# SALVA KINDLUSTUSE AS
# ANNUAL REPORT

2015

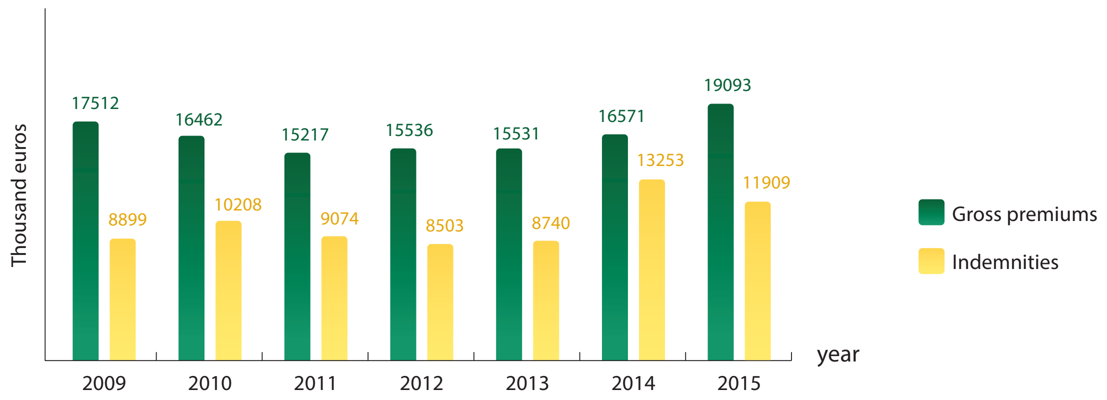
## Contents

# GENERAL INFORMATION ON SALVA KINDLUSTUSE AS

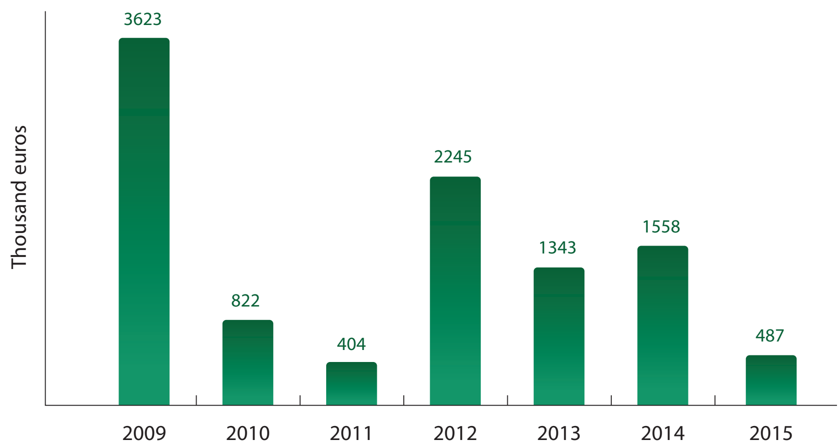
| | |
|---|---|
| Business name: | Salva Kindlustuse AS |
| Address: | Pärnu mnt.16, 10141 Tallinn |
| Registry code: | 10284984 |
| Telephone: | +372 6800 500 |
| Fax: | +372 6800 501 |
| E-mail: | salva@salva.ee |
| Web page: | http://www.salva.ee |
| Main field of activity: | Non-life insurance |
| Beginning of financial year: | 01.01.2015 |
| End of financial year: | 31.12.2015 |
| Managing director: | Tiit Pahapill |
| Auditor: | Ernst & Young Baltic AS |

## Main financial indicators

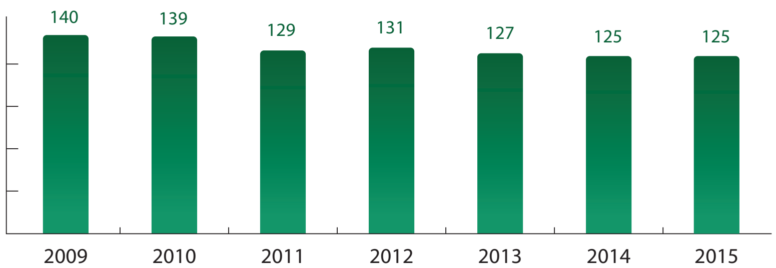
Gross premiums and indemnities incurred




Profit




Number of employees



# Vision, mission and strategy

## Vision

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

## Mission

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

## Values

**Strong mutual customer relations**

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

**Motivating work environment**

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

**High-quality and reliable service**

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

## Organization

Salva Kindlustuse AS (hereinafter the Company) has been operating in the Estonian insurance market since 1993. In its nearly twenty three 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. In 2015, we started the cross-border insurance services.

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

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

# Companies of the consolidation group

| Salva Kindlustuse AS | Salva Kahjukäsitluse OÜ | Business Information Systems OÜ |
|---|---|---|
| Register number 10284984 | Register number 10259383<br>Participation 100% | Register number 11611994<br>Participation 49% |

Main activity of Salva Kahjukäsitluse OÜ is claim handling, rent of vehicles and asset management services mainly for the parent company. Business Information System OÜ is providing software development services primarily for Salva Kindlustuse AS.

# Economic environment

In 2015, the overall economic growth figure (GDP) in Estonia grew by 1.2%. The main factor was the strong growth in private consumption. Consumer confidence remained strong and the persistence of the wage growth has been the engine of growth. Last year, the purchasing power of the population grew also because of several extraordinary factors such as the lowering of taxes on labour, increase in child benefits and decrease in prices of motor fuel.

This modest growth was negatively affected by a number of adverse factors like warm winter, which reduced the added value of the energy sector, low price of oil on the world market, which reduced the oil shale production volumes and sales prices. Foreign trade volume decreased due to the decline in key export markets.

In summary, we expect a cautious recovery in 2016, however, it clearly depends on the economic health of Estonia's trading partners.

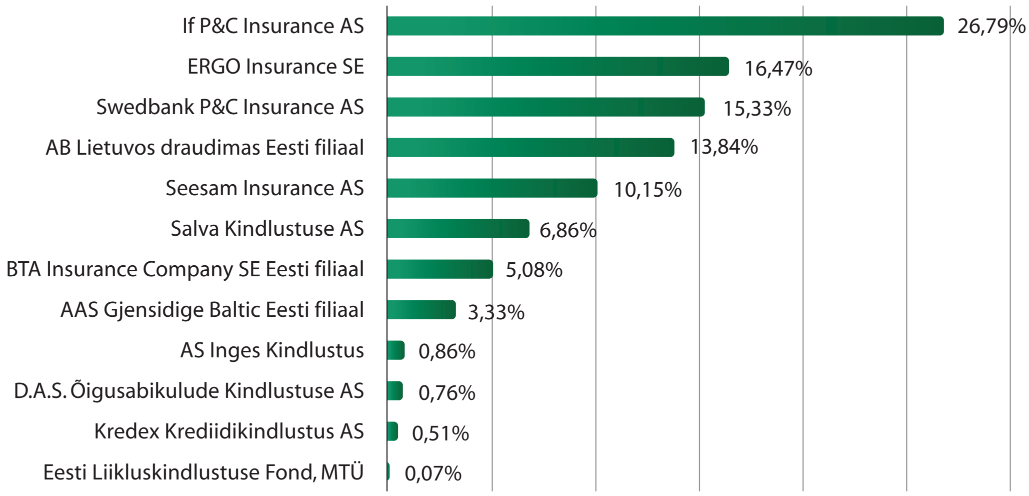
# Non-life insurance market

In 2015, non-life insurance companies and branches in the Estonian insurance market collected a total of 278 806 thousand euros in insurance premiums. This constitutes a 6.65% increase in premiums from the same period in 2013 (2014: 261 414 thousand euros).

The largest share of all insurance categories offered in 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 (34%). The share of property insurance amounts to 26% and the aggregated share of all the remaining insurance categories 15% of the market. The amount of disbursements in 2015 was 161 325 thousand euros. This constitutes a 9% increase in disbursements from the same period in 2014 (2014: 148 539 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 58% as of the end of 2015 (2014: 57%).

According to the data of Statistics Estonia market shares of non-life insurance companies and foreign branches expressed in premiums received by the end of 2015:




In 2015, the non-life insurance market continued increasing, similarly to previous two years, by 7%. It indicates that Estonia’s economic environment is favourable for both private individuals and companies for hedging their insurance risks.

The weather was favourable for the year 2015, particularly in the property insurance risks and no significant damages arose from the forces of nature. On the other hand, MTPL market in whole earned technical loss for several years and the situation should not satisfy the expectations of any insurer. Growth of prices for car repair services and increase in the frequency of accidents contributed to the increase of compensations paid but in the highly competitive motor insurance market insurance premiums asked not to keep up with the situation.

In 2016, 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 as 10% loss every year should not be sustainable in the long term and could lead to the decline in service quality of services.

2015 was a preparatory year of transition to the new pan-European solvency requirements (Solvency II), in which the insurance companies were obliged to put more emphasis on organising its internal regulations and reporting capabilities. New solvency requirements and Solvency II reporting obligation apply in full with the new Insurance Business Act, valid from the 1st of January 2016.

