SALVA KINDLUSTUSE AS
ANNUAL REPORT

2014

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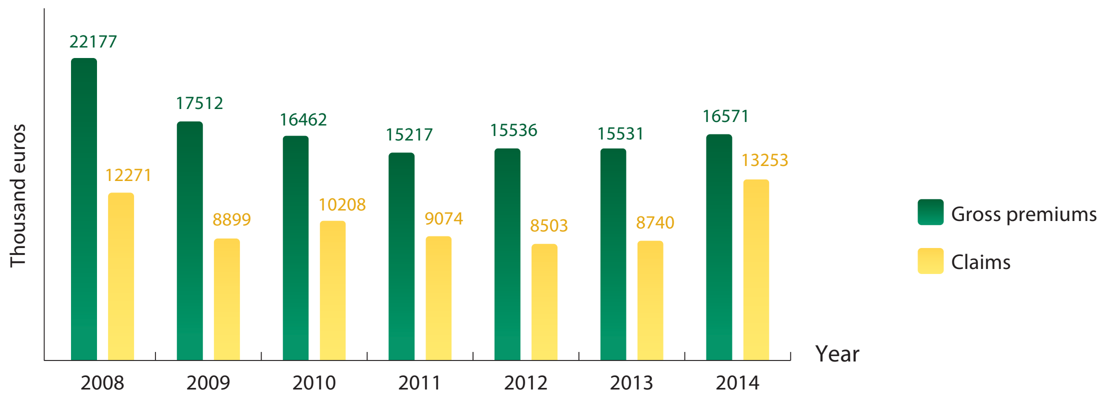
GENERAL INFORMATION ON SALVA KINDLUSTUSE AS

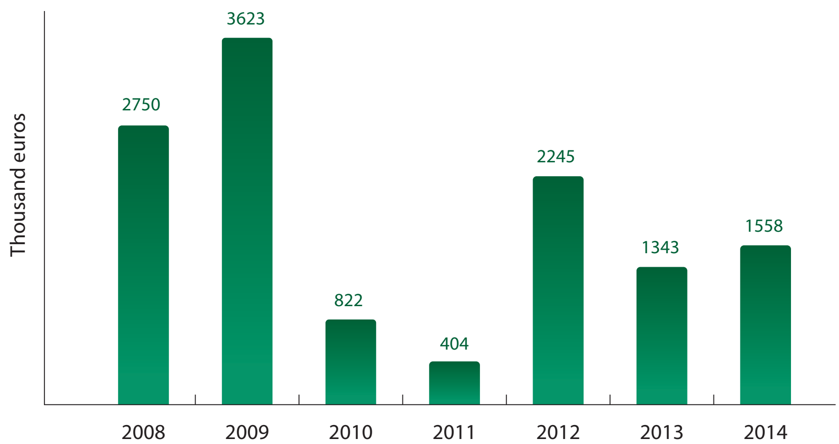
Business name:	Salva Kindlustuse AS
Address:	Pärnu mnt.16, 10141 Tallinn
Registry code:	10284984
Telephone:	6800 500
Fax:	6800 501
E-mail:	salva@salva.ee
Web page:	http://www.salva.ee
Main field of activity:	Non-life insurance
Beginning of financial year:	01.01.2014
End of financial year:	31.12.2014
Managing director:	Tiit Pahapill
Auditor:	Ernst & Young Baltic AS

Main financial indicators

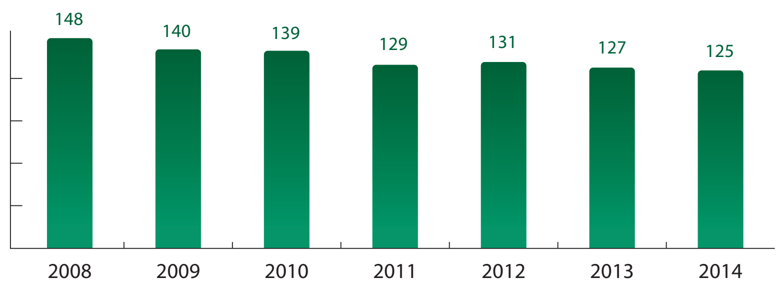
Gross premiums and claims incurred



Profit



Number of employees



Vision, mission and strategy

Vision

To be the symbol of a reliable 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 trough 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.

General information

Salva Kindlustuse AS (hereinafter the Company) has been operating in the Estonian insurance market since 1993. In its twenty years of business, the Company has become one of the leading non-life insurance companies in Estonia, offering a full range of services. The Company is registered in Estonia and main operating market is Estonia.

The Company's portfolio currently contains the most widely known non-life insurance products – a total of over 15 products. The Company's customer base includes private individuals and businesses as well as companies and agencies from the public sector.

The Company's representative offices (8) and sales offices (8) are spread around Estonia, with the head office located in Tallinn.

Salva Kindlustuse AS Group

Companies of the consolidation group

Business name	Register	Date of registration	Address	Main activity	Participa-tion (%)
Salva Kindlustuse AS	10284984	March 1993	Pärnu mnt.16, Tallinn	non-life insurance	100%
Salva Kahjukäsitluse OÜ*	10259383	September 1997	Tammsaare tee 118B, Tallinn	claims handling, rent of vehicles, asset management	100%
Business Information Systems OÜ*	11611994	March 2009	Pärnu mnt 16, Tallinn	research and development in the field of other natural and technical sciences	49%

**Consolidated subsidiaries of Salva Kindlustuse AS.*

Economic environment

The overall economic growth figure (GDP) in Estonia grew by 1.8%, which was mainly due to the strong growth of private consumption and exports that picked up in the second half of the year. The year's growth forecast is by consensus around 2% for the year 2015. The deterioration of the external environment and its possible impact on exports and corporate investments will affect the economic growth. The main growth engine can most likely be fast wage growth and rising private consumption that is supported by extra-low prices.

As for the world economy, the decline in the oil price promotes the economic recovery but it is volatile and differs by region. In the U.S. growth remains strong, in China it is slowing down and economic activity in Japan has not so far picked up. In Russia, the economic conditions have further deteriorated and its impact on other emerging markets only begins to appear.

In the conditions of ample liquidity on euro area, the short-term interest rates in the financial markets have reached exceptionally low levels. It is the executive summary of low pace of growth and restrained inflation rates. The euro exchange rate has decreased which should support export to some extent but due to the effects of the external environment, however, that recovery remains moderate.

In the year 2015, the European Union stands in front of the problem with Greece, the effect of the solution of which is measured not so much by financial but ideological and political criteria. In the same category may be classified the stabilisation of Russia-Ukraine relations and encountering the geopolitical situation.

From Estonian three main export partners (Finland, Sweden and Russia), Finland and Russia, are in relatively serious economical situation. The main problem for Finland in the economic model, which does not cope with reality and demographic changes over the last decade. Russia's economy has grown during the past decade with the support of the high oil price but the expectations based on the oil price are no longer justified.

These influences also affect the Estonian exports, whose most dramatic phenomena can be observed in the dairy sector in Estonia. Lower interest rates encourage taking the investment risk, but a high level of uncertainty on the other hand holds it back.

In summary, we expect a cautious recovery in 2015, however, it clearly depend on the economic well-being of our trading partners.

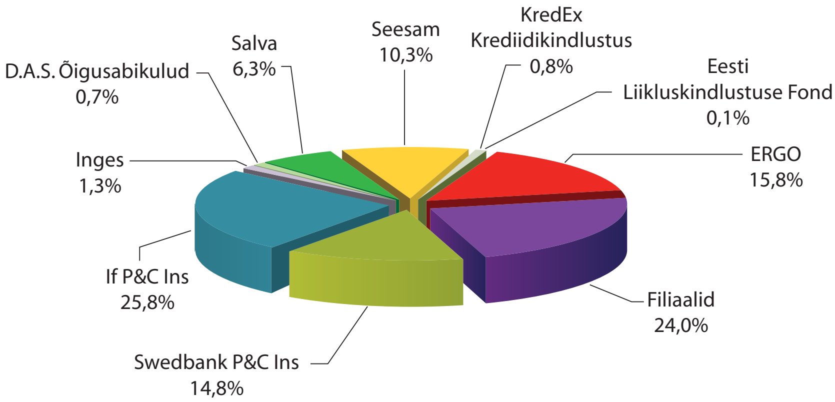
Non-life insurance market

In 2014, non-life insurance companies and branches on the Estonian insurance market collected a total of 261 414 thousand euros in insurance premiums. This constitutes a 7% increase in premiums from the same period in 2013 (2013: 244 354 thousand euros).

The largest share of all insurance categories offered on the insurance market is held by various motor vehicle-related insurance categories – the mandatory motor third party liability insurance (25%) and the optional motor vehicle insurance (35%). The share of property insurance amounts to 26% and the aggregated share of all the remaining insurance categories 14% of the market. The amount of disbursements in 2014 was 148 539 thousand euros. This constitutes a 5% increase in disbursements from the same period in 2013 (2013: 1141 540 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 57% as of the end of 2014 (2013: 58%).

By Statistics Estonia market shares of non-life insurance companies and foreign branches expressed in premiums received by the end of 2014:



In 2014 the non-life insurance market volume grew 7% compared to the previous year. This is far more than economic growth as a whole and it indicates that both private individuals and companies are interested in hedging their risks, that the Estonian economic environment continued to pick up, and for, the rise of the insurable interest is stable. Relevant percentages of the previous years were 6.1% in 2013 and 6.5% in 2012.

Insurance market has a great growth potential regarding to a volume of insurance premiums per person, i.e. 185 euros. Compared to adjacent countries there is a tense competition between insurance companies on Estonian market – in Estonia there is one insurance company per 100 thousand people as for instance in Poland there is a company per 1 one million. Consequently Estonian clients can rely on the continuous top service quality and prices lower than average.

In spring 2014 took place corporate sales of Codan Forsikring A/S Estonian branch to PZU SA – Polish biggest insurance company. The sale came into effect in November. Consequently the number on insurance companies in Estonia decreased and hopefully it calms down PZU's overaggressive strategy of entry that was based on technically unreasonably inexpensive prices.

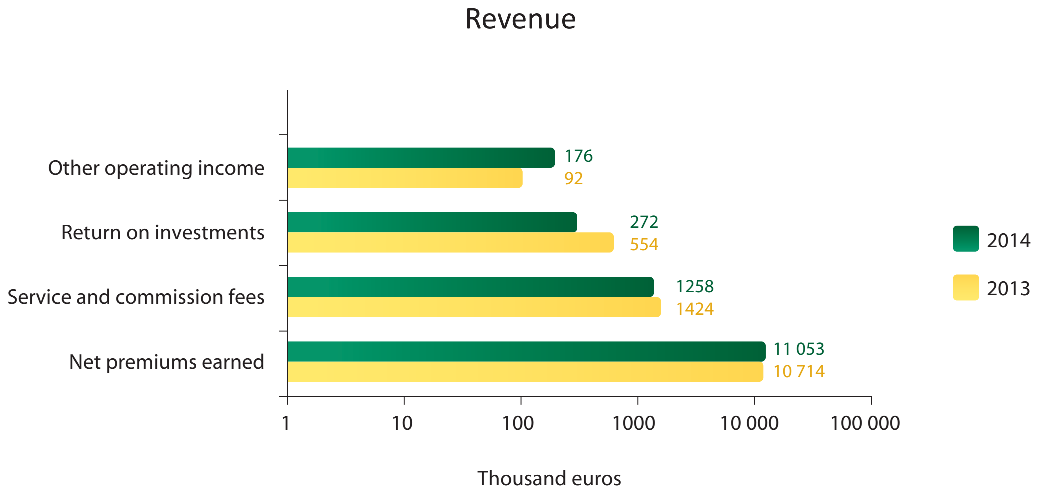
The weather was favorable for the year 2014, particularly in the property insurance risks and no significant damages arose from the forces of nature. The average damage cost has increased in Motor related types of insurance and consequently market performance is not as expected.

In 2014, the MTPL market earned the technical loss of 6.5 mln euros. 2013 year comparable number was 3.4 mln euros and 2012 1.7 mln euros. This situation is not sustainable in the long term and the motor third party liability insurance tariffs should go upward at least 10% in the year 2014. That is only in case insurance companies would be interested in acting in at least zero profit. The need for an increase of the prices is strongly supported by the new Motor Insurance Act enforced on the 1 st of October 2014. The Act makes the regulatory environment more favorable for the client and increases payouts in MTPL insurance line.

