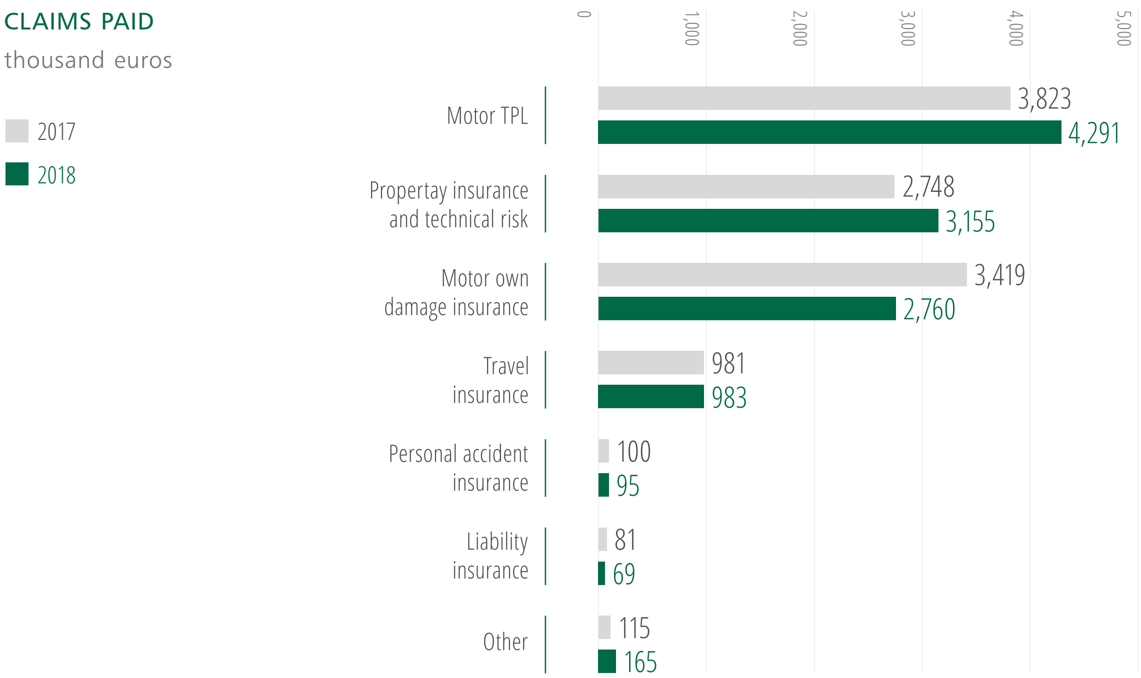
Motor insurance and vehicle insurance buyers can use Salva vehicle assistance service, which provides technical assistance in the event of an unexpected failure of vehicle, towing and the delivery to destination, registration of notices of damage, and ask for needed information. Last year customers got help in over 600 events. For example, one vehicle has needed assistance in resolving a technical failure on six occasions.

The biggest damage claims of last year were in the insurance of technical risks. In one case a harvester was destroyed by a fire and 108 thousand euros was reimbursed. 85 thousand euros was reimbursed in a MTPL claim which concerned a traffic accident that occurred in 2016. The compensation for damage caused by this accident is continuing in 2019. The third biggest compensation was also in the technical risk insurance: an accident of a crop sprayer caused 72 thousand euros in damage.

The consolidated loss ratio, net of reinsurance, changed slightly, reaching 51% by the end of the year (2017: 54.2%).

CLAIMS PAID

thousand euros

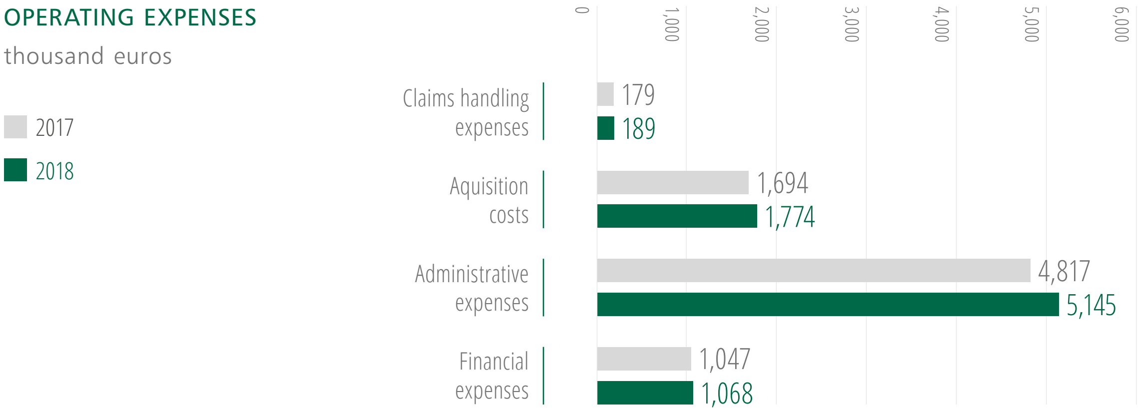


Operating expenses for 2018 increased by 6% compared to 2017, amounting to 8,176 thousand euros. Administrative expenses increased by 5% and acquisition costs increased 7%. Total payroll expenses and commissions paid to intermediaries are reflected in acquisition costs and they increased by 9% and 10% respectively compared to the previous year.

The ratio of consolidated expenses to premiums, net of reinsurance, made up 35.3% at the end of 2018 (2017: 36.2%).

OPERATING EXPENSES

thousand euros



OWNER'S EQUITY

In 2018, Salva Kindlustuse AS's shareholders' equity increased by 7%, and amounted to 18,199 thousand euros. In 2018, no dividends were paid to the owners.

INVESTING ACTIVITY

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.

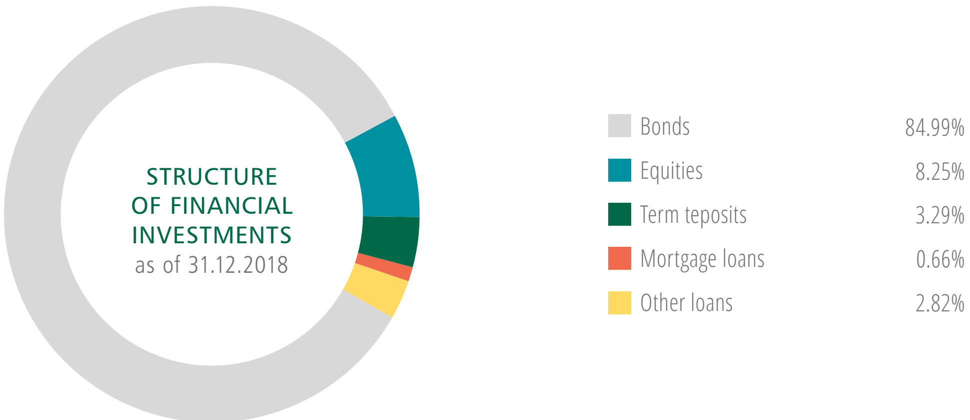
In 2018, the Company increased the share of cash in the investment portfolio. In terms of active financial investment, the Company has mainly taken interest rate risk, exchange rate risk and counterparty risk. The relative volatility of the market and expectations of rising interest rates has made the Company cautious when entering into new investments and in this regard, the Company is looking for a high confidence rating of counterparties relatively short positions.

In conclusion, the assets invested by Salva Kindlustuse AS earned a positive return in 2018, which can be considered a good result. The upcoming period is characterized by the investors behaviour that is driven by emotions and the unpredictable economic environment, which is threatened by geopolitical factors and the risk of protectionism.

As a result, in 2019, the Company is managing the financial investment portfolio rather evolutionally and focusing on selective build-up.

The consolidated net investment revenue from investing activities amounted to 35 thousand euros (2017: 1,137 thousand euros). The consolidated annual rate of return on investment was 0.2%. The annual rate of return of the bond portfolio was 1.6% and return on investment property was 21.2%.

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), 39% had a rating of B or Baa and Ba. 89% of investments are held in euros. In the opinion of the Management Board the currency risk is minimal.



EMPLOYEES

The Group's employee retention is very stable. This is supported by 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.

Evolving insurance sector needs highly skilled staff. 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.

The Company's supervisory board has six members, with the total remuneration paid to members of the supervisory board amounting to 31 thousand euros (2017: 31 thousand euros).

The Company's management board had five members with the total remuneration paid to members of the management board amounting to 521 thousand euros (2017: 478 thousand euros).

In 2018, total payroll expenses (including taxes) amounted to 3,664 thousand euros. Payroll expenses have increased by 9% from last year (2017: 3,351 thousand euros).

As of the end of 2018, the Group had 116 employees, including 60 sales employees.

SERVICES PROVIDED BY THE AUDITOR

No other services in addition to the statutory audit are provided by the auditor of Salva Kindlustuse AS in the reporting period.

SUMMARY AND THE GROUP'S OUTLOOK FOR 2019

As expected, the year 2018 was successful for Salva Kindlustus. As the non-life insurance was generally in a growth trend also the volume of Salva's premiums increased in all major insurance classes and there were no major fluctuations on the loss side as well. The return on investment was moderately positive and its growth dynamics were in line with developments in financial markets. The entire market was well affected by the decrease in the loss ratio of motor insurance, which helped the product type end the year with a positive result.

Last year was the anniversary year of the Republic of Estonia and Salva insurance and the year the Company celebrated its 25th anniversary. During this 25 year's time the entire Estonian insurance market and Salva have undergone major developments. As many other companies have moved to foreign owners, Salva stays stable on domestic capital. During the anniversary the Company kept in mind its good partners of cooperation and also the employees. Of course, also the customers were not forgotten and several marketing activities related to the anniversary were carried out.