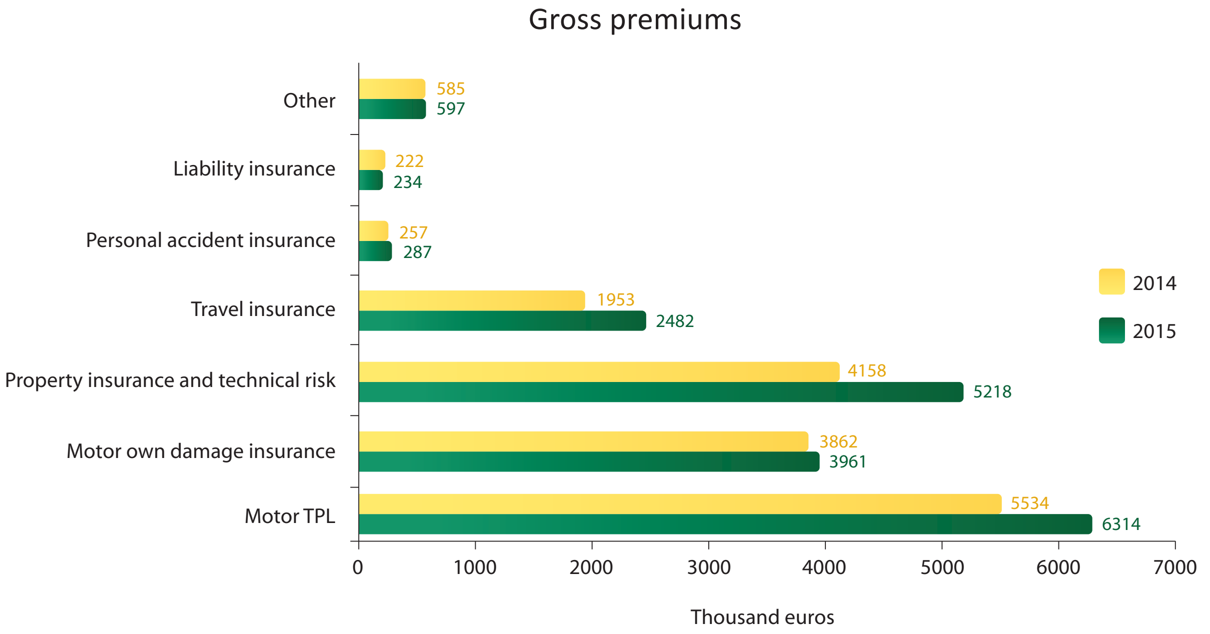
## Financial results

Salva Kindlustuse AS's consolidated net profit in 2015 was 487 thousand euros (2014: 1 558 thousand euros).
The profit from insurance activity amounted to 535 thousand euros. The indicator for the previous year was 1 599 thousand euros. The technical result was primarily influenced by worsened loss ratio in motor TPL insurance as a result of which decreased reinsurance commissions of some previous years. Increased commissions related to growth of sales had also a negative impact on the result.

## Revenue

In 2015, total revenues increased by 8% compared to the previous year. The increase is mainly related to the growth of insurance premiums. Among revenues, the premiums earned, net of re-insurance, increased by 9%, income from service and commission fees and other income remained the same.

In 2015, Salva Kindlustuse AS gathered 19 093 thousand euros in gross insurance premiums, increased by 15% compared to the last year. (2014: 16 571 thousand euros). Insurance premiums increased in almost all lines of insurance. The largest growth- and faster than the rest of the market- was recorded in property insurance and travel insurance. Due to intensified cooperation with almost all large travel bureaus travel insurance premiums increased by 27%.  Due to activities as cross-border insurers property insurance premiums grew by 25% in volume.



# Claims and operating expenses

Total claims incurred in 2015 amounted to a total of 11 909 thousand euros –10% less than in the last year (2014:13 253 thousand euros). Claims disbursements increased by 12% compared to the last year; claims adjustment expenses increased by 1% and income from refunds and residual assets decreased 55%.

The number of loss claims satisfied in 2015 amounted to 9 919 and increased by 25% compared to the year before (2014: 7 966).

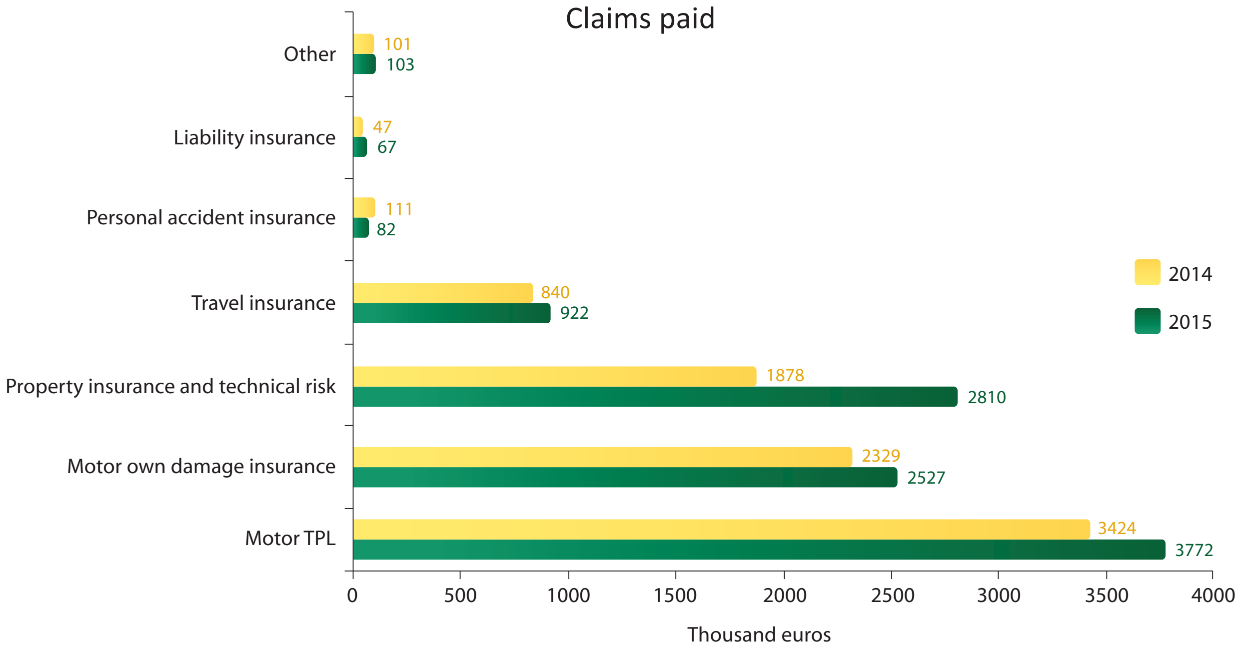
Still accounting for large share of the total number of loss claims were vehicle insurance-related loss claims. Motor TPL insurance loss claims make up 36% and Motor Own Damage insurance losses 26% of the total number of loss claims. The share of property insurance loss claims have increased from 13% to 16%.

At the beginning of the year the Motor Insurance Act came into effect. The New law allowed persons suffering from traffic accident to contact their own insurance company and not just the offender's one. The new opportunity was well received by the customers. About a quarter of the traffic accidents handled by Salva Insurance were related to situations where the client of another insurance company caused damage to the customer of Salva and the latter decided to turn to the so-called "Own insurer". Being one of the few insurance companies who possess offices and claim handlers in almost all counties, this kind of service is very convenient and safe way for our customersto deal with us. We hope that this will become a growing trend in motor insurance, and customers can choose not just the price but also the service which is delivered with the product.

Motor insurance and vehicle insurance buyers can use Salva vehicle assistance service, which provides needed information, registration of damage and technical assistance in the event of an unexpected failure of vehicle, towing and the delivery to destination. Last year customers got help in nearly 700 events.

The greatest claim last year was in property insurance, where compensation of 147 thousand euros was paid for the damage that occurred as a result of breakage of the water system and 131 thousand euros was paid for the restoration of a building destroyed by fire.

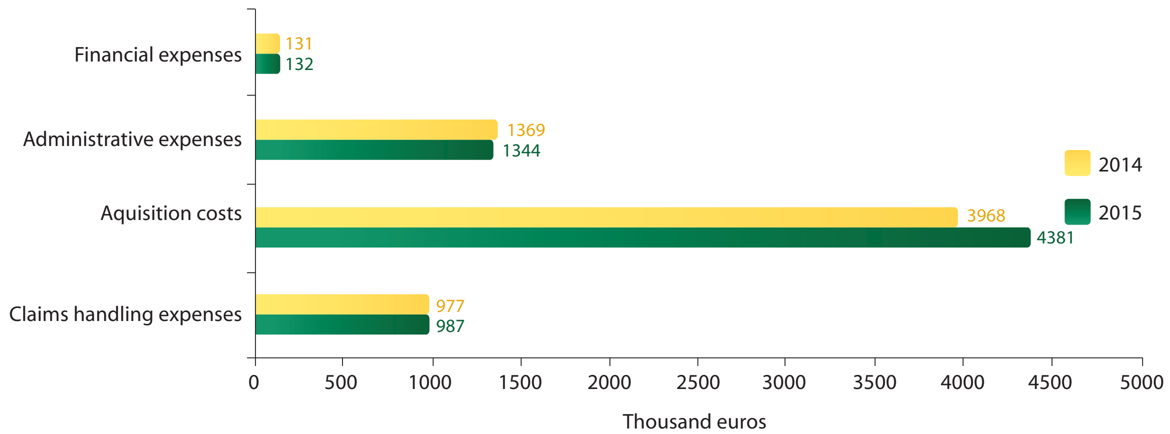
The consolidated loss ratio, net of reinsurance, was 59.56 % (2014:49.7%).



Operating expenses for 2015 increased by 7% compared to 2014, amounting to 5 857 thousand euros. Administrative expenses decreased by 2% and acquisition costs increased by 10%. Total payroll expenses and commissions paid to intermediaries are reflected in acquisition costs and they decreased by 2% and increased by 35% respectively compared to the 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 36% at the end of 2015 and remained at the same level compared to 2014.

Operating expenses




## Owner's equity

In 2015, Salva Kindlustuse AS's shareholders' equity decreased by 3%, and amounted to 14 331 thousand euros. 900 thousand euros was paid as dividends to owners in 2015.

## 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.

In 2015, the result was similar to the previous year. The outcome was influenced by declining bond markets, where bond prices believed as being with lower risk, fell more than significantly riskier stock prices. Short-term interest rates were still low, as in the uncertain economic environment, enterprises don't dare to make investments and despite the efforts of the central banks the inflation rate will remain lower than expected. The forthcoming period is characterised by uncertainty and volatility, so we try to keep our financial investment portfolio yields on an optimum level.

The consolidated net investment revenue from investing activities amounted to 144 thousand euros (2014: 141 thousand euros). The consolidated annual rate of return on investment was 0.84%. The annual rate of return of the bond portfolio was 0.76%.