In 2015 we expect the non-life insurance market volume to maintain the same growth as in previous year due to expectedly higher prices in Motor MTPL market and overall economic recovery. Year 2015 will be a preparatory year of transition to the new solvency requirements (Solvency II). In the process, the insurance companies need to put great emphasis on improving their internal regulations and reporting capabilities.

Financial results

Salva Kindlustuse AS's consolidated net profit in 2014 was 1 558 thousand euros (2013: 1 343 thousand euros).



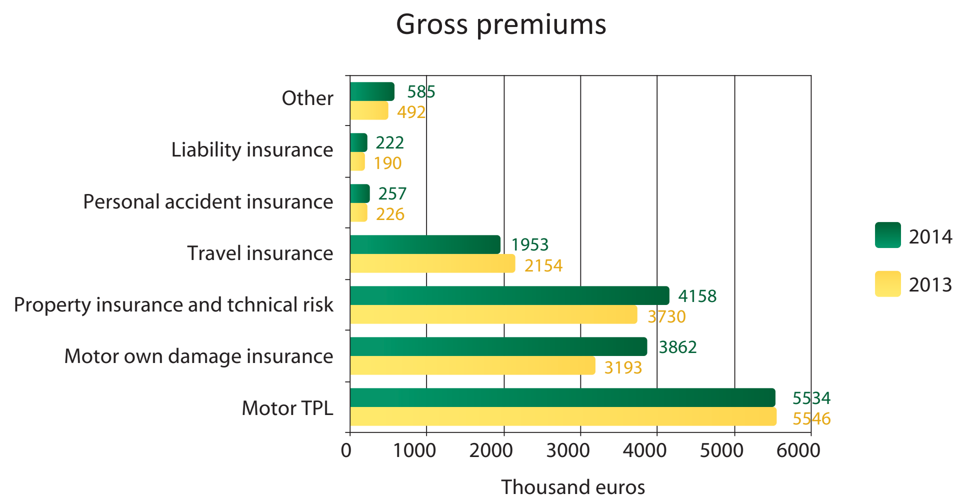
Income in 2014 remained at the same level with previous year. Among these, the premiums earned, net of re-insurance, increased by 3%, income from service and commission fees decreased by 12% due to the deteriorating of loss ratio of previous years. Due to the overall financial perspective of Europe interest rates fell and decline in oil prices brought along decline in NOK/EUR exchange rates. Accordingly return on investments decreased by 50%.

In 2014, Salva Kindlustuse AS gathered 16 571 thousand euros in gross insurance premiums, increased by 7% compared to the last year. (2013: 15 531 thousand euros).

Insurance premiums increased in almost all lines of insurance. Insurance premiums increased the most in optional vehicle insurance, by 21 and in liability insurance, by 17%.

In 2014, the profit from insurance activity amounted to 1 599 thousand euros. The indicator for the previous year was 1 299 thousand euros. The consolidated loss ratio, net of reinsurance, was 49.7% (2013: 53.6%).

Salva Kindlustuse AS insurance premiums by category, 2013–2014:



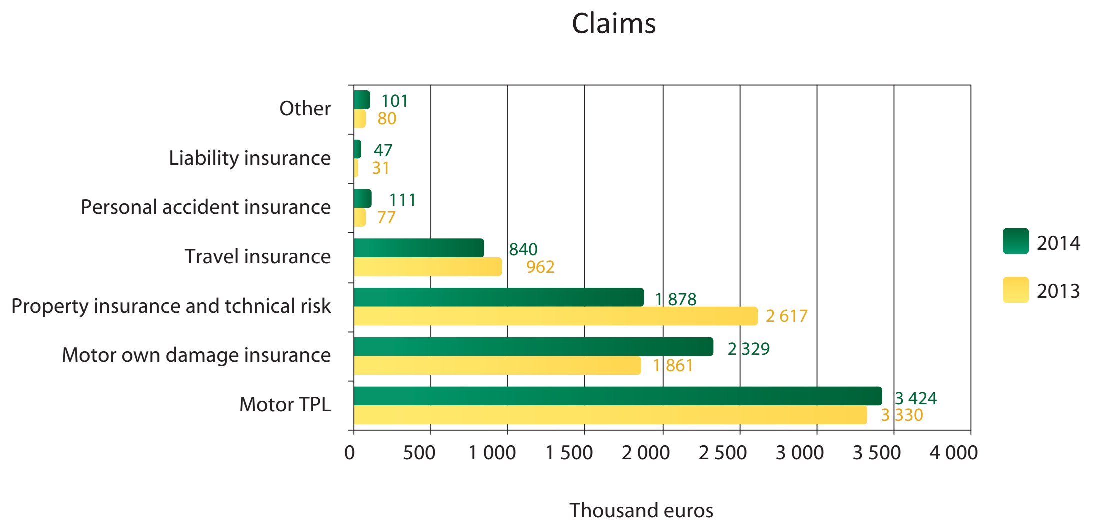
Claims

Total claims incurred in 2014 amounted to a total of 13 253 thousand euros –52% more than in the last year (2013: 8 740 thousand euros).

Claims disbursements increased by 1% compared to the last year; claims adjustment expenses stayed at the same level and income from refunds and residual assets increased 68%. Claims incurred net of reinsurance decreased 4%.

Loss ratio 49,7 % has improved by 4% compared to previous year.

Insurance claims paid by Salva Kindlustuse AS, by type, 2013-2014



The number of loss claims satisfied in 2014 amounted to 7 966 and decreased by 3% compared to the year before (2013:8 231).

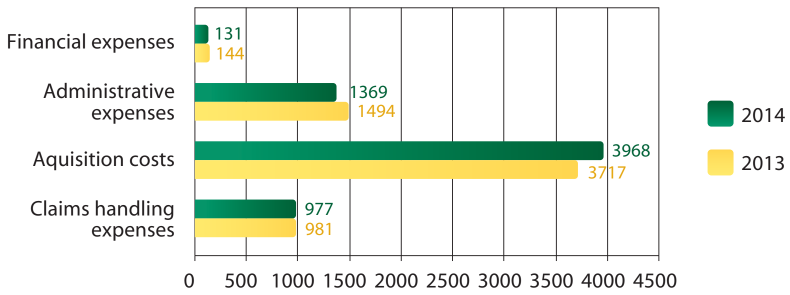
Still accounting for large share of the total number of loss claims were vehicle insurance-related loss claims. Motor TPL insurance loss claims make up 36% and Motor Own Damage insurance losses 28% of the total number of loss claims. In 2013, their proportions were 38% and 23%, respectively. The number of property insurance loss claims amounted to 1 052 and their share have increased from 11% to 13%. The number of travel insurance loss claims decreased and their share has decreased from 25 to 19%.

Operating expenses

Operating expenses for 2014 increased by 2% compared to 2013, amounting to 5 468 thousand euros. Administrative expenses decreased by 8% and acquisition costs increased 7%. Total payroll expenses and commissions paid to intermediaries are reflected in acquisition costs and they decreased by 3% and increased by 9% respectively compared to previous year. The increase in acquisition costs is in conformity with the rise in the volume of premiums.

The ratio of consolidated expenses to premiums, net of reinsurance, made up 35.8% at the end of 2014 (2013: 34. 3%).

Operating expenses



Balance sheet

The consolidated value of Salva Kindlustuse AS assets amounted to 34 208 thousand euros as of the end of 2014.

Insurance receivables increased by 34% in 2014, with their share in total assets being 4%.

Investment volume has increased by 8% compared to the end of 2013, amounting to 17 192 thousand euros. The share of investments in total assets amounts to 50%.

Liabilities arising from insurance contracts made up 40% of total liabilities as of the end of 2014, amounting to 16 705 thousand euros.

Prepayments from customers and liabilities to re-insurers increased by 8%, making up 4% of total liabilities.

Owner’s equity

In 2014, Salva Kindlustuse AS’s shareholders’ equity increased by 5%, and amounted to 14 745 thousand euros. 900 thousand euros was paid as dividends to owners in 2014.

Investing activities

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

The keyword for 2014 was managing previously taken risks and optimal realization of their performance. The consolidated net investment revenue from investing activities amounted to 141 thousand euros. The consolidated net investment revenue in last year amounted to 410 thousand euros. The consolidated annual rate of return on investment was 0.8%. The annual rate of return of the bond portfolio was 0.5%.

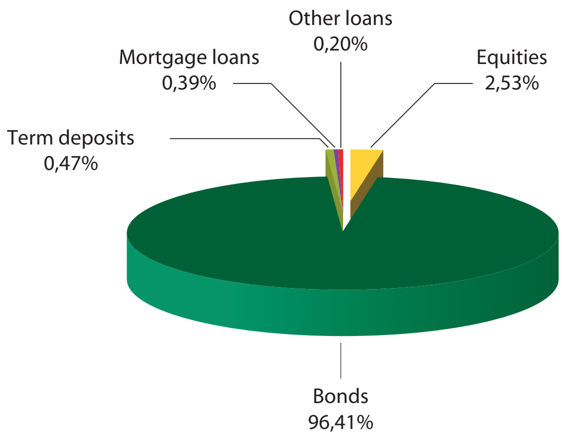
In conclusion it can be said that Salva Kindlustuse AS was able to grow the value of the investments, maintain an adequate dispersion and ensure a decent position for the upcoming period. The forthcoming period is characterized by uncertainty which is caused by continuously low interest rates, volatile oil prices and political fluctuations. We look forward to some stabilisation in the year 2015 if only taken measures of economic policy will succeed.

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), 43% had a rating of B or Baa and Ba.

92% of investments are held in euros. In the opinion of the Management Board the currency risk is minimal.

As of the end of the year, financial investments exceed the net technical reserves by 10 614.

Structure of financial investments as of 31.12.2014



Organisation and management

The Company's supervisory board has six members, with the total remuneration paid to members of the supervisory board amounting to 31 thousand euros (2013: 31 thousand euros).

The Company's management board has five members, with the total remuneration paid to members of the management board amounting to 382 thousand euros (2013: 430 thousand euros).

As of the end of 2014, the Group had 125 employees, including 67 sales employees.

The Group‘s employee retention is very stable. This is supported by a competitive background system, a modern working environment and a strong organizational culture. Internal resources are used where possible for establishment of new positions supporting organisational development, with the current employees offered a career opportunity.

Staff training is organised on the basis of the established training policies. The Company co-operates with consulting and training companies in management and sales issues. Product training of the sales staff is carried out by product managers and loss adjusters.

Total payroll expenses (including taxes) amounted to 3 006 thousand euros in 2014. Payroll expenses have increased by 3% from last year (2013: 3 083 thousand euros).

The Group's development in the financial year and goals for 2015

The year of steady growth

In the past year Salva Kindlustus has been growing in the same pace with the rest of the market – during the year the amount of received insurance premiums increased by seven percent and reached 16.6 million euros. The amount of received premiums increased for virtually every type of insurance. The largest growth – and faster than that of the rest of the market – was recorded in Motor Own Damage and property insurance.

In the area of property insurance the year was calm – in contrast to the year before the biggest storms did not touch Estonia and the number of insurance cases caused by fires in our portfolio also decreased.

On the contrary, the situation with traffic and road insurance has tightened. As a whole the road insurance market remains in the negative for several years, and the total loss of 6.5 million euros suffered during the past year only increases the market instability. Growth of prices for car repair services also resulted in the increase of compensations paid.

Sales of travel insurance somewhat decreased due to the total decrease of business trips, while due to the new Insurance Activities Act we have facilitated cooperation with almost all large travel bureaus, which shall create an advantage for Salva on this market in the years to come.

In the past years the main trends of Salva Kindlustus were preservation of insurance competence in the counties and development of 17 offices and sales points in various regions of Estonia. We have also paid special attention to development of e-services and in the first half of the year opened the new website/service center.

Since we are among the few insurance companies that have branches and loss adjusters in almost all counties, the changes in the Insurance Activities Act according to which a person can turn to its own insurer for loss adjustment, brought us more customers.

As a whole the insurance market is approaching a stable phase of development. Some global insurers have left the market due to its small size or long-term losses. Such short time but large-scale advertising campaigns aimed at market penetration have adversely affected the credibility of the entire insurance market. Several insurance companies have acted as branches for the newcomers, and as the result the Financial Supervision Authority had limited options to control them.