In 2018, the EU Data Protection Regulation entered into force, leading to additional investments into Salva's IT systems. Changes were also made into the Insurance Activities Act which necessitated the supplementation of the insurance marketing processes as it did for the other participants on the market.

As a domestic insurance company, we want to contribute also in 2019 to the development of Estonian culture and sport. Since 2012 we have been a major sponsor of Eesti Kontsert. We provide musician's scholarships in cooperation with the National Culture Foundation and we support the Estonian flagship of folk music Trad. Attack! on their concert tours. Salva has continuously been supporting sports. Today we sponsor volleyball and football and from individual athletes we support multi-competitor Taavi Cernjavski.

The insurance market goes hand in hand with the overall economic growth and is affected by macroeconomic trends.

Unless unexpectancies occur in 2019 we expect moderate growth in the insurance market. In the coming year Salva aims to grow at the same pace as the whole market. We rely on balanced product portfolio and risk management in our expectations. We continue to offer a range of services through resellers, retailers, and continually upgraded e-sales channels.

Thanks to loyal and satisfied customers we have ensured stable market share and moderate growth. As an Estonian insurance company, we want to offer flexible and smart insurance solutions to people of Estonia also in the coming years.

URMAS KIVIRÜÜT
Member of the management board

IRJA ELIAS
Member of the management board

FINANCIAL STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In euros	Notes	2018	2017
REVENUE			
Gross premiums	2	22,266,949	20,559,414
Reinsurance premiums	2	-6,989,114	-6,434,541
Changes in the provision for unearned premiums	2	-66,533	-432,246
Reinsurer's share of the change in provision for unearned premiums	2	-7,301	47,223
PREMIUMS EARNED, NET OF REINSURANCE	2	15,204,001	13,739,850
Service and commission fee revenue	3	1,379,616	1,385,349
Net investment revenue	4	223,922	1,315,532
Other income		163,301	69,067
TOTAL REVENUE		16,970,840	16,509,798
EXPENSES			
Gross claims	5	-11,518,151	-11,266,547
Reinsurer's share in claims	5	3,803,508	4,210,088
Change in the provision for claims outstanding	5	-1,448,456	199,196
Reinsurer's share of the change in the provision for claims outstanding	5	1,391,686	-510,368
CLAIMS INCURRED, NET OF REINSURANCE	5	-7,771,413	-7,367,631
Acquisition costs	6	-5,144,954	-4,816,724
Administrative expenses	6	-1,773,930	-1,694,393
Financial expenses	6	-188,595	-178,955
TOTAL OPERATING EXPENSES		-7,107,479	-6,690,072
PROFIT BEFORE TAXES		2,091,948	2,452,095
TAX ON DIVIDENDS PAID		-779,325	-225,000
PROFIT FOR THE FINANCIAL YEAR		1,312,623	2,227,095
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		1,312,623	2,227,095
Incl. profit attributable to shareholders of the parent company		1,287,378	2,217,301
Incl. profit attributable to non-controlling interests		25,245	9,794

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In euros	Notes	31.12.2018	31.12.2017
ASSETS			
Property, plant and equipment	8	770,189	788,012
Intangible assets/Deferred Acquisition Costs	9	1,012,101	1,354,369
Investment property	10	249,165	290,448
Financial assets	11	15,226,476	15,763,829
Inventories	12	21,931	0
Receivables under reinsurance contracts	13	13,478,537	12,273,739
Receivables from insurance activities and other receivables	14	1,434,052	1,324,633
Cash and cash equivalents	15	11,722,597	9,012,752
TOTAL ASSETS		43,915,048	40,807,782
LIABILITIES AND SHAREHOLDERS' EQUITY			
Share capital		3,200,000	3,200,000
Reserve capital		321,278	321,278
Other reserves		64,428	64,428
Retained earnings		13,296,855	11,079,554
Profit for the financial year		1,287,378	2,217,301
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY		18,169,939	16,882,561
Total equity attributable to non-controlling interests		28,617	120,672
TOTAL EQUITY	16	18,198,556	17,003,233
Liabilities under insurance contracts	20	22,277,060	20,762,071
Liabilities from reinsurance	21	1,433,510	1,290,397
Liabilities from direct insurance activities	22	714,624	540,997
Accrued expenses and deferred revenue	23	1,291,298	1,211,084
TOTAL LIABILITIES		25,716,492	23,804,549
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		43,915,048	40,807,782

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In euros	Share capital	Reserve capital	Other reserves	Retained earnings	Non-controlling	Total
AS OF 31.12.2016	3,200,000	321,278	64,428	11,979,554	110,878	15,676,138
Profit for the financial year	0	0	0	2,217,301	9,794	2,227,095
Other comprehensive income	0	0	0	0	0	0
TOTAL COMPREHENSIVE INCOME	0	0	0	2,217,301	9,794	2,227,095
Dividends paid	0	0	0	-900,000	0	-900,000
AS OF 31.12.2017	3,200,000	321,278	64,428	13,296,855	120,672	17,003,233
Profit for the financial year	0	0	0	1,287,378	25,245	1,312,623
Other comprehensive income	0	0	0	0	0	0
TOTAL COMPREHENSIVE INCOME	0	0	0	1,287,378	25,245	1,312,623
Dividends paid	0	0	0	0	-117,300	-117,300
AS AT 31.12.2018	3,200,000	321,278	64,428	14,584,233	28,617	18,198,556

For additional information about equity see Note 16.

CONSOLIDATED CASH FLOW STATEMENT

In euros	Notes	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES		3,691,888	4,355,747
Insurance premiums received		20,939,729	18,908,977
Claims paid and claims handling expenses		-10,518,441	-10,120,425
Paid to reinsurers (net)		-1,483,871	-987,664
Paid as operating expenses		-6,074,960	-5,271,392
Acquisition of shares and other securities		-758,315	-309,048
Disposal of shares and other securities		181,734	219,063
Acquired fixed rate securities		-4,461,237	-4,622,679
Proceeds from disposals of fixed rate securities		6,032,518	5,150,239
Loans granted		-1,583,221	-126,700
Repayments of loans granted		1,379,153	76,611
Return on term deposits		0	1,000,000
Interest received		373,718	510,908
Dividends received		291,443	19,331
Investment expenses paid		-126,362	-91,474
CASH FLOW USED IN INVESTING ACTIVITIES		-69,384	-299,822
Acquisition of property, plant and equipment, and intangible assets		-188,134	-313,822
Disposal of property, plant and equipment, and intangible assets		118,750	14,000
CASH FLOW USED IN FINANCING ACTIVITIES		-912,659	-1,125,000
Dividends paid		-383,334	-900,000
Tax paid on dividends		-529,325	-225,000
TOTAL CASH FLOW		2,709,845	2,930,925
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	15	9,012,752	6,081,827
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	15	11,722,597	9,012,752

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1.
ACCOUNTING ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

1.1. GENERAL INFORMATION ON THE COMPANY

Salva Kindlustuse AS (hereinafter also referred to as the Company) is a non-life insurance company, register no 10284984, located Pärnu road 16, 10141, Tallinn. The consolidated financial statements prepared as of 31st December 2017 include the financial information of Salva Kindlustuse AS, its 100% subsidiary Salva Kahjukäsitluse OÜ, and belonging to the latter, Business Information Systems OÜ and Tammepärja Arenduse OÜ respectively 49% and 100% subsidiaries, (jointly referred to as the Group).

1.2. 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 2018.

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

The management board approved the issuance of the financial statements with its resolution of 11th of March 2019. Shareholders have the right to decline the Annual Report prepared and submitted by the Management Board, and demand preparation of a new Annual Report.

1.3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1.4. FUNCTIONAL CURRENCY. TRANSACTIONS AND ENTRIES DENOMINATED IN FOREIGN CURRENCY

The functional and presentation currency of the group is the euro. Foreign currency transactions are recorded on the basis of the foreign currency exchange rates of the 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 the European Central Bank officially valid on the balance sheet date. Foreign exchange gains and losses are recorded under revenue and expenses in the statement of comprehensive income of the reporting period.

1.5. BASIS OF CONSOLIDATION

Consolidated financial statements include the financial data of subsidiaries controlled by the parent company. Control exists when Salva Kindlustuse AS is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
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.
Business Information Systems OÜ (BIS OÜ) is recorded in the consolidated financial statements as a subsidiary, as the parent company (Salva Kindlustuse AS) has rights that give it power over the activities of BIS OÜ that significantly affect the returns of BIS OÜ.
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 the main statements of the consolidating entity. The parent company's main financial statements have been prepared using the same accounting principles and basis of estimations used in preparing the consolidated financial statements.
Subsidiaries are recognized in the parent company's non-consolidated financial statements by the equity method.

1.6. INSURANCE CONTRACTS

A non-life insurance contract is a contract 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.

1.6.1. RECORDING AND ASSESSMENT OF INSURANCE CONTRACTS

INSURANCE PREMIUMS

Gross insurance premiums are recognised at the earliest on the date that the insurance cover commences or the date the premiums are invoiced for insurance cover commencing in the future reporting periods. Insurance premiums for contracts or instalments whose coverage period commences 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 fully 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.

CLAIMS

Expenses incurred in the insurance business consist of claims 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.

1.6.2. RECOGNITION OF TECHNICAL PROVISIONS

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 over the rest of the insurance cover period. 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 statement of financial position 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 statement of financial position line "Receivables under reinsurance contracts".

PROVISION FOR CLAIMS OUTSTANDING

Expenses incurred in the insurance business consist of claims paid during the reporting period, adjustment expenses, recoveries received and receivable, and changes in outstanding claims reserves.