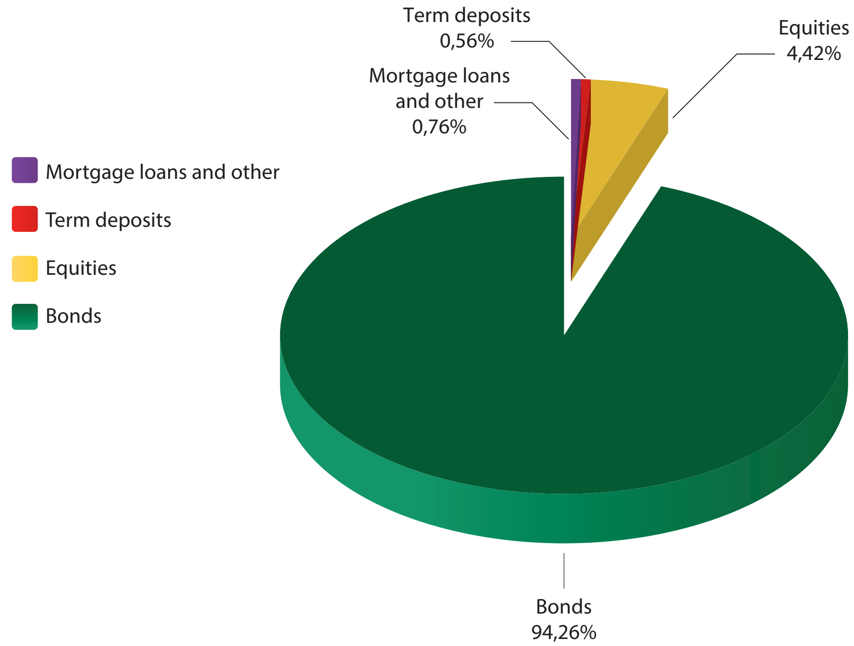
As of the end of the year, financial investments exceed the net technical reserves by 9 233 thousand euros, ensuring sufficient liquidity in the company.

In conclusion, it can be said that Salva Kindlustuse AS was able to maintain the value of the investments, maintain an adequate dispersion and ensure a decent position for the upcoming period. The upcoming period will be influenced by low interest rates and unpredictable economic situation.

The distribution of credit risk in the bond portfolio was the following: 21% of the bonds were rated A (S&P) or Aa (Moody's), 29% had a rating of B or Baa and Ba.

93% of investments are held in euros. In the opinion of the Management Board the currency risk is minimal.

Structure of financial investments as of 31.12.2015




## Organisation and management

The Group's employee retention is very stable. This is supported by a competitive background system, a modern working environment and a strong organisational 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.

The Company's supervisory board has six members, with the total remuneration paid to members of the supervisory board amounting to 31 thousand euros (2014: 31 thousand euros).

In the autumn the board member Algor Orav left the Company. Now the Company's management board has four members with the total remuneration paid to members of the management board amounting to 379 thousand euros (2014: 382 thousand euros).

Total payroll expenses (including taxes) amounted to 2 958 thousand euros in 2015. Payroll expenses have decreased by 2% from last year (2014: 3 006 thousand euros).

As of the end of 2015, the Group had 125 employees, including 68 sales employees.

# The Group's outlook for 2016

In 2016 we expect the non-life insurance market volume to maintain the same growth as in previous year. We consider it our advantage and strength to have representative offices in different regions of Estonia, we try to hold and strengthen the local competence further. If the insurance market trend is to move services to the capital, we are trying to provide higher quality, more personalised and flexible on-site service, including claims handling.

Besides this, we have successfully developed other customer communication and sales channels. Last year we saw a strong growth in the use of e-services and in 2016 we will continue their development and making them more customer-friendly. Our desire is to provide diverse, clear and customer-friendly solutions for our customers.

As in previous years, we want to contribute to the development of Estonia through supporting sports and culture in 2016. Salva Insurance continues a long-term cooperation with Sports Club DUO, in order to boost Estonian youth volleyball and the game to become more acquainted and close to heart for more and more young people. First positive result are already visible- thousands of children in Estonia participate in the Salva League series.

The cooperation continues between Estonian Concert and Salva. Being a major sponsor of Estonian Concert, Salva insures all their assets starting from the concert halls to the musical instruments. We wish to help Estonian Concert comfortably devote to their main objective - to provide a high level music experiences to lovers of music. On the other hand, with the assistance of Estonia Concert we hope to provide wonderful musical experiences for Salva´s customers in different parts of Estonia.

When analysing the possible developments in the insurance market in 2016, it promises to be an exciting year and should bring some changes. In the year 2016 a new insurance company, Compensa Vienna Insurance Group, UADB Estonian branch, enters the market.

At the beginning of the year 2016, the new Insurance Activities Act entered into force. The new law will update the regulations of both insurance companies and insurance intermediaries and carries the Estonian regulation into line with the EU Solvency II and the Omnibus (II) directive. The law requires insurers to establish an effective management system. An effective management system means great attention to risk management and effective internal control system. The law also requires a comprehensive system of reporting and disclosure. Adapting to the new requirements certainly requires extra time and additional resources from insurance companies.

Still, we can say that the development of the insurance policy does not go quite in step with the development of the insurance market. Therefore, at the moment both insurance companies and brokerage firms are looking forward to the guidelines for implementation of the Insurance Activities Act in order to ensure transparent and driving competition in the market in the long run.

**Tiit Pahapill**

Chairman of the management board

# Main financial indicators

| Group | 2015 | 2014 | 2013 |
|---|---|---|---|
| *In euros* | | | |
| **For the reporting period** | | | |
| Gross premiums | 19 092 524 | 16 571 243 | 15 531 391 |
| Premiums earned, net of reinsurance | 12 043 868 | 11 053 268 | 10 713 856 |
| Gross claims incurred | 11 909 283 | 13 253 435 | 8 739 728 |
| Claims incurred, net of reinsurance | 7 172 882 | 5 493 503 | 5 741 188 |
| Total operating expenses | 5 856 995 | 5 467 846 | 5 355 413 |
| Net operating expenses | 4 605 551 | 4 209 924 | 3 931 190 |
| Net loss ratio | 59,6% | 49,7% | 53,6% |
| Net expense ratio | 36,0% | 35,8% | 34,3% |
| Net combined ratio | 95,6% | 85,5% | 87,9% |
| **As of the end of the reporting period** | | | |
| Total assets | 36 403 432 | 34 208 389 | 28 713 786 |
| Financial investments | 17 118 316 | 17 191 958 | 15 896 949 |
| **Efficiency indicators** | | | |
| Technical result | 534 749 | 1 598 808 | 1 299 492 |
| Investment result | 144 171 | 141 014 | 410 379 |
| Profit for the year | 486 515 | 1 558 082 | 1 342 651 |
| Annual return on equity | 3,3% | 10,6% | 9,5% |
| Annual return on investments | 0,8% | 0,9% | 2,5% |

# 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 | 2015 | 2014 |
|---|---|---|---|
| **REVENUE** | | | |
| Gross premiums | 3 | 19 092 524 | 16 571 243 |
| Reinsurance premiums | 3 | -6 648 620 | -5 416 380 |
| Changes in the provision for unearned premiums | 3 | -706 984 | -225 912 |
| Reinsurer’s share of the change in provision for unearned premiums | 3 | 306 948 | 124 317 |
| **Premiums earned, net of reinsurance** | **3** | **12 043 868** | **11 053 268** |
| Service and commission fee revenue | 4 | 1 251 444 | 1 257 922 |
| Net investment revenue | 5 | 276 487 | 272 076 |
| Other income | 6 | 169 593 | 175 405 |
| **Total revenue** | | **13 741 392** | **12 758 671** |
| **EXPENSES** | | | |
| Gross claims | 7 | -10 282 929 | -8 729 921 |
| Reinsurer’s share in claims | 7 | 4 016 783 | 3 300 111 |
| Change in the provision for claims outstanding | 7 | -1 626 354 | -4 523 514 |
| Reinsurer’s share of the change in the provision for claims outstanding | 7 | 719 618 | 4 459 821 |
| **Claims incurred, net of reinsurance** | **7** | **-7 172 882** | **-5 493 503** |
| Acquisition costs | 8 | -4 381 219 | -3 968 202 |
| Administrative expenses | 8 | -1 343 460 | -1 368 582 |
| Financial expenses | 8 | -132 316 | -131 062 |
| **Total operating expenses** | | **-5 856 995** | **-5 467 846** |
| **Profit before taxes** | | **711 515** | **1 797 322** |
| **Tax on dividends paid** | **9** | **-225 000** | **-239 240** |
| **Profit for the financial year** | | **486 515** | **1 558 082** |
| **Comprehensive income for the financial year** | | **486 515** | **1 558 082** |
| **Incl. profit attributable to shareholders of the parent company** | | **469 060** | **1 543 609** |
| **Incl. profit attributable to non-controlling interests** | | **17 455** | **14 473** |

# Consolidated statement of financial position

| *In euros* | Note | 31.12.2015 | 31.12.2014 |
|---|---|---|---|
| **ASSETS** | | | |
| Property, plant and equipment | **11** | 1 281 989 | 1 445 601 |
| Intangible assets/Deferred Acquisition Costs | **12** | 1 844 976 | 1 887 641 |
| Financial assets | **13** | 17 118 316 | 17 191 958 |
| Receivables under reinsurance contracts | **14** | 11 209 793 | 10 175 856 |
| Receivables from insurance activities and other receivables | **15** | 1 299 949 | 1 411 925 |
| Cash and cash equivalents | **16** | 3 648 409 | 2 095 408 |
| **TOTAL ASSETS** | | **36 403 432** | **34 208 389** |

| | | | |
|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| Share capital | | 3 200 000 | 3 200 000 |
| Reserve capital | | 320 836 | 320 836 |
| Other reserves | | 64 428 | 64 428 |
| Retained earnings | | 10 179 781 | 9 601 629 |
| Profit for the financial year | | 469 060 | 1 478 152 |
| **Total equity attributable to shareholders of the parent company** | | **14 234 105** | **14 665 045** |
| **Total equity attributable to non-controlling interests** | | **97 385** | **79 930** |
| **Total equity** | **17** | **14 331 490** | **14 744 975** |
| Liabilities under insurance contracts | **20** | 19 038 720 | 16 705 382 |
| Liabilities from reinsurance | **21** | 1 415 363 | 1 123 115 |
| Liabilities from direct insurance activities | **22** | 537 574 | 410 138 |
| Accrued expenses and deferred revenue | **23** | 1 080 285 | 1 224 779 |
| **Total liabilities** | | **22 071 942** | **19 463 414** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **36 403 432** | **34 208 389** |

# Consolidated statement of changes in equity

| *In euros* | Share capital | Reserve capital | Other reserves | Retained earnings | Non-con-trolling interest | Total |
|---|---|---|---|---|---|---|
| **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** |
| Profit for the financial year | 0 | 0 | 0 | 469 060 | 17 455 | 486 515 |
| Dividends paid | | | | -900 000 | 0 | -900 000 |
| **Total changes in equity for the year** | **0** | **0** | **0** | **-430 940** | **17 455** | **-413 485** |
| **As of 31.12.2015** | **3 200 000** | **320 836** | **64 428** | **10 648 841** | **97 385** | **14 331 490** |

See Note 17 for additional information about equity.

