Salva Kindlustuse AS

ANNUAL REPORT 2016

Business name:
Salva Kindlustuse AS

Address:
Pärnu mnt. 16, 10141 Tallinn

Registry code:
10284984

Telephone:
+372 6800 500

E-mail:
salva@salva.ee

Web page:
www.salva.ee

Main field of activity:
Non-life insurance

Beginning of financial year:
01.01.2016

End of financial year:
31.12.2016

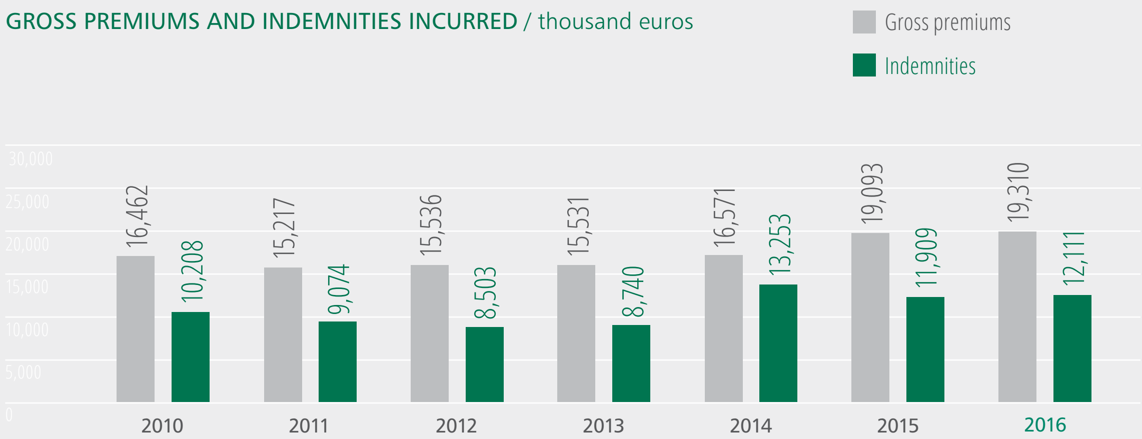
Managing director:
Tiit Pahapill

Auditor:
Ernst & Young Baltic AS

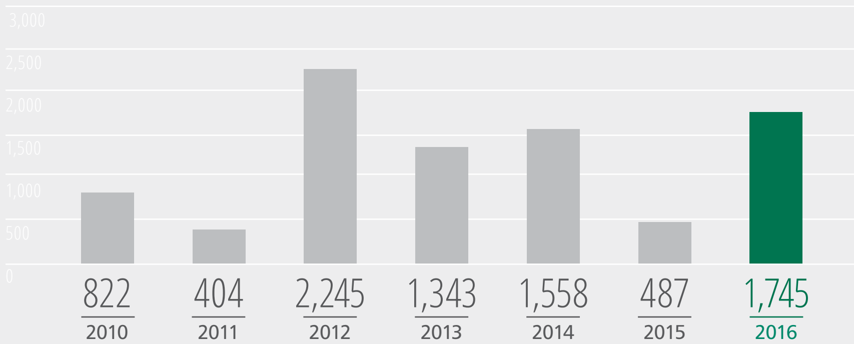
MANAGEMENT REPORT

MAIN FINANCIAL INDICATORS

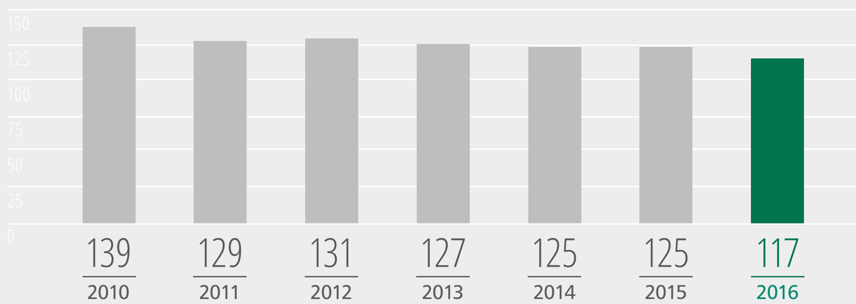
GROSS PREMIUMS AND INDEMNITIES INCURRED / thousand euros



PROFIT / thousand euros



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.