The outstanding claims reserve includes:

- Handled, but outstanding losses;
- reported and registered losses which have not been fully settled (RBNS);
- Losses which have been incurred, but not yet reported (IBNR).

Outstanding claims are assessed by analysing each claim separately, considering the incurred and not yet reported losses, and the impact of both internal and external predictable events (e.g. changes in 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 claim's handling process separately for each individual loss file, on the basis of the information available to the claim's handler. If no information is available, estimates based on previous experience will be used. RBNS is terminated by full processing of the claim.

IBNR is calculated at the end of each accounting period on such losses which are likely to have been already incurred but have not yet been reported to us.

The IBNR calculation methods are based on historical statistics and the actuarial estimates 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 statement of financial position line "Liabilities under insurance contracts".

1.7. 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 claims received are recorded in the consolidated statement of comprehensive income and the statement of financial position 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.
Reinsurance premiums paid are recorded as expenses applying the same principle that was applied to recording of contractual insurance premiums as revenue.

Amounts receivable under reinsurance contracts to cover any claims and the reinsurer's share of the technical reserve which are outstanding on the reporting date are recorded in the statement of financial position as reinsurer's assets.
Reinsurance assets consist of reinsured insurance liabilities. Reinsurers share in provision of unearned premiums
and provision of outstanding claims are recognized in accordance with reinsurance contracts.
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 1.8. , and the reinsurer's share of the recoveries and salvages.

1.8. 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 and are disclosed on the Statement of financial position as Intangible assets. 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.

1.9. 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 2018 indicated no deficit.

1.10. REVENUE

INSURANCE PREMIUM REVENUE

The principles of recording of insurance premium revenue are described in subsection 1.6.

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 fee 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 1.8. of the accounting principles). The fee for participating in the profit of a reinsurer is recorded on the accrual basis.

INVESTMENT REVENUES

Revenue from financial investments includes interest and dividend revenue, net gain/loss from revaluation of financial assets and liabilities measured at fair value through profit and loss and realised gains and losses on realisation of investments. Interest revenue earned from loans granted is recorded using the effective interest rate. Revenue from dividends is recognised when the right to receive the payment is established. Income from investment property includes rental income from leased premises to third parties.

OTHER INCOME REVENUE

Other income reflects mostly profit from the sales of fixed assets, the revaluation of currencies and other insignificant revenues.

1.11. EXPENSES

CLAIMS INCURRED

The accounting principles applied for recording claims incurred have been described in subsection 1.6.

CLAIMS HANDLING EXPENSES

Claims handling expenses include direct payroll expenses, expert and service fees directly associated with adjustment of losses. Claims handling expenses are recorded in the statement of comprehensive income as a part of losses incurred.

ADMINISTRATIVE EXPENSES

Administrative expenses are expenses which are associated with collection of premiums, portfolio management and reinsurance. They also represent expenses which are born 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 costs. These expenses include fees and compensation paid to auditors, experts, legal and tax consultants, supervisory fees, and membership fees paid to different associations.

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 statement of comprehensive income by changes in the deferred acquisition costs of net reinsurance. Capitalized acquisition costs at the balance sheet date are recognized as intangible assets.

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, also expenses associated with investment property.

1.12. INCOME TAX

Pursuant to the applicable laws, Estonian companies are not subjected to taxable profit. From 2015 the established tax rate is 20/80 of the net dividend paid. 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 statement of comprehensive income at the moment of announcing the dividends, irrespective of the period for which the dividends were announced or when the dividends are actually paid.

Taxes on cross-border portfolio are calculated in accordance with the tax rules in each country. In Belgium our intermediary is acting as the fiscal representative for the business which they write on our behalf in Belgium.

The maximum possible income tax liability related to dividend payment is disclosed in Note 17.

1.13. PROPERTY, PLANT AND EQUIPMENT ("PPE")

An item of PPE is carried in the statement of financial position 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 sold or derecognised.

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.

Average useful lives by individual asset groups

Buildings	25 years
Furniture and Fittings	3-5 years
Hardware	3 years
Means of transport	5 years

1.14. INTANGIBLE ASSETS

DEFERRED ACQUISITION COSTS

The principles applied to calculating acquisition costs have been provided in subsection 1.8.

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 statement of financial position at their acquisition cost, less accumulated depreciation and any accumulated impairment losses.

Licenses and other contractual rights acquired for a cost, including computer software, are recorded in the statement of financial position 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 up to ten years, and the depreciation is based on the assumption that the final value of the asset is zero.

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 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.

Discounts are recorded in the statement of comprehensive income as expenses of the period, as a part of acquisition, administrative and claims handling expenses.

Internally developed intangible fixed assets are recognised in the statement of financial position 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 intangible assets with an indefinite useful life.

1.15. INVESTMENT PROPERTY

Investment property is the part of property that is used to earn rentals.

Investment property is recorded in the statement of financial position at cost less accumulated depreciation and impairment losses. Investment property is held to earn rentals or for capital appreciation or for both purposes. Depreciation of investment property is calculated on the acquisition cost based on the straight-line method, in accordance with the estimated useful life of the asset item. The useful life is determined in the same way as the lifetime of the buildings reflected in property, plant and equipment (see 1.13).

The Group discloses the fair value of investment property in Note 10.

1.16. 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 statement of comprehensive income. Income related to grants is recorded under "Other income" in the statement of comprehensive income.

1.17. ACCOUNTING FOR LEASES

Lease transactions, where all material risks and rewards related to the ownership of the asset are transferred to the lessee, are treated as finance leases. All other lease transactions are treated as operating leases. 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.

1.18. FINANCIAL INSTRUMENTS

INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT

Financial assets are classified as follows, depending on the purpose of their acquisition:

- financial assets at fair value through profit and loss (including derivatives);
- financial assets held to maturity;
- loans and other receivables;
- available-for-sale financial assets.

All financial assets are recognised initially at fair value plus, in the case of financial assets not designated 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.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial assets 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 designated 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 designated at fair value through profit and loss are recorded in the statement of comprehensive income pertaining to the period of their emergence. Derivative transactions are recorded in the statement of financial position 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 statement of comprehensive income.

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 designated 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 comprehensive income statement.

HELD-TO-MATURITY INVESTMENTS

"Financial assets held to maturity" means financial assets with fixed or determinable payments and fixed 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 the value of financial assets held-to-maturity are recorded in the statement of comprehensive income. The Group had no such assets in the reporting period.

FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available 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.

1.19. FAIR VALUE

Shares and investment fund units are designated at fair value through profit and loss from initial recognition. The price of the securities is based on the price that would be received to sell an asset in 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 11.5..

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.

1.20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on bank accounts and overnight deposits. The cash flow statement has been prepared based on the direct method.

1.21. 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.

1.22. 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.

1.23. 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 (31.12.2018) 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.

1.24. CHANGES IN ACCOUNTING POLICIES

Accounting policies and presentation changed only if required by new or revised International Financial Reporting Standards (IFRS) and their interpretations, or if it allows for a more objective overview of the company's financial position, comprehensive income and cash flows.

NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS, EU) AND INTERPRETATIONS OF THE INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC)

The adoption of new IFRS (EU) standards and their interpretations that have become mandatory beginning on or after 1st of January 2018 did not have any impact on the financial position or performance of the Group.

NEW IFRS (EU) STANDARDS AND INTERPRETATIONS ISSUED, BUT NOT YET EFFECTIVE

The following new standards, interpretations and amendments are not yet effective for the annual reporting period ended 31st of December 2018 and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

IFRS 16 Leases
(Effective for financial years beginning on or after 1st of January 2019, once endorsed by the EU)

IFRS 16 supersedes IAS 17 Leases and related interpretations. The standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16 a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals. The new standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new standard and the distinction between operating and finance leases will be retained.

It is expected that the new standard, when initially applied, will presumably have significant impact on the financial statements, since it will require the entity to recognise in its statement of financial position assets and liabilities relating to operating leases for which the entity acts as a lessee. The Group has existing lease agreements for premises. If IFRS 16 were effective at the reporting date, the Group estimates that the implementation of the standard would increase assets and liabilities by 603 thousand euros.

IFRS 9 Financial instruments
(Effective for annual periods beginning on or after January 1st 2018. Amendments to IFRS 4: "Application of IFRS 9 Financial Instruments" in conjunction with IFRS 4 "Insurance Contracts" provides a temporary exemption from IFRS 9, which in essence postpones this standard for some insurers. The company intends to use this exemption as an insurer and apply IFRS 9 with IFRS 17 Insurance Contracts)

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement". Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income and fair value through profit or loss – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortised cost if the following two conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The first adoption of the new standard will not significantly affect the financial statement. Based on its preliminary assessment, the entity expects that substantially all of financial assets classified as loans and receivables under IAS 39 will continue to be measured at amortised cost under IFRS 9. At this stage it is still unclear what portion of the entity's debt securities will be measured otherwise than at FVTPL and the determination will depend on the outcome of the business model test.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

The entity is not yet able to quantify the expected impact that the initial application of IFRS 9 will have on its IFRS statements.

IFRS 17 Insurance Contracts (Effective for annual periods beginning on or after 1st of January 2022; to be applied prospectively. Early application is permitted.)

IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches.

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost.

A more transparent presentation of the profitability of new and previously concluded contracts will help interested people understand the financial information of the insurance company better.

- Separate reporting of insurance and financial results makes the sources of revenue and the quality of revenue more transparent.
- Volume of insurance premiums will no longer generate revenue as investment components and cash received will no longer be classified as revenue.
- Accounting for options and guarantees becomes more consistent and transparent.

The Group has not yet evaluated the impact of the implementation of this standard.

Other new standards, amendments to standards and interpretations that are not yet effective are not expected to have a significant impact on the Group's financial statements.