# Consolidated cash flow statement

| *In euros* | Notes | 2015 | 2014 |
|---|---|---|---|
| **Cash flow from operating activities** | | **2 854 118** | **1 078 723** |
| Insurance premiums received | | 17 338 198 | 15 439 127 |
| Claims paid and claims handling expenses | | -8 894 103 | -8 049 553 |
| Paid to reinsurers (net) | | -1 053 314 | -347 506 |
| Paid as operating expenses | | -4 781 297 | -4 834 125 |
| Acquisition of shares and other securities | | -877 069 | -454 525 |
| Disposal of shares and other securities | | 629 983 | 778 399 |
| Acquired fixed rate securities | | -2 157 550 | -13 273 228 |
| Proceeds from disposals of fixed rate securities | | 2 289 908 | 8 589 552 |
| Loans granted | | -65 700 | -23 700 |
| Repayments of loans granted | | 21 988 | 47 228 |
| Investments in term deposits | | -95 000 | -80 000 |
| Return on term deposits | | 80 000 | 2 675 000 |
| Interest received | | 490 724 | 697 537 |
| Dividends received | | 15 610 | 9 413 |
| Investment expenses paid | | -88 260 | -94 896 |
| **Cash flow used in investing activities** | | **-176 117** | **-394 616** |
| Acquisition of property, plant and equipment, and intangible assets | | -262 698 | -514 634 |
| Disposal of property, plant and equipment, and intangible assets | | 86 581 | 120 018 |
| **Cash flow used in financing activities** | | **-1 125 000** | **-1 139 240** |
| Dividends paid | **17** | -900 000 | -900 000 |
| Income tax paid | **9** | -225 000 | -239 240 |
| **Total cash flow** | | **1 553 001** | **-455 133** |
| **Cash and cash equivalents at the beginning of the period** | **16** | **2 095 408** | **2 550 541** |
| **Cash and cash equivalents at the end of the period** | **16** | **3 648 409** | **2 095 408** |

# 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 2015 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 17 March 2016. 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 2015.

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, and derivative financial instruments 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. Summary of significant accounting policies.

## 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 and presentation currency of the group is the euro.

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

**(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 significantly affect the returns of BIS OÜ.

In the consolidated financial statements, any transactions between group companies, as well as mutual balances and unrealised profit, have been eliminated.

Subsidiaries prepare financial statements on the same period, materially using the same accounting principles.

*Supplementary disclosures on the parent entity of the group*

Pursuant to the Accounting Act of the Republic of Estonia, the notes to the consolidated financial statements of the consolidating entity shall contain the main statements of the consolidating entity. The parent company's main financial statements have been prepared using the same accounting principles and basis of estimations used in preparing the consolidated financial statements.

The basis for accounting for subsidiaries in the parent entity's unconsolidated statement of financial position 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.

**(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 statement of financial position line "Liabilities under insurance contracts".

The reinsurer's share of the provision for unearned premiums equals the same percentage of the provision for unearned premiums, as the pro rata share of the reinsurance premiums of the gross premiums. The reinsurer's share of the provision for unearned premiums has been recorded on the statement of financial position line "Receivables under reinsurance contracts".

### (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 statement of financial position 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 statement of comprehensive income and the statement of financial position separately from the corresponding insurance contracts, since no reinsurance agreements relieve the Group from its direct liabilities to the policyholders.

Only the contracts which represent considerable transfer of a risk insured are recorded as reinsurance contracts. 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 statement of financial position 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 statement of comprehensive income.

*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 2015 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 fee revenue represents the commission fee receivable from a reinsurer under a reinsurance contract, including commission fees stemming from the participation of the reinsurer in the reinsurer's profit. Reinsurance contracts' commission fees are recorded by applying the same principles as those applied to the acquisition costs of insurance contracts (see subsection (g) of the accounting principles). The fee for participating in the profit of a reinsurer is recorded on the accrual basis.

*Investment revenues*

Revenue from financial investments includes interest and dividend revenue, net gain/loss from revaluation of financial assets and liabilities measured at fair value through profit and loss and realised gains and losses on realisation of investments.

Interest revenue earned from loans granted is recorded using the effective interest rate. Revenue from dividends is recognised when the right to receive the payment is established.

### (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 statement of comprehensive income as a part of losses incurred.

*Administrative expenses*

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

*Acquisition costs*

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

Acquisition costs are adjusted in the statement of comprehensive income by changes in the deferred acquisition costs of net reinsurance (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. Starting from 2015 the established tax rate is 20/80 of the net dividend paid (earlier 21/79).

Therefore, all temporary differences between the tax basis and carrying values of assets and liabilities cease to exist. Rather than being subjected to income tax on the profit, Estonian companies are subjected to income tax on the dividends paid from retained earnings. Corporate income tax on the payment of dividends is recorded under income tax expense in the statement of comprehensive income at the moment of announcing the dividends, irrespective of the period for which the dividends were announced or when the dividends are actually paid.

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

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

### (l) Property, plant and equipment ("PPE")

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

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

Depreciation of fixed assets is calculated on the acquisition cost based on the straight-line method, in accordance with the estimated useful life of the asset item. Calculation of depreciation starts from the month when the asset is taken into use. Calculation of depreciation is suspended when the item is either 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 statement of financial position at their acquisition cost, less accumulated depreciation and any accumulated impairment losses.

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

Such assets are depreciated by applying the straight-line method during their estimated useful life, which is up to ten years, and the depreciation is based on the assumption that the final value of the asset is zero.

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

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

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

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

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

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

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

All financial assets are recognised initially at fair value plus, in the case of financial assets not designated at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial assets. Acquisition and disposal of financial assets are recorded on the trade date, i.e. at the time when the Group incurs the obligation to acquire or dispose the assets.

Subsequent measurement

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

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are financial assets acquired for trading, or assigned to this category by the Group from the very beginning. These include bonds, shares, derivatives and other securities which are held for trading or which are not intended to be held to maturity.

Financial assets are classified as "financial assets recorded at fair value through profit and loss" on the basis of the following criteria:
- assets held for trading;
- assets classified as such, since this provides more relevant financial information.

Financial assets which are not held for trading may be classified under this group if
- this serves the purpose of eliminating any differences in the recognition of income and expenses arising from measurement of assets and the related liabilities – i.e. helps to reduce the so-called accounting discrepancy;
- or the group of financial assets is managed together, and the results designated at fair value in accordance with documented risk management or investment strategy, and the corresponding information is forwarded to the top management.

Realised gains and losses, and unrealised gains and losses stemming from changes in fair value of financial investments designated at fair value through profit and loss are recorded in the statement of comprehensive income pertaining to the period of their emergence. Derivative transactions are recorded in the statement of financial position at fair value; contracts with a positive value are reported as assets and those with a negative value as liabilities. Any gains and losses stemming from the change in derivative values are recorded in the statement of comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These include loans, accounts receivable and term deposits. These assets are initially recognised at cost. Subsequent to initial recognition, the assets are designated at amortised cost on the basis of the effective interest rate method, less any accumulated impairment losses. The receivables are assessed on an individual basis. Doubtful receivables are charged to expenses. Gains and losses from changes in the value of loans and receivables are recorded in the comprehensive income statement.

Held-to-maturity investments

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

Financial assets available for sale

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

Derecognition of financial assets

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

**(q) Fair value**

Shares and investment fund units are designated at fair value through profit and loss from initial recognition. The price of the securities is based on the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date on the main markets. We rely on Bloomberg CBBT quotations, which is taking into account, if possible, at least three of the major dealer quotations for one credit instrument. If the financial assets market is not active, the Group shall apply other valuation methods to establish the fair value. These include recent market transactions concluded by independent parties, references to other similar instruments, and discounted cash flow analysis and option valuation models.

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

The designation of financial assets measured at fair value through profit and loss in accordance with IFRS 13 has been presented in Note 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 statement of financial position 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 (31.12.2015) 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 2015.

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

The following new and/or amended IFRSs have been adopted by the Group as of 1 January 2015:

- Annual Improvements to IFRSs 2011 – 2013 Cycle
- IFRIC Interpretation 21: Levies

***Annual Improvements to IFRSs 2011 – 2013 Cycle*** is a collection of amendments to the following IFRSs:

- IFRS 3 Business Combinations
- IFRS 13 Fair value Measurement
- IAS 40 Investment property

**IFRIC Interpretation 21 Levies**

This interpretation addresses the accounting for levies imposed by governments. Liability to pay a levy is recognised in the financial statements when the activity that triggers the payment of the levy occurs. The implementation of this standard had no effect on the financial statements 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 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 Amortisation*** (effective for financial years beginning on or after 1 January 2016).

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 not have any 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).

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 amendment.

***Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative*** (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU).

The amendments improve information provided to users of financial statements about an entity's financing activities. Entities are required to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, for example, by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The implementation of these amendments will not have any impact on the financial position or performance of the Group but may result in changes in disclosures.

***IFRS 9 Financial Instruments*** (effective for financial years beginning on or after 1 January 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.

***Amendment to IFRS 11 Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations*** (effective for financial years beginning on or after 1 January 2016).

IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The implementation of this amendment will not have any impact on the financial statements of the Group, as the Group does not have such activities.

***Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*** (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU).

The amendments clarify how to account for deferred tax assets for unrealised losses on debt instruments measured at fair value. 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 implementation of this amendment will not have any impact on the financial statements of the Group.

***Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*** (EU endorsement deferred indefinitely).

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 these amendments.

***IFRS 14 Regulatory Deferral Accounts*** (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU).

IFRS 14 provides first-time adopters of IFRS with relief from derecognising rate-regulated assets and liabilities. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. The implementation of this standard will not have any impact on the Group.