ORGANISATION

Salva Kindlustuse AS (hereinafter the Company) has been operating in the Estonian insurance market since 1993. In it's 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 2016, we continued the cross-border insurance services in small scale. 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
Register number 10284984

SALVA KAHJUKÄSITLUSE OÜ
Register number 10259383
Participation 100%

BUSINESS INFORMATION SYSTEMS OÜ
Register number 11611994

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

ECONOMIC ENVIRONMENT

The year was characterised by a slow but steady growth of the GDP. According to Statistics Estonia, in 2016, the gross domestic product (GDP) of Estonia increased by 1.6% compared to 2015. The growth fastened in the 4th quarter and was 2.7% higher compared to the same period of previous year.

The increase in value added in the activities of trade, information and communication as well as transportation influenced the growth of the Estonian economy the most. Unfortunately, the investments in fixed assets, which is one of the foundations of the business, have been in decline for many years. The biggest concern for the sustainability of Estonian economy remains a gap between productivity and the growth of wages. Due to the growing pressure on costs and the inability of companies to find new profitable outputs on the existing base, total profit dropped to 2010 levels. That, and the changing demographic composition of the labor market in the coming period are probably the biggest challenges for Estonian economic life. In summary, we expect economic activity to continue to expand in 2017. However we must admit that unfortunately we don't have respective statistics to support this statement at the moment. Mainly they give an idea of the expected increase in investment and slightly improved productivity growth.

NON-LIFE INSURANCE MARKET

In 2016, non-life insurance companies and branches on the Estonian insurance market collected a total of 302 353 thousand euros in insurance premiums. This constitutes an 8% increase in premiums from the same period in 2015 (2015: 278 806 thousand euros).

The largest share of all insurance categories offered on the insurance market is held by various motor vehicle-related insurance categories – the mandatory motor third party liability insurance (26%) and the optional motor vehicle insurance (34%). The share of property insurance amounts to 26% and the aggregated share of all the remaining insurance categories 14% of the market. The amount of disbursements in 2016 was 176 950 thousand euros. This constitutes a 10% increase in disbursements from the same period in 2015 (2015: 161 325 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 59% as of the end of 2016 (2015: 58%).