Free development of insurance market for private persons continues to be limited by large banks referring customers to the sales channels appropriate for them. We believe in further normalization of the agency market that contrary to the rest of the world has evolved in Estonia extremely rapidly. At the moment both insurance companies and brokerage firms are waiting for aligning of quality and catching up of the legislation.

The entire insurance sector needs the insurance policy that would correspond to the market development. Unfortunately, the role of the state in facilitation of legislative process and involvement of market participants in the last decade left a lot to be desired, the freedom of choice of the customer is still limited and the reliability of the insurance sector suffered as the result.

Tiit Pahapill

Chairman of the management board

Main financial indicators

Group	2014	2013	2012
in euros			
For the reporting period			
Gross premiums	16 571 243	15 531 391	15 535 596
Premiums earned, net of reinsurance	11 053 268	10 713 856	11 040 398
Gross claims incurred	13 253 435	8 739 728	8 503 007
Claims incurred, net of reinsurance	5 493 503	5 741 188	6 034 930
Total operating expenses	5 467 846	5 355 413	5 181 598
Net operating expenses	4 209 924	3 931 190	3 850 358
Net loss ratio	49.70%	53.59%	54.66%
Net expense ratio	35.80%	34.19%	32.80%
Net combined ratio	85.50%	87.78%	87.46%
As of the end of the reporting period			
Total assets	34 208 389	28 713 786	28 693 924
Financial investments	17 191 958	15 896 949	17 543 107
Efficiency indicators			
Technical result	1 598 808	1 299 492	1 384 768
Investment result	141 014	410 379	1 004 009
Profit for the year	1 558 082	1 342 651	2 244 694
Annual return on equity	10.6%	9,5%	17%
Annual return on investments	0.9%	2.49%	6.09%

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

Consolidated statement of comprehensive income

in euros	Note	2014	2013
REVENUE			
Gross premiums	3	16 571 243	15 531 391
Reinsurance premiums	3	-5 416 380	-4 880 170
Changes in the provision for unearned premiums	3	-225 912	21 811
Reinsurer's share of the change in provision for unearned premiums	3	124 317	40 824
Premiums earned, net of reinsurance	**3**	**11 053 268**	**10 713 856**
Service and commission fee revenue	4	1 257 922	1 424 223
Net investment revenue	5	272 076	554 379
Other income	6	175 405	92 363
Total revenue		**12 758 671**	**12 784 821**
EXPENSES			
Gross claims incurred	7	-13 253 435	-8 739 728
Reinsurer's share in claims incurred	7	7 759 932	2 998 540
Claims incurred, net of reinsurance	**7**	**-5 493 503**	**-5 741 188**
Acquisition costs	8	-3 968 202	-3 717 002
Administrative expenses	8	-1 368 582	-1 494 411
Financial expenses	8	-131 062	-144 000
Total operating expenses		**-5 467 846**	**-5 355 413**
Profit before taxes		**1 797 322**	**1 688 220**
Tax on dividends paid	9	-239 240	-345 569
Profit for the financial year		**1 558 082**	**1 342 651**
Comprehensive income for the financial year		**1 558 082**	**1 342 651**
Incl. profit attributable to shareholders of the parent company		**1 543 609**	**1 333 350**
Incl. profit attributable to non-controlling interests		14 473	9 301

Consolidated statement of financial position

in euros	Note	31.12.2014	31.12.2013
ASSETS			
Property, plant and equipment	**11**	1 445 601	1 200 532
Intangible assets/Deferred Acquisition Costs	**12**	1 887 641	1 958 741
Financial assets	**13**	17 191 958	15 896 949
Receivables under reinsurance contracts	**14**	10 175 856	6 051 197
Receivables from insurance activities and other receivables	**15**	1 411 925	1 055 826
Cash and cash equivalents	**16**	2 095 408	2 550 541
TOTAL ASSETS		**34 208 389**	**28 713 786**

LIABILITIES AND SHAREHOLDER'S EQUITY			
Share capital		3 200 000	3 200 000
Reserve capital		320 836	320 836
Other reserves		64 428	64 428
Retained earnings		11 079 781	10 436 172
Total equity attributable to shareholders of the parent company		**14 665 045**	**14 021 436**
Total equity attributable to non-controlling interests		79 930	65 457
Total equity	**17**	**14 744 975**	**14 086 893**
Liabilities under insurance contracts	**20**	16 705 382	11 955 956
Liabilities from reinsurance	**21**	1 123 115	1 068 468
Liabilities from direct insurance activities	**22**	410 138	357 515
Derivative financial instruments		0	2 829
Accrued expenses and deferred revenue	**23**	1 224 779	1 242 125
Total liabilities		**19 463 414**	**14 626 893**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**34 208 389**	**28 713 786**

Consolidated statement of changes in equity

in euros	Share capital	Reserve capital	Other reserves	Retained earnings	Minority interest	Total
As of 31.12.2012	**3 200 000**	**320 836**	**64 428**	**10 402 822**	**56 156**	**14 044 242**
Profit for the financial year	0	0	0	1 333 350	9 301	1 342 651
Dividends paid	0	0	0	-1 300 000	0	-1 300 000
Total changes in equity for the year	**0**	**0**	**0**	**33 350**	**9 301**	**42 651**
As of 31.12.2013	**3 200 000**	**320 836**	**64 428**	**10 436 172**	**65 457**	**14 086 893**
Profit for the financial year	0	0	0	1 543 609	14 473	1 558 082
Dividends paid	0	0	0	-900 000	0	-900 000
Total changes in equity for the year	**0**	**0**	**0**	**643 609**	**14 473**	**658 082**
As of 31.12.2014	**3 200 000**	**320 836**	**64 428**	**11 079 781**	**79 930**	**14 744 975**

See Note 17 for additional information about equity.

Consolidated cash flow statement

in euros	Note	2014	2013
Cash flow from operating activities		**839 483**	**2 706 971**
Insurance premiums received		15 439 127	14 608 656
Claims paid and claims handling expenses		-8 049 553	-7 978 035
Paid to reinsurers (net)		-347 506	-887 227
Paid as operating expenses		-4 834 125	-4 789 995
Income tax paid	**9**	-239 240	-345 569
Acquisition of shares and other securities		-454 525	-366 974
Disposal of shares and other securities		778 399	325 706
Acquired fixed rate securities		-13 273 228	-1 836 766
Proceeds from disposals of fixed rate securities		8 589 552	303 207
Loans granted		-23 700	-122 700
Repayments of loans granted		47 228	106 472
Investments in term deposits		-80 000	-2 675 000
Return on term deposits		2 675 000	5 695 000
Interest received		697 539	750 008
Dividends received		9 413	10 986
Investment expenses paid		-94 896	-90 798
Cash flow used in investing activities		**-394 616**	**-152 842**
Acquisition of property, plant and equipment, and intangible assets		-514 634	-169 492
Disposal of property, plant and equipment, and intangible assets		120 018	16 650
Cash flow used in financing activities		**-900 000**	**-1 300 000**
Dividends paid	**17**	- 900 000	-1 300 000
Total cash flow		**-455 133**	**1 254 129**
Cash and cash equivalents at the beginning of the period	**16**	**2 550 541**	**1 296 412**
Cash and cash equivalents at the end of the period	**16**	**2 095 408**	**2 550 541**

1. General information on the company

Salva Kindlustuse AS (hereinafter also referred to as the Company) is a non-life insurance company registered in Estonia. The consolidated financial statements prepared as of 31 December 2014 include the financial information of Salva Kindlustuse AS, its 100% subsidiary Salva Kahjukäsitluse OÜ and its 49% subsidiary Business Information Systems OÜ (jointly referred to as the Group).

The management board approved the issuance of the financial statements with its resolution of 9 March 2014 Shareholders have the right to decline the Annual Report prepared and submitted by the Management Board, and demand preparation of a new Annual Report.

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

2.1. Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) developed by the International Accounting Standards Board (IASB), and their interpretations, as adopted by the European Union (EU) and entered into force for the year 2014.

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 financial investments, derivative financial instruments and investments in subsidiaries which are measured at fair value.

The companies of the Group have adopted common accounting principles, which are applied consistently for all periods referred to in the financial statements.

2.2. Summary of significant accounting policies

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

(a) Functional currency. Transactions and entries denominated in foreign currency

The functional currency and presentation currency of the group is the euro.

Foreign currency transactions are recorded on the basis of the foreign currency exchange rates of European Central Bank officially valid on the transaction date. Monetary assets and liabilities denominated in foreign currency in the financial statements are translated on the basis of the foreign currency exchange rates of European Central Bank officially valid on the balance sheet date. Foreign exchange gains and losses are recorded under revenue and expenses in the income statement of the reporting period.

(b) Basis of consolidation

Consolidated financial statements include the financial data of subsidiaries controlled by the parent company. Control 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 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 that significally 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.

The basis for accounting for subsidiaries in the parent entity's unconsolidated balance sheet have been provided in subsection (d) of Note 2.4.

(c) Insurance contracts

A non-life insurance contract is a 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. The motor third party liability insurance contracts, concluded for an indefinite period of time, constitute an exception to the rule, with the policies issued there under being valid for a maximum term of one year.

(d) Recording and assessment of insurance contracts

Insurance premiums

Gross insurance premiums are recognised at the earlier of 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.

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 balance sheet line "Liabilities under insurance contracts".

The reinsurer's share of the provision for unearned premiums equals the same percentage of the provision for unearned premiums, as the pro rata share of the reinsurance premiums of the gross premiums. The reinsurer's share of the provision for unearned premiums has been recorded on the balance sheet line "Reinsurer's assets".

(e) Claims

Expenses incurred in the insurance business consist of 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.

Provision for claims outstanding

The provision for claims outstanding is formed to cover losses and handling expenses which have already been incurred but are outstanding as at the balance sheet date.

The outstanding claims reserve includes:
- handled but outstanding losses;
- reported 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 claims handling process separately for each individual loss file, on the basis of the information available to the claims handler. If no information is available, estimates based on previous experience will be used. RBNS is terminated by full 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 balance sheet line "Liabilities under insurance contracts".

(f) Reinsurance

The Group purchases reinsurance cover in the course of normal business operations, in order to limit potential net losses by diversifying risks. Reinsurance premiums and claims received are recorded in the consolidated income statement and the balance sheet separately from the corresponding insurance contracts, since no reinsurance agreements relieve the Group from its direct liabilities to the policyholders.

Only the contracts which represent considerable transfer of a risk insured are recorded as reinsurance contracts. Contractual rights which do not represent transferring of a considerable part of a risk are recorded as financial instruments.

Reinsurance premiums paid are recorded as expenses applying the same principle that was applied to recording of contractual insurance premiums as revenue.

Reinsurer's assets

Amounts receivable under reinsurance contracts to cover any claims and the reinsurer's share of the technical reserve which are outstanding on the reporting date, are recorded in the balance sheet as reinsurer's assets.

The value of the reinsurer's assets is measured on every balance sheet date. Any impairment of reinsurance assets are recorded in the income statement.

Liabilities from reinsurance

Liabilities from reinsurance include amounts payable to reinsurers under reinsurance contracts.

Liabilities from reinsurance also comprise the reinsurance ratio of the acquisition costs, the calculation principles of which are set forth in subsection (g), and the reinsurer's share of the recoveries and salvages (see subsection (b) of Note 2.4).

(g) Deferred acquisition costs and the reinsurance share

Acquisition costs that are directly associated with the premiums carried forward to the subsequent reporting period are capitalised 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.

(h) Liabilities and adequacy of committed assets test

The adequacy of insurance liabilities is tested on the reporting date, using current estimates pertaining to future cash flows of the insurance contracts. If an estimate shows that the book value of insurance liabilities minus deferred acquisition costs and intangible assets is inadequate with respect to future cash flows, the entire deficit shall be recorded in the balance sheet as a change in deferred acquisition costs. A provision against outstanding risks is established to cover the difference.

The test conducted for 2014 indicated no deficit.

(i) Revenue

Insurance premium revenue

The principles of recording of insurance premium revenue are described in subsection (d).

Revenue from service and commission fees

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

Reinsurance commission fees revenue represents the commission fee receivable from a reinsurer under a reinsurance contract, including commission fees stemming from the participation of the reinsurer in the reinsurer's profit. Reinsurance contracts' commission fees are recorded by applying the same principles as those applied to the acquisition costs of insurance contracts (see subsection (g) of the accounting principles). The fee for participating in the profit of a reinsurer is recorded on the accrual basis.

Investment revenues

Investment revenues include revenues earned from financial investments.