***IFRS 15 Revenue from Contracts with Customers*** (effective for financial years beginning on or after 1 January 2018, 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.

The adoption of these amendments may result in changes to accounting policies or disclosures but will not have any significant impact on the financial position or performance of the Group. The Group plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

***IFRS 16 Leases*** (effective for financial years beginning on or after 1 January 2019, once endorsed by the EU).

IFRS 16 replaces IAS 17 and specifies how to recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged. The adoption of these amendments may result in changes to accounting policies or disclosures but will not have any significant impact on the financial position or performance of the Group. The Company plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

**Improvements to IFRSs**

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 8 *Operating Segments;*
- 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):

- 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.

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 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 statement of comprehensive income.

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

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

The provision for claims is not discounted, except for the motor third party liability pension which is calculated as annuities. Survival estimates are based on the estimates given in the mortality table, calculated on the basis of the data provided by the Estonian Statistical Office for 2014 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 | 12 221 | 3 948 | 1 263 | 1 607 | 19 039 |

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 2015, the technical reserve amounted to 19 039 thousand euros (2014: 16 705 thousand euros).

**(b) 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

**2015**

| *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 | 6 313 958 | -381 720 | -2 682 433 | 152 688 | 3 402 493 |
| Property insurance | 5 217 758 | -320 139 | -1 627 450 | 207 332 | 3 477 501 |
| Motor vehicle insurance | 3 960 599 | 53 129 | -1 613 760 | -35 075 | 2 364 893 |
| Short-term health insurance | 2 769 390 | -71 835 | -156 947 | -4 605 | 2 536 003 |
| Motor vehicle owner's liability | 439 261 | 8 414 | -331 742 | -6 739 | 109 194 |
| Liability insurance | 233 891 | -5 229 | -187 113 | 4 183 | 45 732 |
| Monetary damage | 114 178 | 1 874 | -17 701 | -2 274 | 96 077 |
| Insurance of goods in transit | 39 213 | 3 605 | -30 664 | -3 071 | 9 083 |
| Railway rolling stock and small craft | 4 276 | 4 917 | -810 | -5 491 | 2 892 |
| **Total** | **19 092 524** | **-706 984** | **-6 648 620** | **306 948** | **12 043 868** |

**2014**

| *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 | 5 533 729 | 21 480 | -2 325 961 | -8 592 | 3 220 656 |
| Property insurance | 4 158 194 | -115 269 | -815 464 | 32 646 | 3 260 107 |
| Motor vehicle insurance | 3 861 886 | -92 495 | -1 582 341 | 52 962 | 2 240 012 |
| Short-term health insurance | 2 209 850 | -24 906 | -150 617 | 24 665 | 2 058 992 |
| 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 |
| Insurance of goods in transit | 52 560 | -5 320 | -44 496 | 5 138 | 7 882 |
| Railway rolling stock and small craft | 45 020 | 200 | -35 240 | -225 | 9 755 |
| **Total** | **16 571 243** | **-225 912** | **-5 416 380** | **124 317** | **11 053 268** |

## 4. Service and commission fee revenue

| *In euros* | Note | 2015 | 2014 |
|---|---|---|---|
| Reinsurer commission revenue | **10** | 1 242 590 | 1 358 080 |
| Reinsurer's profit sharing | **10** | 1 503 | 2 690 |
| Reinsurance share of changes in acquisition costs | **10** | 7 229 | -103 119 |
| Other technical income, net of reinsurance | | 122 | 271 |
| **Total** | | **1 251 444** | **1 257 922** |

## 5. Net investment revenue

| *In euros* | 2015 | 2014 |
|---|---|---|
| Dividend revenue | 15 610 | 9 413 |
| Interest income from deposits | 1 372 | 11 186 |
| Other financial revenue, incl. interest revenue from loans granted | 5 939 | 6 698 |
| Trade portfolio revenue | 253 566 | 241 950 |
| Revenue from derivative instruments | 0 | 2 829 |
| **Total** | **276 487** | **272 076** |

## 6. Other income

| *In euros* | 2015 | 2014 |
|---|---|---|
| Other income | 169 593 | 175 405 |
| **Total** | **169 593** | **175 405** |

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

# 7. Claims incurred, net of insurance

| *In euros* | Note | 2015 | 2014 |
|---|---|---|---|
| Claims paid, gross | | -9 705 318 | -8 654 740 |
| Claims handling expenses | **8** | -987 467 | -976 791 |
| Amounts received from recoveries and salvage | | 599 545 | 630 382 |
| Estimated amounts receivable for recoveries and salvage | | 189 689 | 271 228 |
| **Total claims, gross** | | **-10 282 929** | **-8 729 921** |
| Change in the provision for claims outstanding | | -1 626 354 | -4 523 514 |
| **Claims incurred, gross** | | **-11 909 283** | **-13 253 435** |
| Reinsurer's share in claims paid | **10** | 4 016 783 | 3 300 111 |
| Reinsurer's share of the change in the provision for claims outstanding | **10** | 719 618 | 4 459 821 |
| **Reinsurer's share in claims incurred** | | **4 736 401** | **7 759 932** |
| **Total claims incurred** | | **-7 172 882** | **-5 493 503** |

# 8. Operating expenses

| *In euros* | Note | 2015 | 2014 |
|---|---|---|---|
| **Claims handling expenses** | **7** | **-987 467** | **-976 791** |
| Insurance contract acquisition expenses | | -4 381 219 | -3 968 202 |
| Administrative expenses | | -1 343 460 | -1 368 582 |
| *Incl. other expenses* | | *-136 998* | *-117 905* |
| Financial expenses | | -132 316 | -131 062 |
| **Total operating expenses** | | **-5 856 995** | **-5 467 846** |
| **Total expenses** | | **-6 844 462** | **-6 444 637** |

| *In euros* | 2015 | 2014 |
|---|---|---|
| Payroll expenses | -2 957 882 | -3 005 774 |
| Brokers' commission fees | -1 655 467 | -1 225 233 |
| Outsourced services | -149 352 | -122 874 |
| Depreciation and impairment of PPE and intangible assets | -537 305 | -483 673 |
| Other operating expenses | -1 642 343 | -1 646 499 |
| Change in deferred acquisition costs | 97 887 | 39 416 |
| **Total expenses** | **-6 844 462** | **-6 444 637** |

# 9. Tax on dividends paid

| *In euros* | 2015 | 2014 |
|---|---|---|
| Tax on dividends paid | -225 000 | -239 240 |

## 10. Reinsurance result

| *In euros* | Note | 2015 | 2014 |
|---|---|---|---|
| Reinsurance premiums | **3** | -6 648 620 | -5 416 380 |
| Reinsurer's share of the change in provision for unearned premiums | **3** | 306 948 | 124 317 |
| Reinsurer's share in claims paid | **7** | 4 016 783 | 3 300 111 |
| Reinsurer's share of the change in the provision for claims outstanding | **7** | 719 618 | 4 459 821 |
| Reinsurance commission fees and profit sharing | **4** | 1 251 322 | 1 257 651 |
| **Total** | | **-353 949** | **3 725 520** |

## 11. Property, plant and equipment

| *In euros* | Land and buildings | Other PPE | Total |
|---|---|---|---|
| **Acquisition cost** | | | |
| **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** |
| Acquisition | 0 | 69 627 | 69 627 |
| Disposal | 0 | -126 633 | -126 633 |
| Write-off | 0 | -39 675 | -39 675 |
| **31.12.2015** | **1 508 408** | **839 378** | **2 347 786** |
| **Accumulated depreciation** | | | |
| **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** |
| Depreciation charge for the year | -55 984 | -142 240 | -198 224 |
| Depreciation charge of disposals | 0 | 91 679 | 91 679 |
| Depreciation charge of write-offs | 0 | 39 614 | 39 614 |
| **31.12.2015** | **-688 030** | **-377 767** | **-1 065 797** |
| **Net book value** | | | |
| 31.12.2014 | **876 362** | **569 239** | **1 445 601** |
| 31.12.2015 | **820 378** | **461 611** | **1 281 989** |

Carrying amount of property fully amortised yet in use as at 31.12.2015 was 122 478 euros (2014: 192 913 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** | | | |
| **31.12.2013** | **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** |
| Acquisition | 23 329 | 175 198 | 198 527 |
| Reclassification | 175 198 | -175 198 | 0 |
| **31.12.2015** | **2 664 892** | **0** | **2 664 892** |
| | | | |
| **Accumulated amortisation** | | | |
| **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** |
| Amortisation charge for the year | -339 079 | 0 | -339 079 |
| **31.12.2015** | **-1 231 669** | **0** | **-1 231 669** |
| | | | |
| **31.12.2014** | **1 573 775** | **0** | **1 573 775** |
| **31.12.2015** | **1 433 223** | **0** | **1 433 223** |

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 2015 include internally capitalised development costs amounting to 157 169 euros.

Carrying amount of intangible assets fully amortised yet in use as at 31.12.2015 was 71 930 euros (2014: 71 930 euros).