1.25. SIGNIFICANT ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements in accordance with International Financial Reporting Standards (EU) 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:

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 statement of comprehensive income.

The IBNR provision is established on the basis of statistics involving the portfolio history and the average amount of claims 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 mortality table, calculated on the basis of the data provided by the Estonian Statistical Office for 2017 and estimates in the gender-dependent mortality table calculated upon the population census in 2011. The estimates on the consumer price index are based on estimates until 2020 given by Eesti Pank. In later years the rise of consumer price index is estimated to be annually 2.1%. Risk-free interest rate is used for discounting provision for pension claims.

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	10,022	7,175	2,652	2,428	22,277

The expected cash flows from insurance contracts are evaluated using claims development history.
As of the end of 2018, the technical reserve amounted to 22,277 thousand euros (2017: 20,762 thousand euros).

SUBSIDIARIES

Subsidiaries are initially measured at cost in the unconsolidated balance sheet of the parent company. Subsequently, the subsidiary is measured in the statement of financial position at each reporting date using the equity method.

Note 2.

PREMIUMS EARNED, NET OF REINSURANCE

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

2018

Motor third party liability insurance	7,238,497	340,212	-3,028,074	-136,085	4,414,550
Property insurance	6,002,248	-101,125	-1,320,873	4,556	4,584,806
Motor vehicle insurance	5,100,343	-307,081	-2,041,281	122,907	2,874,888
Short-term health insurance	3,145,175	4,551	-106,572	-1,112	3,042,042
Liability insurance	348,021	-12,612	-278,417	10,091	67,083
Motor vehicle owner's liability	283,010	932	-183,957	-606	99,379
Monetary damage	128,038	428	-18,306	-223	109,937
Insurance of goods in transit	15,382	2,964	-9,998	-1,927	6,421
Railway rolling stock and small craft	6,235	5,198	-1,636	-4,902	4,895
TOTAL	22,266,949	-66,533	-6,989,114	-7,301	15,204,001

2017

Motor third party liability insurance	6,929,249	-312,966	-2,896,719	125,187	3,844,751
Property insurance	5,531,874	-29,676	-1,242,871	-111,969	4,147,358
Motor vehicle insurance	4,133,795	-55,799	-1,656,473	22,256	2,443,779
Short-term health insurance	3,150,632	-16,329	-119,578	-834	3,013,891
Motor vehicle owner's liability	303,374	6,680	-197,193	-4,327	108,534
Liability insurance	316,007	-14,989	-252,808	16,239	64,449
Monetary damage	128,680	-8,563	-19,081	646	101,682
Insurance of goods in transit	26,908	675	-17,490	-438	9,655
Railway rolling stock and small craft	38,895	-1,279	-32,328	463	5,751
TOTAL	20,559,414	-432,246	-6,434,541	47,223	13,739,850

Note 3.

SERVICE AND COMMISSION FEE REVENUE

In euros	Notes	2018	2017
Reinsurer commission revenue	7	1,373,349	1,446,231
Reinsurance share of changes in acquisition costs	7	5,955	-62,025
Other technical income, net of reinsurance		312	1,143
TOTAL		1,379,616	1,385,349

Note 4.

NET INVESTMENT REVENUE

In euros	Notes	2018	2017
Dividend revenue		26,034	19,331
Interest income from deposits		1,923	966
Other financial revenue, incl. interest revenue from loans granted		32,787	19,206
Revenue from investment property		57,194	71,237
Trade portfolio revenue		105,984	1,204,792
TOTAL		223,922	1,315,532

Note 5.

CLAIMS INCURRED, NET OF INSURANCE

In euros	Notes	2018	2017
Claims paid, gross		-11,181,296	-10,686,495
Claims handling expenses	6	-1,068,383	-1,046,858
Amounts received from recoveries and salvage		731,528	466,806
TOTAL CLAIMS, GROSS		-11,518,151	-11,266,547
Change in the provision for claims outstanding		-1,448,456	199,196
CLAIMS INCURRED, GROSS		-12,966,607	-11,067,351
Reinsurer's share in claims paid	7	3,803,508	4,210,088
Reinsurer's share of the change in the provision for claims outstanding	7	1,391,686	-510,368
REINSURER'S SHARE IN CLAIMS INCURRED		5,195,194	3,699,720
TOTAL CLAIMS INCURRED		-7,771,413	-7,367,631

Note 6.
OPERATING EXPENSES

In euros	Notes	2018	2017
CLAIMS HANDLING EXPENSES	5	-1,068,383	-1,046,858
Insurance contract acquisition expenses		-5,144,954	-4,816,724
Administrative expenses		-1,773,930	-1,694,393
Financial expenses		-164,563	-143,569
Expenses on investment property		-24,032	-35,386
TOTAL OPERATING EXPENSES		-7,107,479	-6,690,072
TOTAL OF EXPENSES ON OPERATING AND CLAIMS HANDLING		-8,175,862	-7,736,930

Payroll expenses		-3,664,396	-3,350,744
Brokers' commission fees		-1,747,236	-1,581,920
Outsourced services		-136,545	-142,681
Depreciation and impairment of PPE and intangible assets		-677,442	-647,199
Other operating expenses		-1,978,148	-2,038,050
Change in deferred acquisition costs		27,905	23,664
TOTAL EXPENSES		-8,175,862	-7,736,930

Note 7.
REINSURANCE RESULT

In euros	Notes	2018	2017
Reinsurance premiums	2	-6,989,114	-6,434,541
Reinsurer’s share of the change in provision for unearned premiums	2	-7,301	47,223
Reinsurer’s share in claims paid	5	3,803,508	4,210,088
Reinsurer’s share of the change in the provision for claims outstanding	5	1,391,686	-510,368
Reinsurance commission fees and profit sharing	3	1,379,304	1,384,206
TOTAL		-421,917	-1,303,392

Note 8.

PROPERTY, PLANT AND EQUIPMENT

In euros	Land and buildings	Another PPE	Total
Acquisition cost			
31.12.2016	889,961	873,124	1,763,085
Acquisition	0	139,729	139,729
Disposal	0	-40,138	-40,138
Write-off	0	-22,801	-22,801
31.12.2017	889,961	949,914	1,839,875
Acquisition	0	183,315	183,315
Disposal	0	-245,544	-245,544
Write-off	28,336	-14,276	14,060
31.12.2018	918,297	873,409	1,791,706
Accumulated depreciation			
31.12.2016	-438,969	-495,568	-934,537
Depreciation charge for the year	-33,030	-147,235	-180,265
Depreciation charge of disposals	0	40,138	40,138
Depreciation charge of write-offs	0	22,801	22,801
31.12.2017	-471,999	-579,864	-1,051,863
Depreciation charge for the year	-22,045	-145,583	-167,628
Depreciation charge of disposals	0	183,698	183,698
Depreciation charge of write-offs	0	14,276	14,276
31.12.2018	-494,044	-527,473	-1,021,517
Net book value			
31.12.2017	417,962	370,050	788,012
31.12.2018	424,253	345,936	770,189

Carrying amount of property fully amortised yet in use as at 31.12.2018 was 220,168 euros (2017: 160,728 euros). Value of land is not depreciated and is 108,842 euros.

Note 9.

INTANGIBLE ASSETS / DEFERRED ACQUISITION COSTS

In euros	Other intangible assets	Prepayments for intangible assets	Total intangible assets
Acquisition cost			
31.12.2016	2,794,427	0	2,794,427
Acquisition	39,231	110,575	149,806
Reclassification	110,575	-110,575	0
Write-off	-14,597	0	-14,597
31.12.2017	2,929,636	0	2,929,636
Acquisition	33,558	156,000	189,558
Reclassification	93,136	-156,000	-62,864
31.12.2018	3,056,330	0	3,056,330
Accumulated amortisation			
31.12.2016	-1,567,499	0	-1,567,499
Amortisation charge for the year	-443,981	0	-443,981
Depreciation charge of write-offs	14,597	0	14,597
31.12.2017	-1,996,883	0	-1,996,883
Amortisation charge for the year	-496,867	0	-496,867
31.12.2018	-2,493,750	0	-2,493,750
Net book value			
31.12.2017	932,753	0	932,753
31.12.2018	562,580	0	562,580

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 2018 include internally capitalised development costs amounting to 3,136 euros.
Carrying amount of intangible assets fully amortised yet in use as at 31.12.2018 was 53,206 euros (2017: 45,094 euros).

DEFERRED ACQUISITION COSTS

In euros	
31.12.2016	397,952
Deferred	2,035,172
Amortised	-2,011,508
31.12.2017	421,616
Deferred	2,209,737
Amortised	-2,181,832
31.12.2018	449,521

Note 10.

INVESTMENT PROPERTY

In euros	Land	Buildings	Total
Acquisition cost			
31.12.2016	44,625	573,822	618,447
31.12.2017	44,625	573,822	618,447
Change in portion of property	0	-28,336	-28,336
31.12.2018	44,625	545,486	590,111
Accumulated amortisation			
31.12.2016	0	-305,045	-305,045
Amortisation charge for the year	0	-22,954	-22,954
31.12.2017	0	-327,999	-327,999
Amortisation charge for the year	0	-12,947	-12,947
31.12.2018	0	-340,946	-340,946
Net book value			
31.12.2017	44,625	245,823	290,448
31.12.2018	44,625	204,540	249,165

The investment property of the group is the property of Pärnu road 16, Tallinn. According to the management's estimate, the fair value of the property is 1,460 thousand euros. The valuation of the building was carried out in the end of the year 2018 by a real estate agency Real 1Partner Tallinn LLC . The fair value of the building was determined using the discounted cash flow method taking into account current leases, their interest rates, market average vacancy rates and the projected change in the consumer price index. Future cash flows were discounted at a rate of 10%. Real estate's valuation took into consideration its condition and the long-term nature of the contracts.