Revenue from financial investments includes interest and dividend revenue, net 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 Group's right to receive the payment is established.

(j) Expenses

Claims incurred

The accounting principles applied for recording claims incurred have been described in subsection (e).

Claims handling expenses

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

Administrative expenses

Administrative expenses are expenses which are associated with collection of premiums, portfolio management and reinsurance. Administrative expenses also represent expenses which are borne in the interest of the undertaking as a whole, which are not taken into consideration when calculating the underwriting result, and which do not form a part of the investment costs These expenses include fees and compensations paid to auditors, experts, legal and tax consultants, supervisory fees, and membership fees paid to the Insurance Association.

Acquisition costs

Based on their nature, acquisition costs are divided into direct and indirect acquisition costs. Direct acquisition costs include costs which arise from the conclusion of insurance contracts, including commission fees to brokers and variable payroll expenses of the sales and insurance departments. Indirect acquisition costs are fixed costs, including fixed payroll expenses of the sales and insurance departments, advertising costs, business travel costs, amortisation of fixed assets, printing, transport and communication expenses, and other expenses to the extent that they are not a part of administrative expenses, loss (claims) handling costs or investment costs.

Acquisition costs are adjusted in the income statement by changes in the deferred acquisition costs of net reinsurance (g).

Financial expenses

Financial expenses represent payroll expenses associated with investment activities, commission fees to investment management companies, transaction expenses related to acquisition of financial assets, and other expenses associated with investment activities.

(k) Income tax

Pursuant to the applicable laws, Estonian companies are not subjected to pay income tax on the profit. Therefore, all temporary differences between the tax basis and carrying values of assets and liabilities cease to exist. Rather than being subjected to income tax on the profit, Estonian companies are subjected to income tax on the dividends paid from retained earnings. Corporate income tax on the payment of dividends is recorded under income tax expense in the income statement at the moment of announcing the dividends, irrespective of the period for which the dividends were announced or when the dividends are actually paid.

The maximum possible income tax liability related to dividend payment is disclosed in Note 25.

(l) Property, plant and equipment

An item of PPE is carried in the balance sheet at its cost, less accumulated depreciation and any accumulated impairment losses. Essential asset items which are used for the Group's own enterprise and have a useful life exceeding one year are recorded as fixed assets.

The acquisition cost of property, plant and equipment consists of the purchase price paid and other direct expenses and estimated subsequent expenditures that are required to keep the asset in a proper working order, or to replace its parts. In order to establish the depreciation rates of property, plant and equipment, the useful life of the essential parts of the asset item are assessed individually.

Depreciation of fixed assets is calculated on the acquisition cost based on the straight-line method, in accordance with the estimated useful life of the asset item. Calculation of depreciation starts from the month when the asset is taken into use. Calculation of depreciation is suspended when the item is either classified as "non-current assets held for sale" or derecognised.

Average useful lives by individual asset groups:

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

Land and works of art are not depreciated.

The depreciation periods assigned to PPE shall be reviewed in the case of circumstances that may significantly change the useful life of the non-current asset item or group. The effect of changes in evaluations is recorded during the reporting period and the subsequent periods.

Subsequent expenses associated with PPE are added to the book value of the assets when it is likely that this could generate economic benefits in the future. Other costs incurred with the aim of retaining the item's ability to generate profit are charged to the expenses of the period.

In the case of impairment of PPE, the item in question is discounted to its recoverable amount. If the value of the asset item has increased again, the expense generated by the impairment will be cancelled.

(m) Intangible assets

Deferred acquisition costs

The principles applied to calculating acquisition costs have been provided in subsection (g).

Other intangible assets

Other intangible assets are recorded at their acquisition cost, consisting of the purchase price and expenses directly related to the acquisition. Subsequent recognition depends on whether the asset has a definite or indefinite useful life.

Intangible assets with a definite useful life are recorded in the balance sheet at their acquisition cost, less accrued depreciation and any accumulated impairment losses.

Licenses and other contractual rights acquired for a cost, including computer software, are recorded in the balance sheet as intangible assets with a definite useful life.

Such assets are depreciated by applying the straight-line method during their estimated useful life, which is up to ten years, and the depreciation is based on the assumption that the final value of the asset is zero. Discounts are recorded in the income statement as expenses of the period, as a part of acquisition, administrative and claims handling expenses.

The depreciation periods assigned to intangible assets shall be reviewed in the case of circumstances that may significantly change the useful life of the non-current asset item or group. The effect of changes in evaluations is recorded during the reporting period and the subsequent periods.

In the case of impairment of intangible assets, the item in question is discounted to its recoverable amount. If the value of the asset item has increased again, the expense generated by the impairment will be cancelled.

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

The Group does not have any assets with an indefinite useful life.

(n) Grants

Grants related to operating expenses

Grants received to cover operating expenses are recognised in proportion with the related operating expenses. Government grants are accompanied by contingent obligations and therefore are recorded as prepaid income and are not recorded in revenue. The gross method is applied for recording income, i.e. the grant received and the expenses to be covered are recorded in different captions of the income statement. Income related to grants is recorded under "Other operating income" in the income statement.

(o) Accounting for 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.

(p) Financial instruments – initial recognition and subsequent measurement

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

Financial assets

Initial recognition and measurement

Financial assets are classified as follows, depending on the purpose of their acquisition:
- financial assets designated at fair value through profit and loss;
- financial assets held to maturity;
- loans and other receivables;
- available-for-sale financial assets;
- derivatives.

All financial assets are recognised initially at fair value plus, in the case of derivatives and 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.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in four categories:
- financial assets designated at fair value through profit and loss;
- financial assets held to maturity;
- loans and other receivables;
- available-for-sale financial assets.

Financial assets designated at fair value through profit and loss

Financial assets designated 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 income statement pertaining to the period of their emergence. Derivative transactions are recorded in the balance sheet at fair value; contracts with a positive value are reported as assets and those with a negative value as liabilities. Any gains and losses stemming from the change in derivative values are recorded in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These include loans, accounts receivable and term deposits. These assets are initially recognised at cost. Subsequent to initial recognition, the assets are 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 income statement.

Held-to-maturity investments

"Financial assets held to maturity" means financial assets with established or establishable payments and establishable maturities, if the Group intends and is capable of holding such assets until their maturity. These financial assets are initially recognised at cost, plus transaction costs directly related to the acquisition. Subsequent to initial recognition, financial assets intended to be held to maturity are designated at amortised cost on the basis of the effective interest rate method, less any accumulated impairment losses. Gains and losses from changes in value of assets are recorded in the income statement. The Group had no such assets in the reporting period.

Financial assets held for sale

Financial assets held for sale are financial assets classified as such, or financial assets which have not been categorised under other classes of financial assets. The Group had no such assets in the reporting period.

Derecognition of financial assets

The derecognition of financial assets will take place when the contractual rights on the cash flows from the investments expire, or when the investments, together with all material risks and rewards associated with the ownership, have been transferred.

(q) Fair value

Shares and investment fund units are designated at fair value beginning from the initial recognition. The price of the securities is based on the price that would be received to sell an asset 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 13.5.

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

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

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

(r) Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash and which include no significant risk of changes in value, including cash in hand and cash at bank, as well as demand deposits. The cash flow statement has been prepared based on the direct method.

(s) Impairment of asset value

The Company's management assesses the circumstances referring to the need to impair assets or any group of assets on each balance sheet date. If there are indicators that could refer to the reduction of the value of an individual asset item below its book value, a recoverable amount test is carried out. The recoverable amount of an asset item is equal to the higher of the fair value of the asset (less sales costs) or the value in use, calculated based on the discounted cash flows. If the test reveals that the recoverable amount of the asset item is lower than its carrying amount, the item will be written down to its recoverable amount. If the impairment test cannot be conducted on a single asset item, the recoverable amount will be determined for the smallest group of assets (money generating unit) where the asset item belongs. The amount of impairment is charged to the expenses of the period.

If the test conducted in order to ascertain the recoverable amount of the asset item, which has been previously written down, reveals that the recoverable amount is higher than the net book value, the previous write-down will be annulled, and the balance sheet value of the asset item increased. The upper limit is the net book value of the asset, considering normal depreciation.

(t) Receivables from insurance business and other receivables

Receivables from policyholders and other outstanding receivables are reported as receivables at the end of the period. The balance sheet reports the receivables at amortised cost, i.e. less doubtful and uncollectible receivables. The receivables are assessed on an individual basis. Doubtful receivables are charged to expenses.

(u) Liabilities from direct insurance business

Policyholders' prepayments and liabilities before brokers, outstanding on the reporting date, are reported as liabilities. Liabilities are reported at amortised cost.

(v) Provisions and contingent liabilities

The Company establishes provisions for liabilities, the time of realisation or amount of which cannot be reliably measured. The evaluation of the amount of the provision and estimation of the time of realisation is based on the estimates of the Management Board or experts in the relevant field.

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and the amount of obligation can be reliably determined.

Expenses incurred upon realisation of the provision are measured as of the balance sheet date, and the amount of the provision measured on each balance sheet date. If the provision is likely to be realised in a period longer than one year, the provision will be recognised at discounted net present value. The discount rate is established on the basis of the current market interest rate for similar liabilities.

Commitments which only have a lower than 50% probability of becoming liabilities, or the amount of which cannot be reliably determined, are disclosed as contingent liabilities. Contingent liabilities are accounted for off-balance sheet.

(x) Events after the balance sheet date

Material circumstances that have an effect on the valuation of assets and liabilities and became evident between the balance sheet date (31.12.2014) and the date of the signature of the financial statements, but are related to transactions that took place in the reporting period or earlier periods, are recorded in the financial statements.

There were no subsequent events that have not been taken into consideration when evaluating the assets and liabilities but have a material effect on the result of the next financial year and that should be disclosed in the financial statements.

2.3. Changes in accounting policies

New International Financial Reporting Standards (IFRS)(EU) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC)

As of the preparation of this Annual Report, new IFRS(EU) standards and their interpretations had been issued or revised, becoming mandatory for the Company starting from financial years beginning on or after 1 January 2014.

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

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

- IAS 27 *Separate Financial Statements (Amended)*
- IAS 28 *Investments in Associates and Joint Ventures (Amended)*
- IAS 32 *Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities*
- IAS 36 *Impairment of Assets (Amended) – Recoverable Amount Disclosures for Non-Financial Assets*
- IAS 39 *Financial Instruments (Amended): Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*
- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*
- IFRS 12 *Disclosures of Interests in Other Entities*
- IFRS 10, IFRS 12 and IAS 27 - *Investment Entities (Amended)*

The implementation of those amendments did not impact the financial position or results of the Group.

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

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

Amendments to IAS 1 *Presentation of financial statements: Disclosure Initiative* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 16 *Property, Plant & Equipment and IAS 38 Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendment provides additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue-based method is not considered to be an appropriate manifestation of consumption. The implementation of this amendment will have no impact on the financial statements of the Group, as the Group does not use revenue-based depreciation and amortisation methods.

Amendments to IAS 19 *Employee Benefits* (effective for financial years beginning on or after 1 February 2015)

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

Amendments to IAS 27 *Equity method in separate financial statements* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The Group has not yet evaluated the impact of the implementation of this standard.

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 01.01.2018, once endorsed by the EU). IFRS 9 will replace IAS 39 and will have effect on the classification and measurement framework for financial assets, impairment of financial assets and hedge accounting. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IFRS 10, IFRS 12 and IAS 28 - *Investment Entities: Applying the consolidation exception* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business and partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The Group has not yet evaluated the impact of the implementation of this standard.

IFRS 15 *Revenue from Contracts with Customers* (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The implementation of this standard will not have any impact on the Group.

Improvements to IFRSs

In December 2013 IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle, which is a collection of amendments to the following IFRSs (effective for financial years beginning on or after 1 January 2015):

- IFRS 1 *First-time adoption of IFRS;*
- IFRS 3 *Business Combinations;*
- IFRS 13 *Fair value Measurement;*
- IAS 40 *Investment property.*

In December 2013 IASB issued the Annual Improvements to IFRSs 2010 – 2012 Cycle (effective for financial years beginning on or after 1 February 2015):

- IFRS 2 *Share-based Payment;*
- IFRS 3 *Business Combinations;*
- IFRS 13 *Fair value Measurement;*
- IAS 16 *Property, Plant and Equipment;*
- IAS 24 *Related Party Disclosures;*
- IAS 38 *Intangible Assets.*

In September 2014 IASB issued the Annual Improvements to IFRSs 2012 – 2014 Cycle (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU):

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operation;*
- IFRS 7 *Financial Instruments: Disclosures;*
- IAS 19 *Employee Benefits;*
- IAS 34 *Interim Financial Reporting.*

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

IFRIC Interpretation 21 *Levies* (effective for financial years beginning on or after 17 June 2014)

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

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

2.4. Significant estimates and assumptions

The preparation of the consolidated financial statements in accordance with the 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:

(a) Assessment of liabilities deriving from insurance contracts

The Group assesses the amount of losses which have been incurred and reported, and incurred but not reported (IBNR) by the balance sheet date.