## Deferred acquisition costs

| *In euros* | |
|---|---|
| **31.12.2013** | **274 450** |
| Deferred | 1 569 789 |
| Amortised | -1 530 373 |
| **31.12.2014** | **313 866** |
| Deferred | 2 036 849 |
| Amortised | -1 938 963 |
| **31.12.2015** | **411 753** |

# 13. Financial assets

| *In euros* | **Note** | **31.12.2015** | **31.12.2014** |
|---|---|---|---|
| Shares and equity funds | **13.1** | 757 082 | 435 149 |
| Bonds and other fixed income securities | **13.2** | 16 136 078 | 16 574 547 |
| Loans | **13.3** | 129 957 | 101 889 |
| Term deposits | **13.4** | 95 199 | 80 373 |
| **Total** | | **17 118 316** | **17 191 958** |

| *In euros* | **31.12.2015** | | **31.12.2014** | |
|---|---|---|---|---|
| | **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 | 757 082 | 800 197 | 435 149 | 524 226 |
| Bonds and other fixed income securities | 16 136 078 | 16 331 244 | 16 574 547 | 16 485 210 |
| **Financial assets measured at amortised cost** | | | | |
| Loans | 129 957 | 149 335 | 101 889 | 203 731 |
| Term deposits | 95 199 | 95 000 | 80 373 | 80 000 |
| **Total** | **17 118 316** | **17 375 776** | **17 191 958** | **17 293 167** |

## 13.1. Shares and equity funds

| *In euros* | **31.12.2015** | **31.12.2014** |
|---|---|---|
| Shares | 625 519 | 403 962 |
| Equity funds | 131 563 | 31 187 |
| **Total** | **757 082** | **435 149** |

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

| *In euros* | **31.12.2015** | **31.12.2014** |
|---|---|---|
| **EUR** | 427 117 | 286 496 |
| **USD** | 308 050 | 125 211 |
| **GBP** | 21 915 | 23 442 |
| **Total** | **757 082** | **435 149** |

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

### Change in share and equity fund prices and its potential effect on the Group's performance and equity:

| *thousand euros* | **31.12.2015** | **31.12.2014** |
|---|---|---|
| Share prices +10% | 76 | 44 |
| Share prices +20% | 151 | 87 |
| Share prices –10% | -76 | -44 |
| Share prices –20% | -151 | -87 |

## 13.2. Bonds

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| *In euros* | **At fair value** | **At fair value** |
| **Bonds with a fixed interest rate** | | |
| Government and government owned institutions bonds | 1 229 457 | 1 994 176 |
| Bonds of financial institutions | 0 | 1 044 136 |
| Other bonds | 4 751 972 | 5 124 033 |
| **Total** | **5 981 429** | **8 162 345** |
| | | |
| **Bonds with a floating interest rate** | | |
| Government and government owned institutions bonds | 162 | 643 |
| Bonds of financial institutions | 7 542 051 | 6 686 104 |
| Other bonds | 2 612 436 | 1 725 455 |
| **Total** | **10 154 649** | **8 412 202** |
| **Total bonds** | **16 136 078** | **16 574 547** |

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

| Standard & Poor's | Moody's | 31.12.2015 | 31.12.2014 |
|---|---|---|---|
| AA | Aa | 2 413 033 | 801 944 |
| A | A | 996 942 | 2 991 159 |
| BBB | Baa | 1 873 273 | 3 292 713 |
| BB | Ba | 2 836 107 | 3 810 236 |
| CCC | Caa | 162 | 0 |
| N/A | | 8 016 561 | 5 678 495 |
| **Total** | | **16 136 078** | **16 574 547** |

By individual currencies, bonds are divided as follows:

| *In euros* | 31.12.2015 | 31.12.2014 |
|---|---|---|
| EUR | 14 943 203 | 15 380 806 |
| NOK | 1 192 875 | 1 013 849 |
| USD | 0 | 179 892 |
| **Total** | **16 136 078** | **16 574 547** |

The bond portfolio is divided by maturity terms as follows:

| *In euros* | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Up to 6 months | 1 101 125 | 0 |
| 6 months – 1 year | 716 961 | 0 |
| 1-3 years | 4 781 289 | 2 489 263 |
| Over 3 years | 9 536 703 | 14 085 284 |
| **Total** | **16 136 078** | **16 574 547** |

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

| *In euros* | **31.12.2015** | **31.12.2014** |
|---|---|---|
| Interest rate: 0.0-2.9% | 9 390 322 | 9 701 150 |
| Interest rate: 4.0-4.9% | 1 201 131 | 1 793 132 |
| Interest rate: 5.0-5.9% | 1 572 236 | 2 289 657 |
| Interest rate: 6.0-6.9% | 3 871 737 | 1 746 472 |
| Interest rate: 7.0-7.9% | 100 652 | 0 |
| Interest rate: 9.0-9.9% | 0 | 1 044 136 |
| **Total** | **16 136 078** | **16 574 547** |

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 and its potential effect on the Group's performance and equity:

| *thousand euros* | **31.12.2015** | **31.12.2014** |
|---|---|---|
| Change in yield curve +50 base points | -72 | -108 |
| Change in yield curve -50 base points | +74 | +113 |
| Change in yield curve +100 base points | -143 | -216 |
| Change in yield curve -100 base points | +145 | +227 |
| Change in yield curve +200 base points | -281 | -429 |
| Change in yield curve -200 base points | +330 | +404 |

## 13.3. Loans

| *In euros* | **31.12.2015** | **31.12.2014** |
|---|---|---|
| **Mortgage loans** | | |
| Loans to related parties with a term of 3-12 months | 27 000 | 29 000 |
| Other mortgage loans with a term of 3-12 months | 60 000 | 38 984 |
| **Total** | **87 000** | **67 984** |
| **Other loans** | | |
| Loans with a term of 3-12 months | 569 | 9 057 |
| Loans with a term of 1-3 years | 38 688 | 14 868 |
| Loans with a term of over 3 years | 3 700 | 9 980 |
| **Total** | **42 957** | **33 905** |
| **Total loans** | **129 957** | **101 889** |

The annual interest rates for loans granted fall between 4.5% and 7.5%. 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 fulfil the obligations from the mortgage loans.

## 13.4. Term deposits

Term deposits with credit institutions, by terms:

| *In euros* | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Up to 3 months | 0 | 40 125 |
| Term of 3-12 months | 95 199 | 40 248 |
| **Total** | **95 199** | **80 373** |

The annual interest rates for term deposits are 1%. Deposits are held in euros.

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

*In euros*

| 31.12.2015 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| Shares and equity funds | 757 082 | 0 | 0 | 757 082 |
| Bonds | 16 035 426 | 0 | 100 652 | 16 136 078 |
| Term deposits | 0 | 95 199 | 0 | 95 199 |
| Loans | 0 | 0 | 129 957 | 129 957 |
| **Assets measured at amortised cost** | | | | |
| Cash and cash equivalents | 0 | 0 | 3 648 409 | 3 648 409 |
| Receivables from insurance activities | 0 | 0 | 1 200 808 | 1 200 808 |
| Receivables from reinsurance | 0 | 0 | 56 082 | 56 082 |
| | | | | |
| **Liabilities measured at amortised cost** | | | | |
| Liabilities from direct insurance activities and reinsurance and deferred liabilities | 0 | 0 | 1 617 859 | 1 617 859 |

*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 |
| **Assets measured at amortised cost** | | | | |
| Cash and cash equivalents | 0 | 0 | 2 095 408 | 2 095 408 |
| Receivables from insurance activities | 0 | 0 | 1 310 832 | 1 310 832 |
| Receivables from reinsurance | 0 | 0 | 48 711 | 48 711 |
| | | | | |
| **Liabilities measured at amortised cost** | | | | |
| Liabilities from direct insurance activities and reinsurance and deferred liabilities | 0 | 0 | 1 602 341 | 1 602 341 |

Profit from revaluation of financial assets amounting to 252 thousand euros is recognised in investment income. There were no changes in valuation policy.

# 14. Receivables under reinsurance contracts

| *In euros* | Note | 31.12.2015 | 31.12.2014 |
|---|---|---|---|
| Receivables from reinsurance | | 56 082 | 48 711 |
| Reinsurer's share in provisions | **20** | 11 153 711 | 10 127 145 |
| **Total** | | **11 209 793** | **10 175 856** |

All receivables from reinsurance are due within 12 months.

# 15. Receivables from insurance activities and other receivables

| *In euros* | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Policyholders | 170 053 | 177 617 |
| Insurance brokers | 338 277 | 268 508 |
| Recoveries and salvages | 675 018 | 864 707 |
| Other accrued income | 26 712 | 13 479 |
| Other prepaid expenses | 89 889 | 87 614 |
| **Total** | **1 299 949** | **1 411 925** |

Term of the receivables:

| *In euros* | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Not due yet | 1 068 653 | 1 220 985 |
| Due for up to 3 months | 212 109 | 159 400 |
| Due for 3-6 months | 1 680 | 13 932 |
| Due for 6-12 months | 17 507 | 17 608 |
| **Total** | **1 299 949** | **1 411 925** |

# 16. Cash and cash equivalents

| *In euros* | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Cash in hand | 6 482 | 4 965 |
| Cash at bank | 3 641 927 | 2 090 443 |
| **Total** | **3 648 409** | **2 095 408** |

Cash and cash equivalents by individual currencies:

| *In euros* | 31.12.2015 | 31.12.2014 |
|---|---|---|
| EUR | 3 423 964 | 1 753 831 |
| USD | 206 316 | 291 013 |
| NOK | 18 129 | 50 564 |
| **Total** | **3 648 409** | **2 095 408** |

# 17. Shareholders' equity and required solvency margin

The Insurance Activities Act lays down the requirements established for non-life insurance undertakings with respect to shareholders' equity and the solvency margin. To ensure that an insurance undertaking is capable of meeting the obligations arising from insurance contracts, the insurance undertaking shall have an adequate solvency margin available, 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* | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Shareholder's equity | 14 331 490 | 14 744 975 |
| Available solvency margin | 11 840 185 | 12 271 200 |
| Calculated solvency margin | 1 882 387 | 1 669 020 |
| Surplus of solvency margin | 9 957 798 | 10 602 180 |

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 3.2 mln euros (2012: 3.2 mln euros), divided into 1 mln shares (2013: 1 mln) 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 2015, a total of 900 000 euros was paid in dividends, i.e. 0.9 euros per share (2014: 900 000 euros i.e. 0.9 euros per share).

### Reserve capital

The insurance company establishes the mandatory reserve capital in accordance with the requirements of the Commercial Code, and under the stipulations of the Articles of Association. Reserve capital is a mandatory reserve, prescribed by the Commercial Code, 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 the 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 a 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 that 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 the 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.

**31.12.2015**

| **Type of insurance** *in thousand euros* | **Gross liabilities related to insurance contracts** | **Reinsurer's share of liabilities** | **Net liabilities** |
|---|---|---|---|
| Motor third party liability insurance | 13 007 | 8 733 | 4 274 |
| Property insurance | 3 380 | 1 309 | 2 071 |
| Short-term health insurance | 1 409 | 594 | 815 |
| Motor vehicle insurance | 556 | 44 | 512 |
| Motor vehicle owner's liability | 298 | 252 | 46 |
| Liability insurance | 276 | 224 | 52 |
| Monetary Damage | 69 | 7 | 62 |
| Insurance of goods in transit | 42 | 47 | -5 |
| Railway rolling stock and small craft | 2 | 0 | 2 |
| **Total** | **19 039** | **11 210** | **7 829** |

**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 |
| Property insurance | 2 181 | 530 | 1 651 |
| Motor vehicle insurance | 1 453 | 604 | 849 |
| Short-term health insurance | 379 | 36 | 343 |
| Motor vehicle owner's liability | 169 | 132 | 36 |
| Liability insurance | 250 | 200 | 50 |
| Monetary Damage | 71 | 9 | 61 |
| Insurance of goods in transit | 47 | 46 | 1 |
| Railway rolling stock and small craft | 7 | 6 | 1 |
| **Total** | **16 705** | **10 127** | **6 578** |

*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.