In the consolidated financial statements, the building is stated at amortized cost. In accordance with IAS 40, "Investment Property", we reclassified the portion of property held for rental purposes to investment property. In earlier periods, this part was recognized as part of fixed assets. 37% (2017: 41%) of the building is leased and the Group uses 63% (2017: 59%) of the building.

The direct maintenance and repair costs of the investment property were 24,032 euros in 2017 (2017: 12,432 euros).

Note 11.
FINANCIAL ASSETS

In euros	Notes	31.12.2018	31.12.2017
Shares and equity funds	11.1	1,255,645	809,161
Bonds and other fixed income securities	11.2	12,940,346	14,494,846
Loans	11.3	529,663	459,822
Term deposits	11.4	500,822	0
TOTAL		15,226,476	15,763,829

	31.12.2018		31.12.2017	
In euros	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				
Shares and equity funds	1,255,645	1,393,059	809,161	783,472
Bonds and other fixed income securities	12,940,346	12,990,103	14,494,846	13,987,959
Financial assets measured at amortized cost				
Loans	529,663	545,791	459,822	467,834
Term deposits	500,822	500,000	0	0
TOTAL	15,226,476	15,428,953	15,763,829	15,239,265

11.1. SHARES AND EQUITY FUNDS

In euros	31.12.2018	31.12.2017
Shares	1,009,541	650,429
Equity funds	113,377	31,375
Real estate funds	132,727	127,357
TOTAL	1,255,645	809,161

Shares and equity fund units are divided by individual currencies as follows

EUR	966,082	516,324
USD	237,135	229,717
GBP	52,428	63,120
TOTAL	1,255,645	809,161

Shares and the equity fund portfolio are exposed to market risk, incl. share price risk. The effect of the share price risk is shown in Note 18.

11.2. BONDS

In euros	31.12.2018 At fair value	31.12.2017 At fair value
Bonds with a fixed interest rate		
Government and government owned institutions bonds	2,513,074	1,589,832
Financial institutions owned bonds	1,626,908	0
Other bonds	5,023,458	4,692,291
TOTAL	9,163,440	6,282,123
Bonds with a floating interest rate		
Government and government owned institutions bonds	266	482
Bonds of financial institutions	3,032,564	5,588,797
Other bonds	744,076	2,623,444
TOTAL	3,776,906	8,212,723
TOTAL BONDS	12,940,346	14,494,846

In euros	31.12.2018	31.12.2017
By individual currencies, bonds are divided as follows		
EUR	11,596,496	13,245,733
NOK	1,343,850	1,249,113
KOKKU	12,940,346	14,494,846
The bond portfolio is divided by maturity terms as follows		
Up to 6 months	2,077,830	1,002,145
6 months – 1 year	1,245,021	2,089,097
1-3 years	4,065,013	4,255,717
Over 3 years	5,552,482	7,147,887
TOTAL	12,940,346	14,494,846

11.3. LOANS

In euros	31.12.2018	31.12.2017
Mortgage loans		
Loans to related parties with a term 3-12 months	18,000	25,000
Other mortgage loans with a term of 3-12 months	75,239	401,667
Other mortgage loans with a term of 1-3 years	7,109	5,639
TOTAL	100,348	432,306
Other loans		
Loans with a term of 3-12 months	404,636	0
Loans with a term of 1-3 years	14,966	18,477
Loans with a term of over 3 years	9,713	9,039
TOTAL	429,315	27,516
TOTAL LOANS	529,663	459,822

The annual interest rates for loans granted fall between 4.5% and 16%. 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 fulfil the obligations from the mortgage loans.

11.4. TERM DEPOSITS

In euros	31.12.2018	31.12.2017
Term deposits with credit institutions, by terms		
Term of 3-12 months	500,822	0
TOTAL	500,822	0

The annual interest rates for term deposits are 0.8%. Deposits are held in euros.

11.5. EVALUATION OF FINANCIAL INSTRUMENTS UNDER IFRS 13 LEVELS

In euros	31.12.2018			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Shares and equity funds	1,255,645	0	0	1,255,645
Bonds	12,041,702	898,644	0	12,940,346
Assets measured at amortised cost				
Property investment	0	0	249,165	249,165
Term deposits	0	500,822	0	500,822
Loans	0	0	529,663	529,663
Cash and cash equivalents	0	0	11,722,597	11,722,597
Receivables from insurance activities	0	0	1,436,269	1,436,269
Receivables from reinsurance	0	0	84,191	84,191
Liabilities measured at amortized cost				
Liabilities from direct insurance activities and reinsurance and deferred liabilities	0	0	2,383,164	2,383,164

In euros	31.12.2017			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Shares and equity funds	809,161	0	0	809,161
Bonds	13,848,972	645,874	0	14,494,846
Assets measured at amortised cost				
Property investment	0	0	290,448	290,448
Term deposits	0	0	0	0
Loans	0	0	459,822	459,822
Cash and cash equivalents	0	0	9,012,752	9,012,752
Receivables from insurance activities	0	0	1,324,633	1,324,633
Receivables from reinsurance	0	0	263,778	263,778
Liabilities measured at amortized cost				
Liabilities from direct insurance activities and reinsurance and deferred liabilities	0	0	2,216,235	2,216,235

There were no changes in valuation policy.

Note 12.
INVENTORIES

In euros	31.12.2018	31.12.2017
Inventories	21,931	0
TOTAL	21,931	0

Inventories show the expenses that have been made for the property being purchased by Tammepärja Arenduse OÜ.

Note 13.
ASSETS/RECEIVABLES FROM REINSURANCE

In euros	Notes	31.12.2018	31.12.2017
Receivables from reinsurance		84,191	263,778
Reinsurer's share in provisions for unearned premiums	20	1,658,723	1,666,024
Reinsurer's share in provision for losses incurred		11,735,623	10,343,937
TOTAL		13,478,537	12,273,739

All receivables from reinsurance are due within 12 months.

Note 14.

RECEIVABLES FROM INSURANCE ACTIVITIES AND OTHER RECEIVABLES

In euros	31.12.2018	31.12.2017
Policyholders	74,823	104,347
Insurance brokers	388,585	475,910
Recoveries and salvages	705,838	616,587
Tax prepayments	4,513	0
Other accrued income	26,144	35,282
Other prepaid expenses	234,149	92,507
TOTAL	1,434,052	1,324,633

Term of the receivables

- not due yet	1,361,291	1,191,530
- due for up to 3 months	55,605	133,019
- due for 3-6 months	458	84
- due for 6-12 months	16,698	0
TOTAL	1,434,052	1,324,633

Note 15.

CASH AND CASH EQUIVALENTS

In euros	31.12.2018	31.12.2017
Cash in hand	3,846	5,282
Cash at bank	11,718,751	9,007,470
TOTAL	11,722,597	9,012,752

Cash and cash equivalents by individual currencies

EUR	11,698,937	8,938,237
USD	5,052	2,216
NOK	81	72,299
GBP	18,527	0
TOTAL	11,722,597	9,012,752

Note 16.

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 as well as Minimum and Solvency Capital Requirements under Solvency II. Requirement shall correspond to the amount of the eligible own funds where the availability of the eligible basic own funds in a lesser sum would result, upon continuation of the activities of an insurance undertaking, in extremely great risk that the obligations assumed with respect to the policyholders, insured persons and beneficiaries remain unperformed.

The floor of the Minimum Capital Requirement of a non-life insurance undertaking shall amount to 3.7 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 31.12.2018, the registered share capital of the Group amounted to 3.2 million euros with the nominal value of the shares 3.2 euros. The number of shares or the share capital has not changed since last year. 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.

RESERV 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 320,000 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.

DIVIDENDS

In 2018, no dividends were paid to shareholders. (2017: 900,000 euros, i.e. 0.9 euros per share). Dividends of 117,300 euros were paid out to minority shareholders.

Note 17.

POSSIBLE INCOME TAX

As of 31.12.2018, the company's retained earnings amounted to 13,296,855 euros (last year: 11,079,554 euros) and net book value of intangible assets amounted to 1,012,101 euros (last year: 1,354,369). The maximum possible income tax liability related to the payment of the company's retained earnings as dividends is 2,456,951 euros (last year: 1,945,037 euros). The company can thus pay a total of euros in net 9,827,803 dividends (last year 7,780,148 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 comprehensive income statement would not exceed the distributable profit as of 31.12.2018.

Note 18.
RISK POLICY AND RISK MANAGEMENT OF SALVA KINDLUSTUSE AS

In as much as the daily business of the Group requires taking various risks, the risk management also forms a significant part of the Group's activity. The purpose of risk management is to understand, assess and manage the risks associated with Salva's operations and thereby ensure the achievement of the company's financial goals, the stability and reliability of the company. The management board of the company is responsible for the implementation of such risk management system and it ensures an appropriate risk management organization.

Actual implementation of risk management at management level – division of responsibilities, rights and obligations is ensured and strategic goals are defined.

Risk tolerance limits by type of risk are approved by the management of the company.

Own risk and solvency assessment (ORSA) process is part of Salva's overall risk management system. The evaluation is carried out once a year. The goal of ORSA is to give the company's management assurance that the company's strategy and business plan are viable and that they do not result in significant risks that may impair the company's solvency and capital position. ORSA assessment is carried out at an organizational level, including the assessment of risks arising from the activities of the Salva's regional offices.

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 task of the Committee is to bring transparency to the entire risk situation and to identify areas for attention.

In addition, the Group has engaged an organisation responsible for internal auditing; this organisation provides an external Group valuation of the functioning of the entire risk management model, participating in the work of various levels if required and reporting to the supervisory board and management board.