The estimation of the provisions for losses which have been incurred but are not yet reported is based on the historical experience where the actual incurred losses of the previous periods have been applied to estimate the future loss claim provisions. The estimates and the changes of the preceding period are reviewed on every reporting date, with the provisions being revaluated. The changes are reported in the income statement.

The IBNR provision is established on the basis of statistics involving the portfolio history, and the average 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 2013 and estimates in the gender-dependent mortality table calculated upon 2011 year population census. The estimates on the consumer price index are based on estimates until 2016 given by Eesti Pank. In later years the rise of consumer price index is estimated to be annually 2%. 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	10 725	3 464	1 108	1 410	16 705

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

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

As of the end of 2014, the technical reserve amounted to 16 705 thousand euros (2013: 11 956 thousand euros).

(b) Recoveries and salvages

Amounts estimated to be recovered from sale of salvage assets and subrogation is recorded as receivables from insurance activities, and shall be evaluated on every balance sheet date at fair value. Valuation of provisions is based on the historical experience, where the actual amounts received in the preceding periods provide the basis for assessment of any potential future recoveries. The changes are reported in the income statement.

Pursuant to the historical statistics of the portfolio, an average of 31% of the total receivables is estimated to be collected in the next seven years. As of the end of 2014, receivables amounted to 2 551 thousand euros. The management has estimated 865 thousand euros of these receivables to be recoverable (2013: 593 thousand euros).

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

thousand euros	**up to 1**	**1-5**	**5-10**	**Total**
Recoveries and salvages	287	442	136	865

Risk-free interest rate is used for discounting provision for recoveries and salvages.

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

(c) Assessment of financial assets

The fair value of financial assets traded on the active market is determined based on the closing prices of stock exchanges or the quotes of commercial banks on the balance sheet date.

Financial instruments without an active market are designated at their fair value on the basis of generally accepted valuation techniques, such as arms-length transactions. Term deposits are valuated based on the discounted cash flow method.

Valuation of financial assets has been described in detail in subsection (q) of Note 2.2.

As of the end of 2014, the value of financial assets designated at fair value amounted to 17 191 958 euros (2013: 15 896 949 euros).

(d) Subsidiaries

Subsidiaries are initially measured at cost in the unconsolidated balance sheet of the parent company. The subsidiary is then measured at fair value in the balance sheet on each balance sheet date. Fair value is established using the discounted future cash flows from the subsidiary and assessing net asset value. The principal assumptions applied in valuation future cash flows were the average cash flows on four previous years. Net asset value is the best assessment of the board. The discount rate applied to valuation of the fair value of a subsidiary was 12%.

3. Premiums earned, net of reinsurance

2014

in euros	Gross premiums	Changes in the provision for unearned premiums	Reinsurance premiums	Reinsurer's share of the change in provision for unearned premiums	Premiums earned, net of reinsurance
Motor third party liability insurance	5 533 729	21 480	-2 325 961	-8 592	3 220 656
Short-term health insurance	2 209 850	-24 906	-150 617	24 665	2 058 992
Motor vehicle insurance	3 861 886	-92 495	-1 582 341	52 962	2 240 012
Railway rolling stock and small craft	45 020	200	-35 240	-225	9 755
Insurance of goods in transit	52 560	-5 320	-44 496	5 138	7 882
Property insurance	4 158 194	-115 269	-815 464	32 646	3 260 107
Motor vehicle owner's liability	369 188	-22 280	-261 696	19 986	105 198
Liability insurance	222 323	-4 248	-177 858	3 399	43 616
Monetary damage	118 493	16 926	-22 707	-5 662	107 050
Total	**16 571 243**	**-225 912**	**-5 416 380**	**124 317**	**11 053 268**

2013

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

4. Service and commission fee revenue

in euros	Note	2014	2013
Reinsurer commission revenue	10	1 358 080	1 386 765
Reinsurer's profit sharing	10	2 690	2 465
Reinsurance share of changes in acquisition costs	10	-103 119	30 234
Other technical income, net of reinsurance		271	4 759
Total		**1 257 922**	**1 424 223**

5. Net investment revenue

in euros	2014	2013
Dividend revenue	9 413	10 986
Interest income from deposits	11 186	51 253
Other financial revenue, incl. interest revenue from loans granted	6 698	9 052
Trade portfolio revenue	241 950	484 572
Revenue from derivative instruments	2 829	-1 484
Total	**272 076**	**554 379**

6. Other income

in euros	2014	2013
Other income	175 405	92 363
Total	**175 405**	**92 363**

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

7. Claims incurred

in euros	Note	2014	2013
Claims paid, gross		-8 654 740	-8 533 472
Claims handling expenses	8	-976 791	-980 571
Amounts received from recoveries and salvage		630 382	607 764
Estimated amounts receivable for recoveries and salvage		271 228	-52 341
Total claims, gross		**-8 729 921**	**-8 958 620**
Change in the provision for claims outstanding		-4 523 514	218 892
Claims incurred, gross		**-13 253 435**	**-8 739 728**
Reinsurer’s share in claims	10	3 300 111	2 812 519
Reinsurer’s share of the change in the provision for claims outstanding	10	4 459 821	186 021
Reinsurer’s share in claims incurred		7 759 932	2 998 540
Total claims incurred		**-5 493 503**	**-5 741 188**

8. Operating expenses

in euros	Note	2014	2013
Claims handling expenses	**7**	**-976 791**	**-980 571**
Insurance contract acquisition expenses		-3 968 202	-3 717 002
Administrative expenses		-1 368 582	-1 494 411
incl. other expenses		*-117 905*	*-114 014*
Financial expenses		-131 062	-144 000
Total operating expenses		**-5 467 846**	**-5 355 413**
Total expenses		**-6 444 637**	**-6 335 984**

in euros	2014	2013
Payroll expenses	-3 005 774	-3 083 188
Brokers' commission fees	-1 225 233	-1 125 959
Outsourced services	-122 874	-208 826
Depreciation and impairment of PPE and intangible assets	-483 673	-417 957
Other operating expenses	-1 646 499	-1 502 947
Change in deferred acquisition costs	39 416	2 893
Total expenses	**-6 444 637**	**-6 335 984**

9. Tax on dividends paid

in euros	2014	2013
Tax on dividends paid	- 239 240	-345 569

10. Reinsurance result

in euros	Note	2014	2013
Reinsurance premiums	3	-5 416 380	-4 880 170
Reinsurer's share of the change in provision for unearned premiums	3	124 317	40 824
Reinsurer's share in claims paid	7	3 300 111	2 812 519
Reinsurer's share of the change in the provision for claims outstanding	7	4 459 821	186 021
Reinsurance commission fees and profit sharing	4	1 257 651	1 419 464
Total		**3 725 520**	**-421 342**

11. Property, plant and equipment

in euros	Land and buildings	Other PPE	Total
Acquisition cost			
31.12.2012	**1 508 408**	**649 482**	**2 157 890**
Acquisition	0	132 228	132 228
Disposal	0	-37 348	-37 348
Write-off	0	-4 975	-4 975
31.12.2013	**1 508 408**	**739 387**	**2 247 795**
Acquisition	0	451 848	451 848
Disposal	0	-247 575	-247 575
Write-off	0	-7 601	-7 601
31.12.2014	**1 508 408**	**936 059**	**2 444 467**
Accumulated depreciation			
31.12.2012	**-520 078**	**-401 962**	**-922 040**
Depreciation charge for the year	-55 984	-108 470	-164 454
Depreciation charge of disposals	0	34 256	34 256
Depreciation charge of write-offs	0	4 975	4 975
31.12.2013	**-576 062**	**-471 201**	**-1 047 263**
Depreciation charge for the year	-55 984	-128 997	-184 981
Depreciation charge of disposals	0	225 777	225 777
Depreciation charge of write-offs	0	7 601	7 601
31.12.2014	**-632 046**	**-366 820**	**-998 866**
Net book value			
31.12.2013	**932 346**	**268 186**	**1 200 532**
31.12.2014	**876 362**	**569 239**	**1 445 601**

Carrying amount of property fully amortised yet in use as at 31.12.2014 was 192 913 euros (2013: 135 240 euros). Value of land is not depreciated and is 108 842 euros.

12. Intangible assets / deferred acquisition costs

in euros	Other intangible assets	Prepayments for intangible assets	Total intangible assets
Acquisition cost			
31.12.2012	**2 233 071**	**42 928**	**2 275 999**
Acquisition	222 625	0	222 625
Reclassification	41 988	-41 988	0
31.12.2013	**2 497 684**	**940**	**2 498 624**
Acquisition	86 316	101 862	188 178
Reclassification	102 802	-102 802	0
Write-off	-220 437	0	-220 437
31.12.2014	**2 466 365**	**0**	**2 466 365**
Accumulated amortisation			
31.12.2012	**-560 830**	**0**	**-560 830**
Amortisation charge for the year	-253 503	0	-253 503
31.12.2013	**-814 333**	**0**	**-814 333**
Amortisation charge for the year	-298 694	0	-298 694
Depreciation charge of write-offs	220 437		220 437
31.12.2014	**-892 590**	**0**	**-892 590**
Net book value			
31.12.2013	**1 683 351**	**940**	**1 684 291**
31.12.2014	**1 573 775**	**0**	**1 573 775**

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 2014 include internally capitalised development costs amounting to 122 475 euros.

Carrying amount of intangible assets fully amortised yet in use as at 31.12.2014 was 71 930 euros (2013: 293 367 euros).

Deferred acquisition costs

in euros	
31.12.2012	**271 557**
Deferred	1 438 255
Amortised	-1 435 362
31.12.2013	**274 450**
Deferred	1 569 789
Amortised	-1 530 373
31.12.2014	**313 866**
Net book value	
31.12.2013	**274 450**
31.12.2014	**313 866**

13. Financial assets

in euros	Note	31.12.2014	31.12.2013
Financial assets designated at fair value through profit and loss			
Designated at fair value through profit and loss at inception			
Shares and equity funds	**13.1**	435 149	655 421
Bonds and other fixed income securities	**13.2**	16 574 547	12 422 595
Financial assets measured at amortised cost			
Loans and receivables			
Loans	**13.3**	101 889	134 830
Term deposits	**13.4**	80 373	2 684 103
Total		**17 191 958**	**15 896 949**

in euros	31.12.2014		31.12.2013	
	Fair value	**Acquisition cost**	**Fair value**	**Acquisition cost**
Financial assets measured at fair value through profit and loss				
Designated at fair value through profit and loss at inception				
Shares and equity funds	435 149	524 226	655 421	682 424
Bonds and other fixed income securities	16 574 547	16 485 210	12 422 595	12 446 714
Financial assets measured at amortised cost				
Loans	101 889	203 731	134 830	223 178
Term deposits	80 373	80 000	2 684 103	2 675 000
Total	**17 191 958**	**17 293 167**	**15 896 949**	**16 027 316**

13.1. Shares and equity funds

in euros	**31.12.2014**	**31.12.2013**
Shares	403 962	633 041
Equity funds	31 187	22 380
Total	**435 149**	**655 421**

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

in euros	**31.12.2014**	**31.12.2013**
EUR	286 496	259 553
USD	125 211	310 763
GBP	23 442	23 835
LTL	0	61 270
Total	**435 149**	**655 421**

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

Change in share and equity fund prices

thousand euros	**31.12.2014**	**31.12.2013**
Share prices +10%	44	66
Share prices +20%	87	131
Share prices –10%	-44	-66
Share prices –20%	-87	-131

13.2. Bonds

	31.12.2014	31.12.2013
in euros	**At fair value**	**At fair value**
Bonds with a fixed interest rate		
Government and government owned institutions bonds	1 994 176	7 601 167
Bonds of financial institutions	1 044 136	1 299 791
Other bonds	5 124 033	3 513 293
Total	**8 162 345**	**12 417 251**
Bonds with a floating interest rate		
Government and government owned institutions bonds	643	0
Bonds of financial institutions	6 686 104	0
Other bonds	1 725 455	5 344
Total	**8 412 202**	**5 344**
Total bonds	**16 574 547**	**12 422 595**