**31.12.2015**

| **Factors** *In thousand euros* | **Value** | **Potential change** | **Effect on equity, thousands of euros** | **Effect on equity, %** |
|---|---|---|---|---|
| Net claims incurred | 7 173 | +5% | -359 | -2,51 |
| High net loss of motor third party liability insurance | | | -250 | -1,74 |
| High net loss of property insurance | | | -450 | -3,14 |
| Operating expenses | 5 857 | +5% | -293 | -2,04 |

**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 |

## 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** | | **31.12.2015** | **31.12.2014** |
|---|---|---|---|---|
| **Financial assets measured at fair value through profit and loss** | | | | |
| Shares and equity funds | Market risk, liquidity risk | **13.1** | 757 082 | 435 149 |
| Bonds | Market risk, liquidity risk, interest risk(fixed), credit risk | **13.2** | 16 136 078 | 16 574 547 |
| **Financial assets at amortised cost** | | | | |
| Loans and term deposits | Credit risk | **13.3,13.4** | 225 156 | 182 262 |
| Receivables under reinsurance contracts | Credit risk | **14** | 11 209 793 | 10 175 856 |
| Receivables from insurance activities and other receivables | Credit risk | **15** | 1 299 949 | 1 411 925 |
| Cash and cash equivalents | Credit risk | **16** | 3 648 408 | 2 095 408 |
| **Total exposure to financial risk** | | | **33 276 466** | **30 875 147** |

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 table below provides an overview of the concentration of market and credit risk in five greater single counterparties and financial classes as at 31.12.2015:

| *In euros* | **Deposits** | **Shares** | **Bonds** |
|---|---|---|---|
| Nordea Bank | 95 199 | 0 | 2 196 063 |
| Nokia Co | 0 | 0 | 1 382 875 |
| Nykredit Bank AS | 0 | 0 | 1 300 921 |
| Kemira OYJ | 0 | 0 | 1 046 573 |
| Tallink Group | 0 | 103 286 | 1 192 875 |
| **Total** | **95 199** | **103 286** | **7 119 307** |

*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 and cannot be directly controlled by the Company.

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

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

Operational risk management is not a separate process — it is a part of strategic management within the context of long-term planning. These issues are handled more frequently, if the environment so requires.

## Goals, strategy and processes of capital management

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

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

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

The requirements for the insurance undertaking's solvency margin are stipulated in the Insurance Activities Act. Pursuant to subsection 71 (3) of the Insurance Activities Act, the solvency margin minimum shall be 3.5 million euros. The Group's solvency margin was 11.8 million euros at the end of 2015, in line with the rules for accounting for the solvency margin, stipulated in the Insurance Activities Act. The minimum consolidated solvency margin is 1.9 million euros (2014: 1.7 million euros).

# 19. Development of claims

The table representing formation of losses has been prepared with the intent of placing the gross outstanding claims reserves into a context that would allow comparing the formation of losses with historical data. As a result, this table represents the Company's ability to assess the aggregated value of losses, and estimate whether or not the historical reserves have been sufficient.

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

| *In thousand euros*<br>**Cumulative estimate of losses** | **Before 2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| As at 31 December starting from the validity of the policy | | 14 385 | 16 754 | 14 364 | 11 762 | 10 321 | 11 155 | 7 572 | 9 239 | 10 577 | 10 601 | | |
| 2 year later | | 13 755 | 16 358 | 14 015 | 11 603 | 10 055 | 10 749 | 7 550 | 9 281 | 10 240 | | | |
| 3 years... | | 13 446 | 16 225 | 13 794 | 11 453 | 9 963 | 10 370 | 14 082 | 9 093 | | | | |
| 4 years... | | 13 399 | 16 147 | 13 590 | 11 306 | 9 557 | 10 242 | 14 094 | | | | | |
| 5 years... | | 13 311 | 15 742 | 13 312 | 11 160 | 9 544 | 10 149 | | | | | | |
| 6 years... | | 13 199 | 15 763 | 13 199 | 11 096 | 9 523 | | | | | | | |
| 7 years... | | 13 184 | 15 759 | 13 196 | 11 111 | | | | | | | | |
| 8 years... | | 13 152 | 15 819 | 13 219 | | | | | | | | | |
| 9 years... | | 13 156 | 15 747 | | | | | | | | | | |
| 10 years... | | 13 148 | | | | | | | | | | | |
| Cumulative estimate of claims | | 13 148 | 15 747 | 13 219 | 11 111 | 9 523 | 10 149 | 14 094 | 9 093 | 10 240 | 10 601 | | |
| The adequacy of estimate made 1 year after the end of validity of the policy as at 31.12.2015 | | 109% | 106% | 109% | 106% | 108% | 110% | 54% | 102% | 103% | | | |
| Total disbursements as at 31.12.2015 | | 13 069 | 14 676 | 12 953 | 10 864 | 9 359 | 9 853 | 9 371 | 8 545 | 8 855 | 8 436 | 5 411 | |
| Provision for outstanding claims as at 31.12.2015 | 464 | 79 | 1071 | 266 | 247 | 164 | 296 | 4723 | 548 | 1385 | 2165 | 3008 | 14 416 |

In the management's opinion, the amounts of technical reserves reported in the financial statements prepared as of the end of 2015 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* | **31.12.2015** | **31.12.2014** |
|---|---|---|
| **Gross** | | |
| Provision for losses incurred in previous periods | 7 522 032 | 7 180 111 |
| Provision for losses incurred in the reporting period | 3 459 771 | 2 387 158 |
| Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR) | 97 744 | 152 053 |
| Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR) | 658 599 | 527 593 |
| Provision for annuity under motor third party liability insurance incurred in the previous periods | 2 677 562 | 2 510 564 |
| Provision for annuity under motor third party liability insurance incurred in the reporting period | 0 | 31 875 |
| Provision for unearned premiums | 4 623 012 | 3 916 028 |
| **Total** | **19 038 720** | **16 705 382** |
| | | |
| **Reinsurer's share** | | |
| Provision for losses incurred in previous periods | 6 099 413 | 5 935 118 |
| Provision for losses incurred in the reporting period | 1 464 652 | 831 531 |
| Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR) | 91 890 | 150 607 |
| Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR) | 312 394 | 347 434 |
| Provision for annuity under motor third party liability insurance incurred in the previous periods | 1 569 574 | 1 540 865 |
| Provision for annuity under motor third party liability insurance incurred in the reporting period | 0 | 12 750 |
| Provision for unearned premiums | 1 615 788 | 1 308 840 |
| **Total** | **11 153 711** | **10 127 145** |
| | | |
| **Net** | | |
| Provision for losses incurred in the previous periods | 1 422 619 | 1 244 993 |
| Provision for losses incurred in the reporting period | 1 995 119 | 1 555 627 |
| Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR) | 5 854 | 1 446 |
| Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR) | 346 205 | 180 159 |
| Provision for annuity under motor third party liability insurance incurred in the previous periods | 1 107 988 | 969 699 |
| Provision for annuity under motor third party liability insurance incurred in the reporting period | 0 | 19 125 |
| Provision for unearned premiums | 3 007 224 | 2 607 188 |
| **Total** | **7 885 009** | **6 578 237** |

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

## 20.1. Provision for unearned premiums

| *In euros* | Liabilities under insurance contracts | Reinsurer's share | Net |
|---|---|---|---|
| **As at 01.01.2015** | **3 916 028** | **1 308 840** | **2 607 188** |
| Premiums written in the year | 19 092 524 | 6 648 620 | 12 443 904 |
| Premiums earned during the year | -18 385 540 | -6 341 672 | -12 043 868 |
| **As at 31.12.2015** | **4 623 012** | **1 615 788** | **3 007 224** |

| *In euros* | Liabilities under insurance contracts | Reinsurer's share | Net |
|---|---|---|---|
| **As at 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 |
| **As at 31.12.2014** | **3 916 028** | **1 308 840** | **2 607 188** |

## 20.2. Provision for losses incurred

| *In euros* | Liabilities under insurance contracts | Reinsurer's share | Net |
|---|---|---|---|
| **As at 01.01.2015** | **12 789 354** | **8 818 305** | **3 971 049** |
| Claims paid during the year that incurred in prior accident years | -1 914 404 | -914 991 | -1 214 102 |
| Claims paid during the year that incurred in the current accident year | -8 602 464 | -2 967 595 | -4 675 798 |
| Adjustment to claims incurred in prior accident years | -577 612 | -142 437 | -477 116 |
| Losses incurred during the year | 12 720 834 | 4 744 641 | 6 430 709 |
| **As at 31.12.2015** | **14 415 708** | **9 537 923** | **4 877 785** |

| *In euros* | Liabilities under insurance contracts | Reinsurer's share | Net |
|---|---|---|---|
| **As at 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 |
| **As at 31.12.2014** | **12 789 354** | **8 818 305** | **3 971 049** |

# 21. Liabilities under reinsurance

| *In euros* | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Payables to reinsurers | 881 752 | 448 078 |
| Reinsurer's share in recoveries and salvage | 274 188 | 408 385 |
| Reinsurer's share of the deferred acquisition costs | 259 423 | 266 652 |
| **Total** | **1 415 363** | **1 123 115** |

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

# 22. Liabilities from direct insurance activities

| *In euros* | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Policyholder prepayments | 343 066 | 273 378 |
| Payables to insurance brokers | 175 501 | 123 438 |
| Other liabilities | 19 007 | 13 322 |
| **Total** | **537 574** | **410 138** |

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

# 23. Accrued expenses and other deferred revenue

| *In euros* | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Payables to employees | 139 458 | 331 057 |
| Vacation accrual | 77 048 | 70 747 |
| Value added tax | 43 927 | 33 415 |
| Personal income tax | 58 921 | 56 905 |
| Social tax | 126 603 | 116 918 |
| Unemployment insurance | 7 759 | 8 286 |
| Funded pension liability | 6 155 | 5 675 |
| Corporate income tax | 8 922 | 6 721 |
| Accounts payable | 85 525 | 69 088 |
| Government grant | 525 967 | 525 967 |
| **Total** | **1 080 285** | **1 224 779** |

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 recognised as prepaid income. The management Board has decided not to recognise them as revenue until it is clear that all terms and conditions for retaining are fulfilled. The company is in the process of fulfilling the terms.