The structure of the internal audit and risk management organisation covers various levels of the Group. 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.

The main risk categories to which the company is exposed to are:

- insurance risk;
- market risk;
- credit risk;
- operational risk.

18.1. INSURANCE RISK MANAGEMENT

With concluding the insurance contract, the policyholder transfers his insurance risk to the insurer and pays for the agreed premiums for it. Insurance risk arises from insufficient premiums or the false assumptions for calculating technical provisions.

The company manages insurance risks on daily basis in accordance with current insurance policies and the principles that determine the range of risks, pricing and insurance coverage. 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.

CONCENTRATION RISK

Despite the dispersion of the portfolio, risks can accumulate, and a series of similar events or one event, such as a natural disaster, flood or crime, can affect the Group's liabilities and equity. Geographical spread of insurance risks is essential because external factors may occur in certain areas, thus affecting the insured objects in the area and having a negative bearing on the Group's cash flows.

In order to avoid concentration due to one insurance contract or related contracts, the control procedures and the limits of the underwriting have been introduced.

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 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.

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

The results of the insurance classes are monitored periodically, through monthly management reports. On the basis of reports, adjustments to insurance rates are made if necessary.

REINSURANCE RISK

In order to reduce its insurance risks, Salva Kindlustuse AS has concluded reinsurance contracts with different reinsurance partners. 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.

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.

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

Type of insurance *In thousand euros*	Gross liabilities related to insurance contracts	Reinsurer's share of liabilities	Net liabilities
31.12.2018			
Motor third party liability insurance	13,806	9,346	4,460
Property insurance	5,197	2,765	2,432
Motor vehicle insurance	2,066	907	1,159
Other lines of insurance	1,208	461	747
TOTAL	22,277	13,479	8,798
31.12.2017			
Motor third party liability insurance	13,760	9,324	4,436
Property insurance	3,983	1,567	2,416
Motor vehicle insurance	1,583	707	876
Other lines of insurance	1,436	676	760
TOTAL	20,762	12,274	8,488

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. 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.

Moreover, we are also open to market risks arising from insurance and investment activities. Taking risks is the main activity of the insurance company.

SENSITIVITY ANALYSIS

The table describes some of the assumptions that characterize the effects of possible changes in risk parameters on the Group's performance and equity.

Factors *In thousand euros*	Value	Potential change	Effect on equity, thousands of euros	Effect on equity, %
31.12.2018				
Net claims incurred	7,771	+5%	-388	-2.13
High net loss of motor third party liability insurance			-250	-1.37
High net loss of property insurance			-450	-2.47
Operating expenses	7,107	+5%	-355	-1.95
31.12.2017				
Net claims incurred	7,367	+5%	-368	-2.18
High net loss of motor third party liability insurance			-250	-1.48
High net loss of property insurance			-450	-2.67
Operating expenses	6,690	+5%	-334	-1.98

18.2. FINANCIAL RISK MANAGEMENT

Insurance activities and investment activities may involve financial risks. 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.

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 claim payment, or currency difference. Financial risks may include market risk, credit risk (including claims against reinsurers) and liquidity risk.

MARKET RISK

Market risk arises from the risk that the fair value of an asset or liability or future cash flows will be affected by changes in market prices. In particular, market risk arises from the placing of the Group's assets in financial instruments sensitive to market risk. Market risks arise from interest rate risk, securities price risk or exchange rate risk.

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.

As regards volume, the biggest risk is the interest risk deriving from the time difference between the insured event and claim payment, 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.

Maximum exposure to risk is shown on page 57.

INTEREST RATE RISK

Interest rate risks are born 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. Most of the Group's financial investments are placed on bonds. Fixed interest rate financial investments measured at fair value through profit and loss are exposed to potential interest rate risk.

In euros	31.12.2018	31.12.2017
By interest rates, the bond portfolio is divided as follows		
Interest rate: 0.0-2.9%	9,264,623	9,968,078
Interest rate: 3.0-3.9%	965,086	0
Interest rate: 4.0-4.9%	1,383,646	1,884,896
Interest rate: 5.0-5.9%	206,658	1,154,464
Interest rate: 6.0-6.9%	428,347	841,534
Interest rate: 7.0-7.9%	30,292	130,978
Interest rate: 8,0-8,9%	150,393	10,160
Interest rate: 11.0-11.9%	511,301	504,736
TOTAL	12,940,346	14,494,846

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.

In thousand euros	31.12.2018	31.12.2017
Change in interest rate and its potential effect on the Group's performance and equity		
Change in yield curve +50 base points	-110	-118
Change in yield curve -50 base points	+112	+115
Change in yield curve +100 base points	-217	-232
Change in yield curve -100 base points	+227	+211
Change in yield curve +200 base points	-423	-450
Change in yield curve -200 base points	+380	+521

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. The majority of insurance liabilities are also in euros.

EQUITY RISK

The equity risk, arising from the changes or fluctuations in market prices, has a potential effect on the value of assets, liabilities and financial instruments.

The equity price risk is low because of the financial investments the share portfolio part. Equity price risk is small because the equity portfolio forms an insignificant part of the financial investments.

In thousand euros	31.12.2018	31.12.2017
Change in share and equity fund prices and its potential effect on the Group's performance and equity		
Share prices +10%	126	81
Share prices +20%	252	162
Share prices -10%	-126	-81
Share prices -20%	-252	-162

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 main credit risk of the Company arises from the investment portfolio. The principles of credit risk mitigation of financial investments are: reliability of the issuer of the security or the deposit; sufficient dispersion between issuers, countries and rating classes.

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

Standard & Poor's	Moody's	31.12.2018	31.12.2017
AAA	Aaa	1,343,850	94,649
AA	Aa	1,000,838	2,008,718
A	A	500,945	503,193
BBB	Baa	3,364,043	3,520,608
BB	Ba	1,655,437	2,233,481
B	B	266	482
Without rating		5,074,967	6,133,715
TOTAL		12,940,346	14,494,846

Credit risks are monitored consistently and reported to the management board and the supervisory board.

CONCENTRATION RISK

Concentration risk is the accumulation of all risks to one counterparty, economic sector or geographical region. Concentration risk means greater risk of loss related to an inadequately distributed portfolio of assets or/and liabilities. Concentration risk mainly concerns market and credit risks related to investment portfolios of single counterparties.

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

In euros	Deposits	Shares	Bonds
31.12.2018			
Luminor Bank	7,504,478	0	1,198,561
LHV Grupp AS	1,953,511	0	428,347
Kemira OYJ	0	0	1,114,827
Stora Enso OYJ	0	0	1,030,759
DNB Bank	0	0	1,000,838
Kesko OYJ	0	0	744,076
TOTAL	9,457,989	0	5,517,408
31.12.2017			
Nordea Bank	0	0	2,731,153
DNB Bank	0	0	1,006,573
Tallink Group	0	100,875	1,154,464
Stora Enso OYJ	0	0	1,062,469
Kemira OYJ	0	0	1,134,294
TOTAL	0	100,875	7,088,953

LIQUIDITY RISK

Cash flows from insurance activities are random. As a result, we consider liquidity risk to be an important financial risk besides interest rate 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.

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	Notes	31.12.2018	31.12.2017
Financial assets measured at fair value through profit and loss				
Shares and equity funds	Market risk, liquidity risk	11.1	1,255,645	809,161
Bonds	Market risk, liquidity risk, interest risk(fixed), credit risk	11.2	12,940,346	14,494,846
Financial assets at amortized cost				
Property investments	Market risk, liquidity risk	10	249,165	290,488
Loans and term deposits	Credit risk	11.3, 11.4	1,030,485	459,822
Receivables under reinsurance contracts	Credit risk	13	13,478,537	12,273,739
Receivables from insurance activities and other receivables	Credit risk	14	1,436,269	1,324,633
Cash and cash equivalents	Credit risk	15	11,722,597	9,012,752
TOTAL EXPOSURE TO FINANCIAL RISK			42,113,044	38,665,441

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.

OPERATIONAL RISK

Operational risk is the risk of possible loss that arises as a result of the involvement or inaction of the employees of the Group, as a result of insufficient or ineffective processes and of external events. Such risks originate from within the Company and can be directly controlled by the management. 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. Significant transaction data is stored in databases. This process is enabled by business-supporting technology.

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 and cannot be directly controlled by the Company.

The company's management board is responsible for the implementation of the operational risk policy, but the heads of divisions or functions are responsible for day-to-day management.

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. Discussions and evaluations are recorded and available to all key employees, thus creating a control environment as well as a strong organizational culture based on the implementation of the decisions. 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.

18.3. CAPITAL MANAGEMENT

CAPITAL CONTENT AND CAPITAL MANAGEMENT

The target of capital management is to ensure the adequacy of the available capital in relation to risks arising from the Company's activities and business environment.

Insurance is a highly regulated area of business with formal rules for minimum capital and capital structure. The term 'capital' refers to equity capital, which consists of share capital, share premium, legal reserve, any other reserves and retained earnings. The Company evaluates its capital requirements on the basis of legislative capital requirements and taking into account the Company's strategic development.

LEGISLATIVE CAPITAL REQUIREMENTS

The Insurance Activities Act (hereinafter: the KtS) provides capital requirement principles for the insurance undertakings. Company shall calculate the Minimum Capital Requirement (MCR) at least once a quarter and submit the received calculation to the Financial Supervision Authority.

The definition of MCR is provided in KtS § 82. The MCR shall correspond to the amount of the eligible basic own funds (KtS §55-§60) where the availability of the eligible basic own funds in a lesser sum would result, upon continuation of the activities of an insurance undertaking, in extremely great risk that the obligations assumed with respect to the policyholders, insured persons and beneficiaries remain unperformed. The floor of the MCR of a non-life insurance undertaking shall amount to 3.7 million euros (KtS § 82).