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

Standard & Poor's	Moody's	31.12.2014	31.12.2013
AA	Aa	801 944	0
A	A	2 991 159	2 767 273
BBB	Baa	3 292 713	6 124 213
BB	Ba	3 810 236	1 020 596
B	B	0	813 119
CCC	Ca	0	1 106
N/A		5 678 495	1 696 288
Total		**16 574 547**	**12 422 595**

By individual currencies, bonds are divided as follows:

in euros	31.12.2014	31.12.2013
EUR	15 380 806	11 645 961
NOK	1 013 849	617 191
USD	179 892	159 443
Total	**16 574 547**	**12 422 595**

The bond portfolio is divided by maturity terms as follows:

in euros	31.12.2014	31.12.2013
Up to 6 months	0	7 764 235
1-3 years	2 489 263	1 073 753
Over 3 years	14 085 284	3 584 607
Total	**16 574 547**	**12 422 595**

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

in euros	**31.12.2014**	**31.12.2013**
Interest rate: 0.0-2.9%	9 701 150	1 559 967
Interest rate: 4.0-4.9%	1 793 132	5 234 223
Interest rate: 5.0-5.9%	2 289 657	2 809 638
Interest rate: 6.0-6.9%	1 746 472	856 738
Interest rate: 9.0-9.9%	1 044 136	1 962 029
Kokku	**16 574 547**	**12 422 595**

Fixed interest rate financial investments measured at fair value through profit and loss are exposed to potential interest rate risk. An overview of the potential effect has been provided in the below table. We have made the assumption that rates can be reduced to zero, and the redemption any lower is unlikely and/or we will exit the positions as the value creating process will stop.

Change in interest rate

thousand euros	**31.12.2014**	**31.12.2013**
Change in yield curve +50 base points	-108	-52
Change in yield curve -50 base points	+113	+53
Change in yield curve +100 base points	-216	-104
Change in yield curve -100 base points	+227	+101
Change in yield curve +200 base points	-429	-204
Change in yield curve -200 base points	+404	+184

13.3. Loans

in euros	**31.12.2014**	**31.12.2013**
Mortgage loans		
Loans to related parties with a term of up to 3 months	0	34 353
Loans to related parties with a term 3-12 months	29 000	29 000
Other mortgage loans with a term of 3-12 months	38 984	48 830
Total	**67 984**	**112 183**
Other loans		
Loans with a term of up to 3 months	0	461
Loans with a term of 3-12 months	9 057	0
Loans with a term of 1-3 years	14 868	4 982
Loans with a term of over 3 years	9 980	17 204
Total	**33 905**	**22 647**
Total loans	**101 889**	**134 830**

The annual interest rates for loans granted fall between 4,5% and 8,5%. Internal interest rates do not differ significantly from contractual interests. The result of the impact from the difference is inconsequential. The Management Board has evaluated that the collaterals are sufficient to fulfill the obligations from the mortgage loans.

13.4. Term deposits

Term deposits with credit institutions, by terms:

in euros	31.12.2014	31.12.2013
Up to 3 months	40 125	0
Term of 3-12 months	40 248	2 684 103
Total	**80 373**	**2 684 103**

The annual interest rates for term deposits fall between 1% and 2 %.
Deposits are held in euros.

13.5. Evaluation of financial instruments under IFRS 13 levels

in euros

31.12.2014	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Shares and equity funds	435 149	0	0	435 149
Bonds and other fixed income securities	16 574 547	0	0	16 574 547
Term deposits	0	80 373	0	80 373
Loans	0	0	101 889	101 889
Receivables from insurance activities	0	0	1 310 832	1 310 832
Liabilities measured at fair value				
Liabilities from direct insurance activities and reinsurance and deferred liabilities	0	0	1 602 341	1 602 341

in euros

31.12.2013	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Shares and equity funds	655 421	0	0	655 421
Bonds and other fixed income securities	12 417 251	0	5 344	12 422 595
Term deposits	0	2 684 103	0	2 684 103
Loans	0	0	134 830	134 830
Receivables from insurance activities	0	0	961 443	961 443
Liabilities measured at fair value				
Liabilities from direct insurance activities and reinsurance and deferred liabilities	0	0	1 499 194	1 499 194

Profit from revaluation of financial assets amounting to 263 thousand euros is recognized in investment income.
There were no changes in valuation policy.

14. Receivables under reinsurance contracts

in euros	Note	31.12.2014	31.12.2013
Receivables from reinsurance		48 711	508 190
Reinsurer's share in provision for unearned premium	**20**	1 308 840	1 184 523
Reinsurer's share in provision for claims outstanding	**20**	8 818 305	4 358 484
Total		**10 175 856**	**6 051 197**

All receivables from reinsurance are due within 12 months.

15. Receivables from insurance activities and other receivables

in euros	31.12.2014	31.12.2013
Policyholders	177 617	181 119
Insurance brokers	268 508	186 540
Recoveries and salvages	864 707	593 479
Prepaid taxes	0	305
Other accrued income	13 479	4 911
Other prepaid expenses	87 614	89 472
incl. Financial Supervision Authority's operation and maintenance costs	53 437	52 438
Total	**1 411 925**	**1 055 826**

Term of the receivables:

in euros	31.12.2014	31.12.2013
- not due yet	1 220 985	881 450
- due for up to 3 months	159 400	157 431
- due for 3-6 months	13 932	10 591
- due for 6-12 months	17 608	6 354
Total	**1 411 925**	**1 055 826**

16. Cash and cash equivalents

in euros	31.12.2014	31.12.2013
Cash in hand	4 965	5 504
Cash at bank	2 090 443	2 545 037
Total	**2 095 408**	**2 550 541**

Cash and cash equivalents by individual currencies:

in euros	31.12.2014	31.12.2013
EUR	1 753 831	2 517 082
USD	291 013	19 702
NOK	50 564	13 757
Total	**2 095 408**	**2 550 541**

17. Shareholder's equity and required solvency margin

The Insurance Activities Act lays down the requirements established for non-life insurance undertakings with respect to shareholders' equity and the solvency margin. To ensure that an insurance undertaking is capable of meeting the obligations arising from insurance contracts, the insurance undertaking shall have an adequate available solvency margin, which shall be at least equal to the requirements and conform to the structure provided in the Insurance Activities Act. The insurance undertaking follows the capital management principle according to which the total amount of the assets of an insurance undertaking shall not, at any time, be less than the minimum solvency margin or the established consolidated solvency margin.

in euros	31.12.2014	31.12.2013
Shareholder's equity	14 744 975	14 086 893
Available solvency margin	12 271 200	11 502 602
Calculated solvency margin	1 669 020	1 669 020
Surplus of solvency margin	10 602 180	9 833 582

The minimum solvency margin of an insurance undertaking has been established at 3.5 million euros. The Group and regulated entities within it have met all of these requirements throughout the financial year.

The capital management principles are described in Note 18.

Share capital

As of 31.12.2014, the registered share capital of the Group amounted to 3 200 000 euros (2012: 3 200 000 euros), divided into 1 000 000 shares (2013: 1 000 000) with a nominal value of 3.2 euros. 55% of the Group's shares are held by Estonian private persons. Each share grants its holder the right to receive dividends if dividends are declared, as well as one vote at the general meeting of the shareholders. No transactions involving the shares of the Company were carried out in the reporting period.

Dividends

In 2014, a total of 900 000 euros was paid in dividends, i.e. 0,90 euros per share (2013: 1 300 000 euros i.e. 1.30 euros per share).

The management board has proposed to the general meeting of the shareholders to pay 900 000 euros in dividends, i.e. 0.9 euros per share, in 2015.

Reserve capital

The insurance company establishes the mandatory reserve capital in accordance with the requirements of the Commercial Code, and under the stipulations of the Articles of Association. Reserve capital is a mandatory reserve, prescribed by the Commercial Code, which can be used for covering the loss, if loss cannot be covered from the available shareholder's equity. Mandatory reserve can also be used for increasing the share capital of the company. The minimum amount of the reserve capital is 10% of the share capital. The reserve capital is made up of profit allocations and cannot be distributed to shareholders.

The reserve capital includes the mandatory reserve of Salva Kindlustuse AS (pursuant to subsection 336 (2) of the Commercial Code) in the amount of 319 558 euros, and the mandatory reserve of Salva Kahjukäsitluse OÜ (pursuant to subsection 160 (2) of the Commercial Code) in the amount of 1 278 euros.

Other reserves

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

18. Risk policy and risk management of Salva Kindlustuse AS

Inasmuch as the daily business of the Group entails taking of various risks, the management of these risks also forms a significant part of the Group's activity. The structure of the internal audit and risk management organisation covers various levels of the Group.

The availability of resources and approval of the strategy is ensured at the supervisory board level.

Their actual implementation is handled at the management board level. The management board distributes responsibilities, rights and obligations, and defines the strategic objectives.

Operation and financial risk management committees have been established to assess the risk on a systematic basis; these committees handle most of the risk identification, analyses, disclosure and management processes. The risk committee meets when there are changes in outside environment or inside the company. The committee is charged with the task of generating transparency of the entire risk situation, as well as identifying the areas requiring special attention.

In addition, the Group has engaged an organisation responsible for internal auditing; this organisation provides an 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.

While separate units are formed to manage operational and financial risks, the management of the insurance risk - the Company's main activity - involves the best efforts of the entire organisation.

For the purpose of securing liabilities arising from non-life insurance contracts, it is essential to select assets which, by their durability and value at maturity date, match the estimated cash flows from damage arising from the portfolio. This allows to hedge risks in the most natural way. A reference base is provided by the money and capital market.

Insurance risk management

Risk management principles and insurance risk management policy

The Group's insurance activities presume a risk of a loss event occurring to a person or company directly associated with an insurance contract.

Such risk may be related to the person's property, liability, health, financial or other losses, deriving from an insured event. The Group as such is not fully protected against time-related uncertainties and gravity of losses stemming from insurance contracts. Moreover, we are also open to market risks arising from insurance and investment activities. Bearing risks is the main activity of an insurance company.

Insurance risk management is carried out on a daily basis, relying on various sources: information provided by the market, information contained in the existing sales system, actuarial knowledge/models, as well as know-how and processes used by the insurance departments. Insurance risk is hedged and managed by applying the underwriting limitations, procedures and limits for co-ordination of the activities, as well as pricing guidelines and reinsurance.

The Group applies various methods for assessing and monitoring the occurrence of insurance risks both at the single risk level and the general level. These methods involve internal risk measuring models and sensitivity analyses.

The main risk stems from the fact that the actual frequency and gravity of losses can be higher than expected. Moreover, any insured event is accidental by its nature, and in any year the actual number of events and their dimensions can differ from the estimates calculated by applying statistical methods.

Underwriting strategy

The objective of the underwriting strategy is to achieve portfolio diversity in order to ensure portfolio balance in such a way as to provide the Group with sufficient resources for covering the risk in case of realisation of the insurance risks of the Group's customers. We believe that a large portfolio of similar risks ensures better predictability of the results, and that versatility of the various types of insurance risks allows us to create a balanced portfolio.

Implementation of the strategy is carried out on a current basis through the pricing policy and the participation of underwriters. "Participation of underwriters" means than any risks exceeding the signatory rights of the sales staff must always be fixed with a decision of the underwriter in a format which can be reproduced in writing. Database inquiries are made in order to identify extraordinary risks. In the course of these inquiries, the risks diverging from the average within the portfolio are analysed. The foundation of the management of insurance risks lays in the improvement of the risk awareness of all staff members, as well as creation of a control environment.

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

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

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

Reinsurance strategy

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

Reinsurance risk

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

Property insurance

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

Property insurance risk management. The main risks associated with property insurance include acquisition risk, competition risk, risk of insufficient experience in the claims segment, and risk of fraud. Acquisition risk involves the Company's failure to collect sufficient insurance premiums for different property items insured. Risk associated with any policy differs by various features, like the location of the object, the applied safety measures, the field of activity insured, the age of the property, etc.

In the property insurance segment, risks are managed primarily through balanced pricing and risk selection. In order to maintain acceptability of risks, stringent acquisition rules are applied.