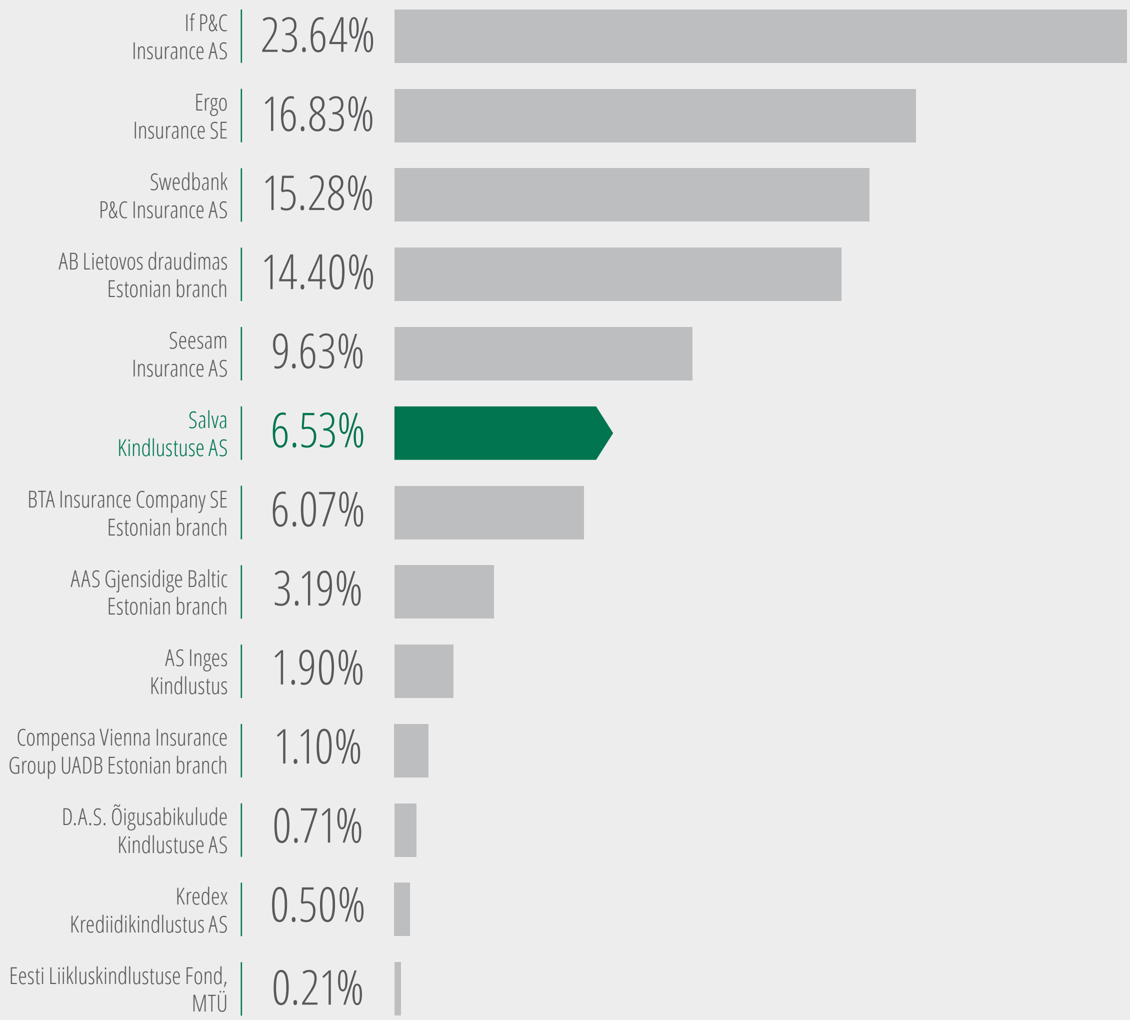
In 2016 the non-life insurance market continued increasing, similarly to previous years, by 8%. It indicates that Estonia's economic environment is favourable for both private individuals and companies for hedging their insurance risks.

2016 passed without any unexpected events for the insurance market - no significant damages arose from the forces of nature, such as floods or storms, and the results from property insurance portfolio are good. Unfortunately, motor insurance market continued its loss trend for the fifth year in row. The overall market ended the year 2016 in more than 9 million euro technical loss, despite of the fact that the motor insurance market grew faster than the overall market, mainly in prices, not at the expense of additional vehicles. Travel insurance market grew steadily at the same pace and travel insurance results should be positive for the majority of market participants. Liability insurance and accident insurance market growth was more modest but in the future there should be still a lot of room for growth.

In 2017, we look forward to a similar or even more rapid growth trend as the previous year, mainly at the expense of predictable accelerated price increase in Motor MTPL because after five years of losses it should be a very logical step that insurance companies recalculated their own tariffs and increased prices at least to the level that eliminates the market losses.

2016 was the first year of actual implementation of 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 applied in full with the new Insurance Business Act, valid from the 1st of January 2016. Solvency II aims to ensure the solvency of the insurance company at any given moment and with the highest probability. In this way the company's shareholders and customers can be sure that in the long term the insurance company is on the right course.

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 2016:



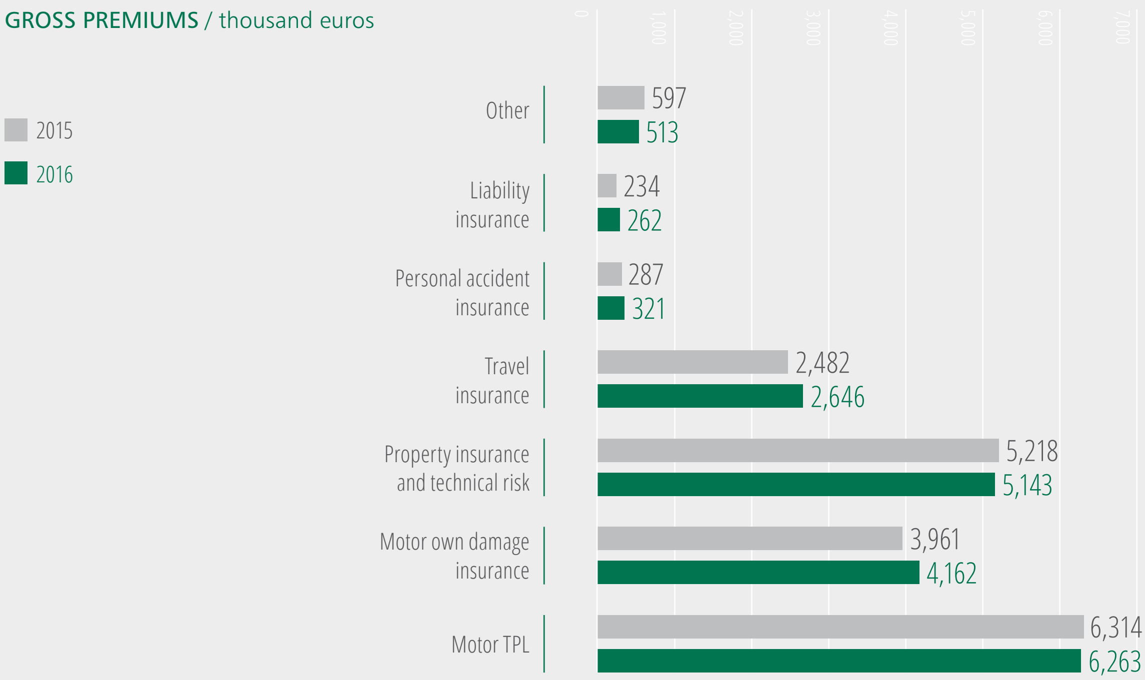
FINANCIAL RESULTS

Salva Kindlustuse AS's consolidated net profit in 2016 was 1 745 thousand euros (2015: 487 thousand euros). The result was primarily influenced by improved loss ratio in motor TPL insurance of previous years. Increased commissions related to growth of sales had also a negative impact on the result. Positive investment results also had an impact on the result.

REVENUE

In 2016, total revenues increased by 10% compared to the previous year. The increase is mainly related to the growth of investment revenue and earned insurance premiums. Among revenues, the premiums earned, net of re-insurance, increased by 7%, income from service and commission fees and other income increased by 10%.
In 2016, Salva Kindlustuse AS gathered 19 310 thousand euros in gross insurance premiums, increased by 1% compared to the last year. (2015: 19 093 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 liability insurance and travel insurance. In other lines it was impossible to gain growth due to severe price competition.

GROSS PREMIUMS / thousand euros



CLAIMS AND OPERATING EXPENSES

Total claims incurred in 2016 amounted to a total of 12 111 thousand euros –2% more than in the last year (2015: 11 909 thousand euros). Claims disbursements increased by 8% compared to the last year; claims adjustment expenses increased by 5% and income from refunds and residual assets increased 59%. The number of loss claims satisfied in 2016 amounted to 10 445 and increased by 5% compared to the year before (2015: 9 919).