# 24. Operating lease

## Assets used under operating lease

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

| *In euros* | **2015** | **2014** |
|---|---|---|
| Passenger car rental payments | 13 354 | 10 456 |
| Office space rental payments | 197 753 | 209 125 |

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

| *In euros* | |
|---|---|
| Up to 1 year | 36 213 |
| 1-5 years | 69 604 |

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* | **2015** | **2014** |
|---|---|---|
| Office space rental revenue | 54 762 | 49 218 |

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

| *In euros* | |
|---|---|
| Up to 1 year | 43 914 |
| 1-5 years | 10 017 |

# 25. Provisions and contingent liabilities

## Income tax

As of 31.12.2015, the company's retained earnings amounted to 10 648 841 euros (last year:11 079 781 euros) and net book value of intangible assets amounted to 1 844 976 euros (last year: 1 887 641). The maximum possible income tax liability related to the payment of the company's retained earnings as dividends is 1 760 773 euros (last year: 1 838 428 euros). The company can thus pay a total of 7 043 092 euros of net dividends (last year 7 353 712 euros). The maximum possible income tax liability has been calculated based on the assumption that the net dividends to be paid, and the related total income tax expenses to be recorded in the comprehensive income statement of 2016 would not exceed the distributable profit as of 31.12.2015.

## Other

Claims of action in the amount of 3 342 416 euros have been submitted against Salva Kindlustuse AS in connection with insurance losses. The management board estimates approximately 675 000 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%
    - Eraisikud 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 2015, insurance contracts with aggregate premiums of 7 260 euros were concluded with members of the management board and claims paid amounted to 538 euros. The wages of the members of the management board amounted to 379 thousand euros and the remuneration paid to members of the supervisory board to 31 thousand euros. Remuneration of the members of the board is based on the basic salary. The activities as the board member are not remunerated separately, therefore the members of the board are not entitled to performance fee. The members of the management board and supervisory board are not entitled to any severance compensation regardless of the basis for termination of the mandate. The members of the Management Board of the company may be paid rewards for the performance according to their position. The calculation of the performance pay is directly dependent on the size of consolidated profit.

## Other related party transactions

As of 31.12.2015, the balance of loans granted to own employees and related parties amounted to 66 569 euros. (31.12.2014: 57 206).

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

The prices used for related party transactions do not significantly differ from the market prices.

## 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* | 2015 | 2014 |
|---|---|---|
| **REVENUE** | | |
| Gross premiums | 19 113 942 | 16 592 834 |
| Reinsurance premiums | -6 648 620 | -5 416 380 |
| Changes in the provision for unearned premiums | -706 984 | -225 912 |
| Reinsurer's share of the change in provision for unearned premiums | 306 948 | 124 317 |
| **Premiums earned, net of reinsurance** | **12 065 286** | **11 074 859** |
| Service and commission fee revenue | 1 251 444 | 1 257 922 |
| Net investment revenue | 1 260 230 | -61 636 |
| Other income | 37 755 | 20 693 |
| **Total revenue** | **14 614 715** | **12 291 838** |
| **EXPENSES** | | |
| Gross claims | -10 706 556 | -9 023 962 |
| Reinsurer's share in claims | 4 016 783 | 3 300 111 |
| Change in the provision for claims outstanding | -1 626 354 | -4 523 514 |
| Reinsurer's share of the change in the provision for claims outstanding | 719 618 | 4 459 821 |
| **Claims incurred, net of reinsurance** | **-7 596 509** | **-5 787 544** |
| Acquisition costs | -4 397 163 | -3 980 586 |
| Administrative expenses | -1 390 649 | -1 371 112 |
| Financial expenses | -125 992 | -115 860 |
| **Total operating expenses** | **-5 913 804** | **-5 467 558** |
| **Tax on dividends paid** | -145 000 | -154 177 |
| **Profit/loss for the financial year** | **959 402** | **882 559** |
| **Comprehensive profit for the financial year** | **959 402** | **882 559** |

## Statement of financial position of Salva Kindlustuse AS

| *In euros* | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **ASSETS** | | |
| Property, plant and equipment | 93 272 | 92 560 |
| Intangible assets/Deferred acquisition costs | 2 095 086 | 2 111 312 |
| Subsidiaries | 5 978 206 | 5 260 387 |
| Financial investments | 14 999 469 | 15 058 386 |
| Receivables under reinsurance contracts | 11 209 793 | 10 175 856 |
| Receivables from insurance activities and other receivables | 1 278 355 | 1 385 771 |
| Cash and cash equivalents | 2 806 568 | 1 506 727 |
| **TOTAL ASSETS** | **38 460 749** | **35 590 999** |

| | | |
|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Share capital | 3 200 000 | 3 200 000 |
| Reserve capital | 319 558 | 319 558 |
| Other reserves | 64 428 | 64 428 |
| Retained earnings | 11 998 653 | 12 016 094 |
| Profit for the financial year | 959 402 | 882 559 |
| **Total owner's equity** | **16 542 041** | **16 482 639** |
| Liabilities under insurance contracts | 19 038 720 | 16 705 382 |
| Liabilities from reinsurance | 1 415 363 | 1 123 115 |
| Liabilities from direct insurance activities | 537 574 | 410 138 |
| Other liabilities | 541 728 | 361 813 |
| Accrued expenses and deferred revenue | 385 323 | 507 912 |
| **Total liabilities** | **21 918 708** | **19 108 360** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **38 460 749** | **35 590 999** |

## Cash flow statement of Salva Kindlustuse AS

| *In euros* | 2015 | 2014 |
|---|---|---|
| **Cash flow from operating activities** | **2 567 213** | **838 732** |
| | | |
| Insurance premiums received | 17 359 615 | 15 460 942 |
| Claims paid and claims handling expenses | -9 873 925 | -9 182 811 |
| Paid to reinsurers | -1 053 314 | -347 506 |
| Paid as operating expenses | -4 047 271 | -3 957 676 |
| Acquisition of shares and other securities | -877 069 | -454 525 |
| Disposal of shares and other securities | 629 983 | 778 399 |
| Acquired fixed rate securities | -2 157 550 | -11 346 266 |
| Disposals of fixed rate securities | 2 289 908 | 6 674 592 |
| Loans granted | -65 700 | -23 700 |
| Repayment of loans granted | 21 988 | 47 228 |
| Investments in term deposits | -50 000 | -40 000 |
| Return on term deposits | 40 000 | 2 675 000 |
| Interest received | 416 923 | 637 543 |
| Dividends received | 15 610 | 9 413 |
| Investment expenses paid | -81 985 | -91 901 |
| | | |
| **Cash flow used in investing activities** | **-222 372** | **-83 712** |
| Acquisition of property, plant and equipment, and intangible assets | -222 372 | -83 712 |
| | | |
| **Cash flow used in financing activities** | **-1 045 000** | **-1 054 177** |
| Dividends paid | -900 000 | -900 000 |
| Income tax paid | -145 000 | -154 177 |
| | | |
| **Total cash flow** | **1 299 841** | **-299 157** |
| **Cash and cash equivalents at the beginning of the period** | **1 506 727** | **1 805 884** |
| **Cash and cash equivalents at the end of the period** | **2 806 568** | **1 506 727** |

## Statement of changes in equity of Salva Kindlustuse AS

| *In euros* | Share capital | Reserve capital | Other reserves | Retained earnings | Total |
|---|---|---|---|---|---|
| **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** | | **-17 441** | **-17 441** |
| **As of 31.12.2014** | **3 200 000** | **319 558** | **64 428** | **12 898  653** | **16 482 639** |
| Profit for the financial period | 0 | 0 | 0 | 959 402 | 959 402 |
| Dividends paid | 0 | 0 | 0 | -900 000 | -900 000 |
| **Total changes in equity** | **0** | **0** | **0** | **59 402** | **59 402** |
| **As of 31.12.2015** | **3 200 000** | **319 558** | **64 428** | **12 958 055** | **16 542 041** |

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 2015:**

| *In euros* | 2015 | 2014 |
|---|---|---|
| Parent company's unconsolidated equity | 16 542 041 | 16 482 639 |
| Investment in the parent company's balance sheet at fair value | -5 978 206 | -5 260 387 |
| Subsidiary's value under the equity method | 3 670 270 | 3 442 793 |
| **Total** | **14 234 105** | **14 665 045** |

The Management Board of Salva Kindlustuse AS has prepared the management report and financial statements for 2015.

## Management

| | |
|---|---|
| **Tiit Pahapill**<br>Chairman of the<br>Management Board | 17.03.2016 |
| **Irja Elias**<br>Member of the<br>Management Board | 17.03.2016 |
| **Urmas Kivirüüt**<br>Member of the<br>Management Board | 17.03.2016 |
| **Andres Lõhmus**<br>Member of the<br>Management Board | 17.03.2016 |

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 balance sheet as at 31 December 2015, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Salva Kindlustuse AS as at 31 December 2015, 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, 18 March 2016

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

Tanel Paide
Authorised Auditor's number 603

# PROFIT ALLOCATION PROPOSAL

| | |
|---|---|
| Retained earnings | 11 079 781 |
| Net profit for 2015 | 469 060 |
| Intangible assets at book value (Subsection 59 (2) of the Insurance Activities Act) | -1 844 976 |
| Total distributable profit as of 31.12.2015 | 9 703 965 |
| The Management Board proposes to allocate the profit as follows: | |
| Reserv capital | 442 |
| To be distributed as dividends | 400 000 |
| Balance of distributable profit after profit allocation | 9 303 523 |

**Tiit Pahapill**
Chairman of the
Management Board
17.03.2016

**Irja Elias**
Chairman of the
Management Board
17.03.2016

**Urmas Kivirüüt**
Chairman of the
Management Board
17.03.2016

**Andres Lõhmus**
Chairman of the
Management Board
17.03.2016