Motor vehicle insurance

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

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

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

Motor third party liability insurance

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

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

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

Concentration risk involved in the insurance activity

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

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

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

31.12.2014

Type of insurance *in thousand euros*	**Gross liabilities related to insurance contracts**	**Reinsurer's share of liabilities**	**Net liabilities**
Motor third party liability insurance	12 148	8 564	3 584
Motor vehicle insurance	1 453	604	849
Short-term health insurance	379	36	343
Household property insurance	946	22	925
Corporate property insurance	1 235	508	727
Monetary Damage	71	9	61
Liability insurance	250	200	50
Other	223	184	39
Total	**16 705**	**10 127**	**6 578**

31.12.2013

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

Sensitivity analysis

The table describes some of the premises that characterise the potential effect of risk parameter changes on the Group's performance and equity.

31.12.2014

Factors *in thousand euros*	**Value**	**Potential change**	**Effect on equity, thousands of euros**	**Effect on equity, %**
Net claims incurred	5 494	+5%	-275	-1,87
High net loss of motor third party liability insurance			-250	-1,69
High net loss of property insurance			-450	-3,05
Operating expenses	5 468	+5%	-273	-1,85

31.12.2013

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

Financial risk management

Insurance activities and investment activities may involve financial risks. Financial risk management in the Group is based on hedging the risks in a natural way, rather than by way of structured financial instruments. Financial risks are managed on the basis of the substitute portfolio method. The substitute portfolio is made up of incoming and outgoing cash flows associated with insurance activities. Cash flows cause financial risks, mainly due to the time difference between the insured event and claim payment, or currency difference. Financial risks may include market risk, credit risk (including claims against reinsurers) and liquidity risk. As regards volume, the biggest risk is the interest risk deriving from the time difference between the insured event and 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. Due to the randomness of the cash flows associated with insurance activities, we consider liquidity risk to be a material financial risk. Concentration of the financial risks is disclosed in subsection note 13 (investments by currency).

Market risk

Market risk stems from the placement of the Group's assets in financial instruments which are sensitive to market risk with respect to the substitute portfolio. A market risk can be described as a risk of the fair value of the financial instrument changing, above all, due to changes in interest rates, price of securities or currency exchange rate with respect to the substitute portfolio which has been created on the basis of the comparative base of cash flows which serve as the basis for the liabilities.

A policy defining the approved investments and investment-making (i.e. management) has been established in order to manage the market risks. This policy governs the selection of various asset classes and the method of their acquisition (including the terms and conditions for the transactions).

The above asset distribution policy or strategic asset distribution hedges the financial risk associated with the liabilities deriving from insurance activities, rather than increasing the risk. The asset distribution focuses, in the extent of the liabilities arising from insurance activities, on fixed-income and highly liquid debt instruments or instruments containing such debt instruments. Bonds and bank deposits are the most popular among such instruments.

We use asset-liability matching tests (LArM-tests), stress tests and other tests in order to determine the extreme risks and prepare the most suitable strategic distribution of assets. The structure of the assets and investing activities comply with the principles of correlation between liabilities and assets, and the adequacy of the risk reserve. The Company actively manages the portfolio, and continually monitors the situation and trends on the money and capital markets.

Credit risk

The credit risk impacting the assets of the Company derives from the counterparty's inability to comply with its contractual obligations. These assets may, for instance, include bonds and loans or claims. Receivables with the highest risk include claims related to insurance activities, such as receivables from reinsurers and insurance brokers. Compliance of the receivables with the contract is monitored on a daily basis. The credit risk related to the Group's financial investments is sufficiently diversified between the various counterparties. The loans granted have been secured, except for loans granted to the Company's own employees.

The below table provides an overview of the maximum exposure of the balance sheet lines and future liabilities to different financial risks:

in euros	Principal financial risk		31.12.2014	31.12.2013
Financial assets measured at fair value through profit and loss				
Shares and equity funds	Market risk, liquidity risk	**13.1**	435 149	655 421
Bonds	Market risk, liquidity risk, interest risk (fixed), credit risk	**13.2**	16 574 547	12 422 595
Financial assets at amortized cost				
Loans and term deposits	Credit risk	**13.3,13.4**	182 262	2 818 933
Receivables under reinsurance contracts	Credit risk	**14**	10 175 856	6 051 197
Receivables from insurance activities and other receivables	Credit risk	**15**	1 411 925	1 055 826
Cash and cash equivalents	Credit risk	**16**	2 095 408	2 550 541
Total exposure to financial risk			**30 875 147**	**25 554 513**

Receivables under reinsurance contracts do not include the reinsurance share of the provision for unearned premiums, as this does not form a part of financial assets.

Concentration risk

Concentration risk means greater risk of loss related to an inadequately distributed 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 as at 31.12.2014:

in euros	Deposits	Shares	Bonds
Nordea Bank	80 373	0	1 905 411
Nokia Co	0	0	1 417 621
Neste Oil OYJ	0	0	1 102 012
Kemira UYJ	0	0	1 031 034
Tallink Group	0	81 337	1 013 849
Total	**80 373**	**81 337**	**6 469 927**

Currency risk

Currency risk involves the possibility of foreign exchange losses.

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

Interest risk

Interest risks are borne by short and long-term financial assets and liabilities sensitive to changes in interest rates. To hedge the interest risk, the Company monitors the duration of the positions exposed to the interest risk in the investment portfolio. Replication of the weighted average duration between the liabilities and assets has a material effect on the exposure to interest risk. The difference between the weighted average duration of liabilities arising from insurance activities, and the weighted average duration of the volume of assets exposed to interest risk is an important indicator of the sensitivity of the value change.

Liquidity risk

The company experiences a daily need for financial resources in order to indemnify for losses. The assets of the Group have been placed with an extremely high degree of conservatism as regards the liquidity risk. Nearly 80% of the Group's financial assets can be realised within seven days, without considerably losing the current value of the position. Considering that reinsurers are obliged to compensate their share of loss within 14 days, and that the average time spent on claims handling and reserve payment falls between 20 and 40 days, the management believes that the liquidity risk has been sufficiently managed by the Company.

Operational risk

Daily activities, such as provision of services to policyholders, conclusion and drafting of agreements, management of the organisation, administration of user rights, etc. involve various risks that can be referred to as operational risks. Data pertaining to conclusion of significant transactions are stored in databases. This process is enabled by business-supporting technology. Operational risk can thus stem from human errors or fraud, but also from registration or monitoring errors associated with transactions and positions, conditioned by system reliability. Operational risk may also stem from inadequately composed data system or internal inspection that may result in unpredictable losses. Such risks originate from within the Company, and can be directly controlled by the management.

Strategic operational risk is a risk associated with dramatic policy changes, the changing needs of the members of society, legislative changes or changes in government policy, taxation, etc. A strategic operational risk originates from outside the Company. Being directly caused by external circumstances, the risk cannot be directly controlled by the Company.

The principal objective of the management of operational risks within the Group is the prevention of risks. We base risk prevention on the proactive behavior on behalf of both management and staff. We have launched internal training to enhance our understanding of the operational risks. Evaluation and measurement of operational risk is of secondary importance. Evaluation and measurement of operational risks help create the relevant attitudes, which form the basis for a strong risk management culture within an organisation.

Once a year, an operational risk assessment is performed, involving all key employees. Yet assessment is only one part of the management. The main emphasis is placed on disclosure and consistent exchange of information, and the processes supporting the same — with the aim of generating a strong risk management culture from top to bottom. In addition, training courses and training days are organised on an annual basis for the key staff of the risk-bearing divisions. The training involves analysis of different cases and their causes. The instruction or mentoring process is designed to communicate the know-how and skills to the staff. Minutes are taken of the discussions and valuations, and made available to all key employees, thus creating a control environment as well as a strong organisational culture which is based on executing the decisions passed.

The process is carried out at least once a year, drawing conclusions of the past and setting goals for the future. Operational risk management is not a separate process — it is a part of strategic management within the context of long-term planning. These issues are handled more frequently, if the environment so requires.

Goals, strategy and processes of capital management

The Company proceeds from the following goals, strategies and processes in order to manage risks which affect the Company's capital position.

The purpose of capital management is to manage capital in such a way as to guarantee the Company's sustainability and stability by simultaneously ensuring protection of the interests of policyholders, creditors and shareholders. Capital management within the Group involves the simultaneous management of assets, liabilities and risks, and regular monitoring of the adherence to capital requirements in order to be financially strong and ensure sufficient liquidity.

Further to the area of activity, the Group's operations are subject to supervision. Insurance supervision mainly serves the purpose of protecting the rights of policyholders, and ensuring that the Group is managed in view of the interests of policyholders. At the same time, insurance supervision makes sure that the Group maintains sufficient solvency in order to serve unforeseen liabilities arising from financial shocks or natural disasters.

The requirements for the insurance undertaking's solvency margin are stipulated in the Insurance Activities Act. Pursuant to subsection 71 (3) of the Insurance Activities Act, the solvency margin minimum shall be 3.5 million euros. The Group's solvency margin was 12,2 million euros at the end of 2014, in line with the rules for accounting for the solvency margin, stipulated in the Insurance Activities Act. The minimum consolidated solvency margin is 1,7 million euros.

19. Development of claims

The table representing formation of losses has been prepared with the intent of placing the gross outstanding claims reserves into a context that would allow comparing the formation of losses with historical data. As a result, this table represents the Company's ability to assess the aggregated value of losses, and estimate whether or not the historical reserves have been sufficient. The table discloses the estimates of cumulative incurred claims for the last ten years (including provisions for reported claims and incurred but not reported claims together with cumulative payments to date net of recoveries and salvages) as at the end of the first year after the inception of the policy, which have been compared to the estimates as at the end of subsequent years.

in thousand euros	First year of validity												
Cumulative estimate of losses	**Before 2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
As at 31December starting from the validity of the policy		10 066	14 385	16 754	14 364	11 762	10 321	11 155	7 572	9 239	10 577		
2 year later		9 844	13 755	16 358	14 015	11 603	10 055	10 749	7 550	9 281			
3 years...		9 591	13 446	16 225	13 794	11 453	9 963	10 370	11 667				
4 years...		9 611	13 399	16 147	13 590	11 306	9 557	10 242					
5 years...		9 535	13 311	15 742	13 312	11 160	9 544						
6 years...		9 524	13 199	15 763	13 199	11 096							
7 years...		9 475	13 184	15 759	13 196								
8 years...		9 471	13 152	15 819									
9 years...		9 419	13 156										
10 years...		9 413											
Cumulative estimate of claims		9 413	13 156	15 819	13 196	11 096	9 544	10 242	11 667	9 281	10 577		
the adequacy of estimate made 1 year after the end of validity of the policy as at 31.12.2014		107%	109%	106%	109%	106%	108%	109%	65%	100%			
Total disburse-ments as at 31.12.2014		9 329	13 075	14 631	12 957	10 859	9 357	9 840	9 213	8 487	8 541	3 924	
Provision for outstanding claims as at 31.12.2014	483	84	81	1188	239	237	187	402	4869	794	2036	2280	12 789

In the management's opinion, the amounts of technical reserves reported in the financial statements prepared as of the end of 2014 are accurate and sufficient for covering any future liabilities arising from the insurance portfolio. Technical reserves have been calculated on the basis of the information available as of the reporting date on the risks involved in the insurance portfolio, and comply with the generally accepted actuarial principles, and internal guidelines of the Company.