Company shall calculate the Solvency Capital Requirement at least once a year based on the standard formula on a going-concern and submit the calculation results to the Financial Supervision Authority (KtS § 61).

Note 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	First year of validity												
Cumulative estimate of losses	Before 2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
As at 31 December starting from the validity of the policy		11,762	10,321	11,155	7,572	9,239	10,577	10,601	13,407	11,982	13,210		
2 year later		11,603	10,055	10,749	7,550	9,281	10,240	10,378	13,032	11,612			
3 years...		11,453	9,963	10,370	14,082	9,093	9,991	9,982	12,655				
4 years...		11,306	9,557	10,242	14,094	8,925	9,922	11,333					
5 years...		11,160	9,544	10,149	13,958	8,894	9,905						
6 years...		11,096	9,523	9,977	14,162	8,816							
7 years...		11,111	9,500	9,978	14,139								
8 years...		11,087	9,500	9,971									
9 years...		11,071	9,491										
10 years...		11,021											
Cumulative estimate of claims		11,021	9,491	9,971	14,139	8,816	9,905	11,333	12,655	11,612	13,210		
The adequacy of estimate made 1 year after the end of validity of the policy as at 31.12.2018		107%	109%	112%	54%	105%	107%	94%	106%	103%			
Total disbursements as at 31.12.2018		10,840	9,360	9,866	9,674	8,562	8,981	9,118	11,689	10,646	11,265	5,257	
Provision for outstanding claims as at 31.12.2018	1,557	181	131	105	4,465	254	924	2,215	966	966	1,945	3,223	16,932

In the management's opinion, the amounts of technical reserves reported in the financial statements prepared as of the end of 2018 are accurate and sufficient for covering any future liabilities arising from the insurance portfolio. Technical reserves have been calculated on the basis of the information available as of the reporting date on the risks involved in the insurance portfolio, and comply with the generally accepted actuarial principles, and internal guidelines of the Company.

Note 20.

LIABILITIES RELATED TO INSURANCE CONTRACTS AND REINSURANCE SHARE

In euros	31.12.2018	31.12.2017
Gross		
Provision for losses incurred in previous periods	9,953,301	8,760,591
Provision for losses incurred in the reporting period	2,975,129	2,883,016
Provision for losses which were incurred in previous periods, but have not yet been reported (IBNR)	107,095	151,270
Provision for losses which were incurred in the reporting period, but have not yet been reported (IBNR)	498,824	448,323
Provision for annuity under motor third party liability insurance incurred in previous periods	3,118,836	3,214,662
Provision for annuity under motor third party liability insurance incurred in the reporting period	280,508	27,375
Provision for unearned premiums	5,343,367	5,276,834
TOTAL	22,277,060	20,762,071
Reinsurer's share		
Provision for losses incurred in previous periods	8,185,895	7,133,922
Provision for losses incurred in the reporting period	955,124	788,862
Provision for losses which were incurred in the previous periods, but have not yet been reported (IBNR)	83,193	121,218
Provision for losses which were incurred in the reporting period, but have not yet been reported (IBNR)	318,154	226,028
Provision for annuity under motor third party liability insurance incurred in previous periods	2,028,221	2,062,957
Provision for annuity under motor third party liability insurance incurred in the reporting period	165,036	10,950
Provision for unearned premiums	1,658,723	1,666,024
TOTAL	13,394,346	12,009,961
Net		
Provision for losses incurred in the previous periods	1,767,406	1,626,669
Provision for losses incurred in the reporting period	2,020,005	2,094,154
Provision for losses which were incurred in the previous periods, but have not yet been reported (IBNR)	23,902	30,052
Provision for losses which were incurred in the reporting period, but have not yet been reported (IBNR)	180,670	222,295
Provision for pension under motor third party liability insurance incurred in the previous periods	1,090,615	1,151,705
Provision for pension under motor third party liability insurance incurred in the reporting period	115,472	16,425
Provision for unearned premiums	3,684,644	3,610,810
TOTAL	8,882,714	8,752,110

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

20.1. PROVISION FOR UNEARNED PREMIUMS

In euros	Liabilities under insurance contracts	Reinsurer's share	Net
AS AT 01.01.2018	5,276,834	-1,666,024	3,610,810
Premiums written in the year	22,266,949	-6,989,114	15,277,835
Premiums earned during the year	-22,200,416	6,996,415	-15,204,001
AS AT 31.12.2018	5,343,367	-1,658,723	3,684,644
AS AT 01.01.2017	4,844,588	-1,618,801	3,225,787
Premiums written in the year	20,559,414	-6,434,541	14,124,873
Premiums earned during the year	-20,127,168	6,387,318	-13,739,850
AS AT 31.12.2017	5,276,834	-1,666,024	3,610,810

20.2. PROVISION FOR LOSSES INCURRED

In euros	Liabilities under insurance contracts	Reinsurer's share	Net
AS AT 01.01.2018	15,485,237	-10,343,937	5,141,300
Claims paid during the year that incurred in prior accident years	-2,716,090	928,803	-1,787,287
Claims paid during the year that incurred in the current accident year	-9,387,656	2,874,705	-6,512,951
Adjustment to claims incurred in prior accident years	410,085	-882,175	-472,090
Losses incurred during the year	13,142,117	-4,313,019	8,829,098
AS AT 31.12.2018	16,933,693	-11,735,623	5,198,070
AS AT 01.01.2017	15,684,433	-10,854,305	4,830,128
Claims paid during the year that incurred in prior accident years	-2,979,315	1,600,701	-1,378,614
Claims paid during the year that incurred in the current accident year	-8,763,313	2,609,387	-6,153,926
Adjustment to claims incurred in prior accident years	-578,595	-64,493	-643,088
Losses incurred during the year	12,122,027	-3,635,227	8,486,800
AS AT 31.12.2017	15,485,237	-10,343,937	5,141,300

Note 21.
LIABILITIES UNDER REINSURANCE

In euros	31.12.2018	31.12.2017
Payables to reinsurers	775,111	737,049
Reinsurer's share in recoveries and salvage	364,078	253,072
Reinsurer's share of the deferred acquisition costs	294,321	300,276
TOTAL	1,433,510	1,290,397

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

Note 22.
LIABILITIES FROM DIRECT INSURANCE ACTIVITIES

In euros	31.12.2018	31.12.2017
Policyholder prepayments	282,011	270,348
Payables to insurance brokers	410,694	239,745
Other liabilities	21,919	30,904
TOTAL	714,624	540,997

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

Note 23.

ACCRUED EXPENSES AND OTHER DEFERRED REVENUE

In euros	31.12.2018	31.12.2017
Payables to employees	164,789	148,855
Vacation accrual	104,224	78,997
Value added tax	40,469	26,121
Personal income tax	69,655	62,455
Social tax	141,926	135,000
Unemployment insurance	8,537	7,893
Funded pension liability	6,297	6,201
Corporate income tax	169,090	142,543
Accounts payable	86,642	77,052
Government grant	499,669	525,967
TOTAL	1,291,298	1,211,084

All accruals are short-term (up to 12 months), except for government grants that are recognised as prepaid income. Received government grants for research and development are recognized as prepaid income. The management Board has decided to recognize them partially (5%) as 2018 revenue. The rest will be recognised in revenue when it is clear that all terms and conditions for retaining are fulfilled.

Note 24.
OPERATING LEASE

ASSETS USED UNDER OPERATING LEASE

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

In euros	2018	2017
Passenger car rental payments	18,839	18,312
Office space rental payments	187,414	193,092

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

In euros	
up to 1 year	78,101
1-5 years	118,573

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	2018	2017
Office space rental revenue	57,194	66,134

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

In euros	
up to 1 year	37,322
1-5 years	66,895

Note 25.
PROVISIONS AND CONTINGENT LIABILITIES

In connection with non-life insurance losses, the claims in the amount of 3,587 thousand euros, have been filed against Salva Kindlustuse AS. A reserve of 2,445 thousand euros is recognized in the provision for outstanding claims in order to satisfy the claims. The Management Board estimates that claims amounting to 1,060 thousand euros are likely to be recognized.

Note 26.
RELATED PARTY TRANSACTIONS

26.1. RELATED PARTIES

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

26.2. TRANSACTIONS WITH MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

In 2018, insurance contracts with aggregate premiums of 28,564 euros were concluded with members of the management board and claims paid amounted to 5,372 euros. The wages of the members of the management board amounted to 521 thousand euros and the remuneration paid to members of the supervisory board to 31 thousand euros. Remuneration of the members of the board is based on the basic salary. The activities as the board member are not remunerated separately, therefore the members of the board are not entitled to performance fee. The members of the management board and supervisory board are not entitled to any severance compensation regardless of the basis for termination of the mandate. The members of the Management Board of the company may be paid rewards for the performance according to their position. The calculation of the performance pay is directly dependent on the size of consolidated profit.

OTHER RELATED PARTY TRANSACTIONS

As of 31.12.2018, the balance of loans granted to own employees and related parties amounted to 51,769 euros. (31.12.2017: 58,155). Services from other related parties were purchased in the amount of 75,236 euros and services were sold in the amount of 12,700 euros. Transactions between the Group companies, including subsidiaries, have been eliminated from the consolidated financial statements. The prices used for related party transactions do not significantly differ from the market prices.