20. Liabilities related to insurance contracts and reinsurance share

in euros	31.12.2014	31.12.2013
Gross		
Provision for losses incurred in the previous periods	7 180 111	2 261 183
Provision for losses incurred in the reporting period	2 387 158	3 208 077
Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR)	152 053	15 959
Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR)	527 593	412 819
Provision for annuity under motor third party liability insurance incurred in the previous periods	2 510 564	2 367 802
Provision for annuity under motor third party liability insurance incurred in the reporting period	31 875	0
Provision for unearned premiums	3 916 028	3 690 116
Total	**16 705 382**	**11 955 956**
Reinsurer's share		
Provision for losses incurred in the previous periods	5 935 118	1 384 945
Provision for losses incurred in the reporting period	831 531	1 402 771
Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR)	150 607	5 050
Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR)	347 434	137 266
Provision for pension under motor third party liability insurance incurred in the previous periods	1 540 865	1 428 452
Provision for pension under motor third party liability insurance incurred in the reporting period	12 750	0
Provision for unearned premiums	1 308 840	1 184 523
Total	**10 127 145**	**5 543 007**
Net		
Provision for losses incurred in the previous periods	1 244 993	876 238
Provision for losses incurred in the reporting period	1 555 627	1 805 306
Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR)	1 446	10 909
Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR)	180 159	275 553
Provision for pension under motor third party liability insurance incurred in the previous periods	969 699	939 350
Provision for pension under motor third party liability insurance incurred in the reporting period	19 125	0
Provision for unearned premiums	2 607 188	2 505 593
Total	**6 578 237**	**6 412 949**

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	2014		
	Liabilities under insurance contracts	**Reinsurer's share**	**Net**
Balance 01.01.2014	**3 690 116**	**1 184 523**	**2 505 593**
Premiums written in the year	16 571 243	5 416 380	11 154 863
Premiums earned during the year	-16 345 331	-5 292 063	-11 053 268
Balance 31.12.2014	**3 916 028**	**1 308 840**	**2 607 188**

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

20.2. Provision for losses incurred

in euros	2014		
	Liabilities under insurance contracts	**Reinsurer's share**	**Net**
Balance 01.01.2014	**8 265 840**	**4 358 484**	**3 907 356**
Claims paid during the year that incurred in prior accident years	-2 598 925	-1 384 823	-1 214 102
Claims paid during the year that incurred in the current accident year	-6 696 265	-2 020 467	-4 675 798
Adjustment to claims incurred in prior accident years	4 175 813	4 652 929	-477 116
Losses incurred during the year	9 642 891	3 212 182	6 430 709
Balance 31.12.2014	**12 789 354**	**8 818 305**	**3 971 049**

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

21. Liabilities under reinsurance

in euros	31.12.2014	31.12.2013
Payables to reinsurers	448 078	601 729
Reinsurer's share in recoveries and salvage	408 385	303 206
Reinsurer's share of the deferred acquisition costs	266 652	163 533
Total	**1 123 115**	**1 068 468**

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

22. Liabilities from direct insurance activities

in euros	31.12.2014	31.12.2013
Policyholder prepayments	273 378	280 968
Payables to insurance brokers	123 438	64 937
Other liabilities	13 322	11 610
Total	**410 138**	**357 515**

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

23. Accrued expenses and other prepaid revenue

in euros	31.12.2014	31.12.2013
Payables to employees	331 057	326 707
Vacation accrual	70 747	80 672
Value added tax	33 415	34 437
Personal income tax	56 905	60 636
Social tax	116 918	119 210
Unemployment insurance	8 286	9 520
Funded pension liability	5 675	5 910
Corporate income tax	6 721	5 024
Accounts payable	69 088	73 211
Prepaid rent	0	831
Prepaid income	525 967	525 967
Total	**1 224 779**	**1 242 125**

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 not to recognize them as revenue until it is clear that all terms and conditions for retaining are fulfilled.

24. Operating lease

Assets used under operating lease

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

in euros	**2014**	**2013**
Passenger car rental payments	10 456	10 736
Office space rental payments	209 125	202 001

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

in euros	
up to 1 year	32 688
1-5 years	77 940

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	**2014**	**2013**
Office space rental revenue	49 218	54 118

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

in euros	
up to 1 year	55 455
1-5 years	53 930

25. Provisions and contingent liabilities

Income tax

As of 31.12.2014, the company's retained earnings amounted to 11 079 781 euros (last year: 10 436 172 euros) and net book value of intangible assets amounted to 1 887 641 euros (last year: 1 958 741). The maximum possible income tax liability related to the payment of the company's retained earnings as dividends is 1 838 428 euros (last year: 1 780 261 euros). The company can thus pay a total of 7 353 712 euros in net dividends (last year 6 697 170 euros). The maximum possible income tax liability has been calculated based on the assumption that the net dividends to be paid, and the related total income tax expenses to be recorded in the income statement of 2015 would not exceed the distributable profit as of 31.12.2014.

Other

Claims of action in the amount of 149 764 euros have been submitted against Salva Kindlustuse AS in connection with insurance losses. The management board estimates approximately 75 000 euros of these claims to be satisfied, with the corresponding amount charged to the outstanding claims reserve.

26. Related party transactions

Related party

Related parties are considered:

- the Company's shareholders:
  - Tiit Pahapill 45%
  - ING Luxembourg S.A. AIF Account 45%
  - Private individuals 10%
- other companies belonging to the same consolidation group
- the Company's management board and supervisory board members

Transactions with members of the management board and supervisory board

In 2014, insurance contracts with aggregate premiums of 6 246 euros were concluded with members of the management board and claims paid amounted to 6 277 euros. The wages of the members of the management board amounted to 382 thousand euros and the remuneration paid to members of the supervisory board to 31 thousand euros. Remuneration of the members of the board is based on the basic salary. The members of the board are entitled to performance fee that does not exceed one-third of basic salary and will directly depend on the size of consolidated profit. The members of the management board and supervisory board are not entitled to any severance compensation.

Other related party transactions

As of 31.12.2014, the balance of loans granted to own employees and related parties amounted to 67 984 euros. (31.12.2013: 112 183)

Transactions between the Group companies, including subsidiaries, have been eliminated from the consolidated financial statements.

According to the management of the Company, the prices used for related party transactions do not significantly differ from the market prices.

27. Subsidiaries

in euros	**Salva Kahjukäsitluse OÜ**	**Business Information Systems OÜ**
Field of activity	Adjustment of loss events, vehicle leasing and repairs, real estate management	Research and development in the field of other natural and technical sciences
Founded:	September 1997	March 2009
Participation %	100	49
Share capital	2 556	2 800
Acquisition cost	2 556	2 800

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

Comprehensive income statement of Salva Kindlustuse AS

in euros	2014	2013
REVENUE		
Gross premiums	16 592 834	15 550 052
Reinsurance premiums	-5 416 380	-4 880 170
Changes in the provision for unearned premiums	-225 912	21 811
Reinsurer's share of the change in provision for unearned premiums	124 317	40 824
Premiums earned, net of reinsurance	**11 074 859**	**10 732 517**
Service and commission fee revenue	1 257 922	1 424 223
Net investment revenue	-61 636	-534 975
Other income	20 693	17 985
Total revenue	**12 291 838**	**11 639 750**
EXPENSES		
Claims incurred	-13 547 476	-9 060 989
Reinsurer's share in claims incurred	7 759 932	2 998 540
Claims incurred, net of reinsurance	**-5 787 544**	**-6 062 449**
Acquisition costs	-3 980 586	-3 727 807
Administrative expenses	-1 371 112	-1 512 199
Financial expenses	-115 860	-132 821
Total operating expenses	**-5 467 558**	**-5 372 827**
Profit/loss before income tax	**1 036 736**	**204 474**
Income tax	-154 177	-260 506
Profit/loss for the financial year	**882 559**	**-56 032**
Comprehensive profit/loss for the financial year	**882 559**	**-56 032**

Statement of financial position of Salva Kindlustuse AS

in euros	**31.12.2014**	**31.12.2013**
ASSETS		
Property, plant and equipment	92 560	69 955
Intangible assets/Deferred acquisition costs	2 111 312	2 157 271
Subsidiaries	5 260 387	5 849 879
Financial investments	15 058 386	13 819 603
Receivables under reinsurance contracts	10 175 856	6 051 197
Receivables from insurance activities and other receivables	1 385 771	1 033 889
Cash and cash equivalents	1 506 727	1 805 884
TOTAL ASSETS	**35 590 999**	**30 787 678**

LIABILITIES AND OWNER'S EQUITY		
Share capital	3 200 000	3 200 000
Reserve capital	319 558	319 558
Other reserves	64 428	64 428
Retained earnings	12 016 094	12 972 126
Profit for the financial year	882 559	-56 032
Total owner's equity	**16 482 639**	**16 500 080**
Liabilities under insurance contracts	16 705 382	11 955 956
Liabilities from reinsurance	1 123 115	1 068 468
Liabilities from direct insurance activities	410 138	357 515
Other liabilities	361 813	385 919
Derivatives	0	2 829
Accrued expenses and prepaid revenue	507 912	516 911
Total liabilities	**19 108 360**	**14 287 598**
TOTAL LIABILITIES AND OWNER'S EQUITY	**35 590 999**	**30 787 678**

Cash flow statement of Salva Kindlustuse AS

in euros	**2014**	**2013**
Cash flow from operating activities	**684 555**	**2 764 096**
Insurance premiums received	15 460 942	14 627 092
Claims paid and claims handling expenses	-9 182 811	-8 936 781
Paid to reinsurers	-347 506	-887 227
Paid as operating expenses	-3 957 676	-3 887 232
Income tax paid	-154 177	-260 506
Acquisition of shares and other securities	-454 525	-366 974
Disposal of shares and other securities	778 399	325 706
Acquired fixed rate securities	-11 346 266	-1 737 198
Disposals of fixed rate securities	6 674 592	303 207
Loans granted	-23 700	-122 700
Repayment of loans granted	47 228	106 472
Investments in term deposits	-40 000	-2 675 000
Return on term deposits	2 675 000	5 695 000
Interest received	637 543	645 722
Dividends received	9 413	10 986
Investment expenses paid	-91 901	-76 471
Cash flow used in investing activities	**-83 712**	**-316 512**
Acquisition of property, plant and equipment, and intangible assets	-83 712	-316 512
Cash flow used in financing activities	**-900 000**	**-1 300 000**
Dividends paid	-900 000	-1 300 000
Loans received	0	475 000
Repayment of loans granted	0	-475 000
Total cash flow	**-299 157**	**1 147 584**
Cash and cash equivalents at the beginning of the period	**1 805 884**	**658 300**
Cash and cash equivalents at the end of the period	**1 506 727**	**1 805 884**

Statement of changes in equity of Salva Kindlustuse AS

in euros	Share capital	Reserve capital	Other reserves	Retained earnings	Total
As of 31.12.2012	**3 200 000**	**319 558**	**64 428**	**14 272 126**	**17 856 112**
Profit for the financial period	0	0	0	-56 032	-56 032
Dividends paid	0	0	0	-1 300 000	-1 300 000
Total changes in equity	**0**	**0**	**0**	**-1 356 032**	**-1 356 032**
As of 31.12.2013	**3 200 000**	**319 558**	**64 428**	**12 916 094**	**16 500 080**
Profit for the financial period	0	0	0	882 559	882 559
Dividends paid	0	0	0	-900 000	-900 000
Total changes in equity	**0**	**0**	**0**	**-17 441**	**-17 441**
As of 31.12.2014	**3 200 000**	**319 558**	**64 428**	**12 898 653**	**16 482 639**

See Note 17 for additional information.

Parent company's adjusted unconsolidated equity in accordance with the requirements of the Commercial Code, as of 31 December 2014:

in euros	2014	2013
Parent company's unconsolidated equity	16 482 639	16 500 080
Investment in the parent company's balance sheet at fair value	-5 260 387	-5 849 879
Subsidiary's value under the equity method	3 442 793	3 371 235
Total	**14 665 045**	**14 021 436**

SIGNATURES OF THE MANAGEMENT BOARD TO THE ANNUAL REPORT 2014

The Management Board of Salva Kindlustuse AS has prepared the management report and financial statements for 2014.

Tiit Pahapill Chairman of the Management Board	....	09.03.2015
Irja Elias Member of the Management Board	....	09.03.2015
Urmas Kivirüüt Member of the Management Board	....	09.03.2015
Algor Orav Member of the Management Board	....	09.03.2015
Andres Lõhmus Member of the Management Board	....	09.03.2015

Building a better working world

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Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Salva Kindlustuse AS

We have audited the accompanying consolidated financial statements of Salva Kindlustuse AS, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Salva Kindlustuse AS as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Tallinn, 13 March 2015

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

Tiina Leif
Authorised Auditor's number 441

PROFIT ALLOCATION PROPOSAL

The Management Board proposes to allocate the profit as follows:

Retained earnings	10 436 172
Net profit for 2014	1 543 609
Intangible assets at book value	-1 887 641
(Subsection 59 (2) of the Insurance Activities Act)	
Total distributable profit as of 31.12.2014	10 092 140
To be distributed as dividends:	900 000
Balance of distributable profit after profit allocation	9 192 140

Tiit Pahapill
Chairman of the Management Board 09.03.2015

Irja Elias
Member of the Management Board 09.03.2015

Urmas Kivirüüt
Member of the Management Board 09.03.2015

Algor Orav
Member of the Management Board 09.03.2015

Andres Lõhmus
Member of the Management Board 09.03.2015