Note 27.
SUBSIDIARIES

In euros	Salva Kahjukäsitluse OÜ	Business Information Systems OÜ	Tammepärja Arenduse 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	Real estate development
Founded:	September 1997	March 2009	May 2018
Participation %	100	49	100
Share capital	2,556	2,800	2,500
Acquisition cost	2,556	2,800	2,500

Note 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	2018	2017
REVENUE		
Gross premiums	22,290,998	20,585,099
Reinsurance premiums	-6,989,114	-6,434,541
Changes in the provision for unearned premiums	-66,533	-432,246
Reinsurer's share of the change in provision for unearned premiums	-7,301	47,223
PREMIUMS EARNED, NET OF REINSURANCE	15,228,050	13,765,535
Service and commission fee revenue	1,379,616	1,385,349
Net investment revenue	155,860	1,728,606
Other income	44,194	16,118
TOTAL REVENUE	16,807,720	16,895,608
EXPENSES		
Gross claims	-12,103,746	-11,742,628
Reinsurer's share in claims	3,803,508	4,210,088
Change in the provision for claims outstanding	-1,448,456	199,196
Reinsurer's share of the change in the provision for claims outstanding	1,391,686	-510,368
CLAIMS INCURRED, NET OF REINSURANCE	-8,357,008	-7,843,712
Acquisition costs	-5,136,911	-4,837,015
Administrative expenses	-1,861,022	-1,779,289
Financial expenses	-140,131	-129,298
TOTAL OPERATING EXPENSES	-7,138,064	-6,745,602
TAX ON DIVIDENDS PAID	0	-75,000
PROFIT FOR THE FINANCIAL YEAR	1,312,648	2,231,294
COMPREHENSIVE PROFIT FOR THE FINANCIAL YEAR	1,312,648	2,231,294

STATEMENT OF FINANCIAL POSITION OF SALVA KINDLUSTUSE AS

In euros	31.12.2018	31.12.2017

ASSETS

Property, plant and equipment	107,767	65,620
Intangible assets/Deferred acquisition costs	1,283,617	1,585,027
Subsidiaries	1,313,682	4,359,252
Financial investments	14,231,442	13,703,054
Receivables under reinsurance contracts	13,478,537	12,273,739
Receivables from insurance activities and other receivables	1,881,300	1,301,452
Cash and cash equivalents	11,287,495	7,287,477
TOTAL ASSETS	43,583,840	40,575,621

LIABILITIES AND SHAREHOLDERS' EQUITY

Share capital	3,200,000	3,200,000
Reserve capital	320,000	320,000
Other reserves	64,428	64,428
Retained earnings	13,545,682	11,314,388
Profit for the financial year	1,312,648	2,231,294
TOTAL OWNER'S EQUITY	18,442,758	17,130,110

Liabilities under insurance contracts	22,277,060	20,762,071
Liabilities from reinsurance	1,433,510	1,290,397
Liabilities from direct insurance activities	714,624	540,997
Other liabilities	252,367	317,277
Accrued expenses and deferred revenue	463,521	534,769
TOTAL LIABILITIES	25,141,082	23,445,511

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	43,583,840	40,575,621

CASH FLOW STATEMENT OF SALVA KINDLUSTUSE AS

In euros	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES	4,210,512	4,049 609
Insurance premiums received	20,963,778	18,934,661
Claims paid and claims handling expenses	-11,163,205	-11,522,116
Paid to reinsurers	-1,483,871	-987,664
Paid as operating expenses	-4,929,242	-4,561,958
Tax paid on dividends	0	-75,000
Acquisition of shares and other securities	-155,044	-309,048
Disposal of shares and other securities	130,624	219,063
Acquired fixed rate securities	-5,372,832	-3,056,505
Disposals of fixed rate securities	5,868,623	3,807,505
Loans granted	-111,725	-126,700
Repayment of loans granted	429,709	76,611
Return on term deposits	0	1,000,000
Interest received	348,908	413,443
Dividends received	287,129	315,516
Investment expenses paid	-102,340	-78,199
CASH FLOW USED IN INVESTING ACTIVITIES	-210 494	-185 193
Acquisition of property, plant and equipment, and intangible assets	-210 494	-185 193
CASH FLOW USED IN FINANCING ACTIVITIES	0	-900 000
Dividends paid	0	-900 000
TOTAL CASH FLOW	4,000,018	2,964,416
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	7,287,477	4,323,061
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	11,287,495	7,287,477

STATEMENT OF CHANGES IN EQUITY OF SALVA KINDLUSTUSE AS

In euros	Share capital	Reserve capital	Other reserves	Retained earnings	Share capital
AS AT 31.12.2016	3,200,000	320,000	64,428	12,214,388	15,798,816
Profit for the financial period	0	0	0	2,231,294	2,231,294
Dividends paid	0	0	0	-900,000	-900,000
AS AT 31.12.2017	3,200,000	320,000	64,428	13,545,682	17,130,110
Profit for the financial period	0	0	0	1,312,648	1,312,648
AS AT 31.12.2018	3,200,000	320,000	64,428	14,858,330	18,442,758

SIGNATURES OF THE MANAGEMENT BOARD TO THE ANNUAL REPORT 2018

The Management Board of Salva Kindlustuse AS has prepared the management report and financial statements for 2018.

Management Board:

Irja Elias	Member of the Management Board	....	11.03.2019
Urmas Kivirüüt	Member of the Management Board	....	11.03.2019
Kaupo Kalev	Member of the Management Board	....	11.03.2019

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Independent Auditors' Report

(Translation of the Estonian original)

To the Shareholders of Salva Kindlustuse AS

Report on the Audit of the (Consolidated) Financial Statements

Opinion

We have audited the (consolidated) financial statements of [name of company] (the Company), which comprise the (consolidated) statement of financial position as at 31 December 2018, the (consolidated) statement of comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the (consolidated) financial statements presented on pages 13 to 52, present fairly, in all material respects, the (consolidated) financial position of the Company as at 31 December 2018, and of its (consolidated) financial performance and its (consolidated) cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the (Consolidated) Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the (consolidated) financial statements in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the (consolidated) financial statements of the current period. These matters were addressed in the context of our audit of the (consolidated) financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><td colspan="2">Valuation and completeness of the provision for claims outstanding</td></tr>
<tr><td colspan="2">The gross carrying amount of the provision for claims outstanding as at 31 December 2018 was EUR 16,933,693 and the costs recognised in profit or loss from the change in the provision for claims outstanding was EUR - 1,448,456.

We refer to the financial statements notes 1.6 and 1.25 (accounting policies) and note 20 (financial disclosures).</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Insurance provisions account for a material share of the liabilities recognised in the Company's statement of financial position. At 31 December 2018, insurance provisions comprised the provision for unearned premiums of 5,343,367 euros and a provision for claims outstanding of 16,933,693 euros.</td><td>In auditing the provisions relating to the insurance business we engaged actuaries as part of our audit team. Together with actuaries we, among other things, performed the following procedures:

• assessed whether the methods to calculate the provisions used by the management are appropriate and compliant with the financial reporting framework;</td></tr>
</table>

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During the audit we focused mainly on the balance of the provision for claims outstanding. We assessed this area as a key audit matter because calculating provisions is subject to uncertainty and judgement. Estimation uncertainty arises mainly from the rate of occurrence of large claims, the speed of settlement of claims and the development of long-term claims. Actuarial models which take into account inputs such as premiums earned, the loss ratio, the length of the claim reporting period and the estimated amount of the expected loss, are used for both calculating the provisions and carrying out the liability adequacy test. We have also assessed the completeness and quality of data used by the Company in the calculation of provisions as a key audit matter.	• assessed how management derives the key assumptions and whether those methods are appropriate; • assessed the reliability and completeness of the previous year provisions by taking into account the actual claims paid and changes in claims provisions during current financial year; • compared the key inputs with historical information; • tested whether the general controls over the IT environment are effective; • carried out alternative calculations of provisions for selected insurance classes; • tested based on a sample whether claim data corresponds to the data in the claim file; • assessed the completeness of underlying data used by comparing it to the information retrieved from the Company's databases; • assessed whether the disclosures made in the financial statements (including in respect of the sensitivity of estimation results to the key assumptions applied) are sufficient and appropriate.

Other Information

Management is responsible for the other information. The other information comprises the Management Report, but does not include the (consolidated) financial statements and our auditors' report thereon.

Our opinion on the (consolidated) financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the (consolidated) financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the (consolidated) financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the (Consolidated) Financial Statements

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

In preparing the (consolidated) financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors’ Responsibilities for the Audit of the (Consolidated) Financial Statements

Our objectives are to obtain reasonable assurance about whether the (consolidated) financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these (consolidated) financial statements.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the (consolidated) financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the (consolidated) financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the (consolidated) financial statements, including the disclosures, and whether the (consolidated) financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 25 April 2018 to audit the financial statements of Salva Kindlustuse AS for the year ended 31 December 2018. Our total uninterrupted period of engagement is 2 years, covering the periods ending 31 December 2018.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company;
- we have not provided to the Company the prohibited non-audit services (NASs) referred to in Article 5(1) of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

For the period to which our statutory audit relates, in addition to the audit, we have not provided the other services to the Group.

Tallinn, 11 March 2019

/signature/

Eero Kaup
Certified Public Accountant, Licence No 459

KPMG Baltics OÜ
Licence No 17

PROFIT ALLOCATION PROPOSAL

The Management Board proposes to allocate the profit as follows:

Retained earnings	13,296,855
Net profit for 2018	1,287,378
Intangible assets at book value	-1,012,101
Total distributable profit as of 31.12.2018	**13,572,132**
To be distributed as dividends:	0
Balance of distributable profit after profit allocation	**13,572,132**

Irja Elias Member of the Management Board 11.03.2019

Urmas Kivirüüt Member of the Management Board 11.03.2019

Kaupo Kalev Member of the Management Board 11.03.2019


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