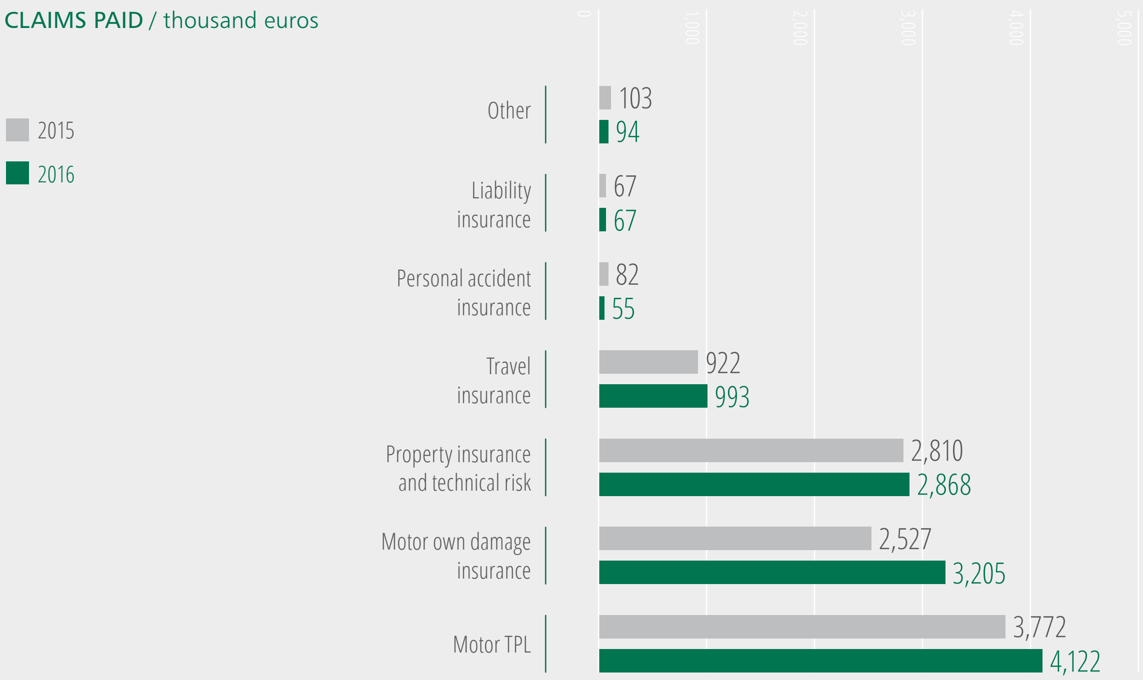
Still accounting for large share of the total number of loss claims were vehicle insurance-related loss claims. Motor TPL insurance loss claims make up 31% and Motor Own Damage insurance losses 24% of the total number of loss claims. The share of property insurance is 16% and the share of travel insurance loss claims increased from 19% to 24%.

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

The greatest claim last year was in contractors all risk insurance, where 196 thousand euros was paid for the damages caused by fire during construction work. Compensation of 135 thousand euros was paid to cover the losses incurred during robbery and 138 thousand euros was paid for the restoration of a building destroyed in fire.

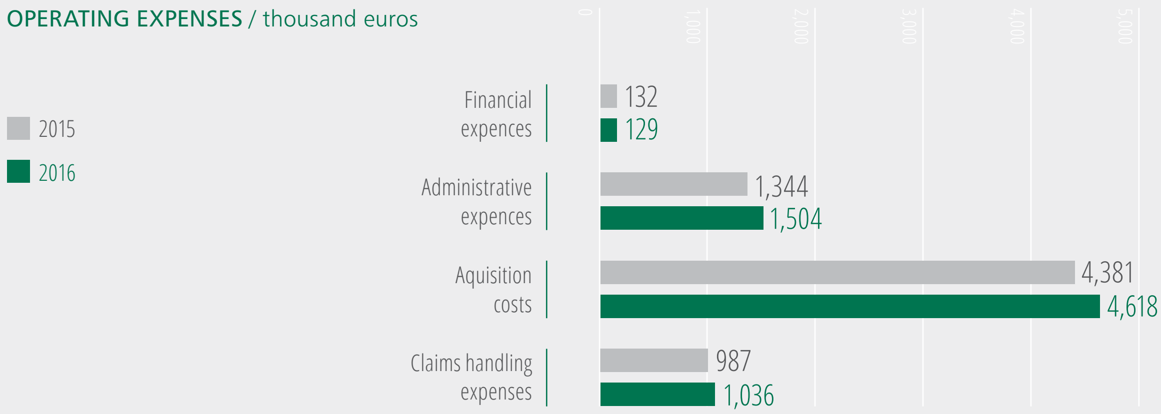
The consolidated loss ratio, net of reinsurance, was 54.20% (2015: 59.56%).

CLAIMS PAID / thousand euros



Operating expenses for 2016 increased by 7% compared to 2015, amounting to 6 251 thousand euros. Administrative expenses increased by 12% and acquisition costs increased 5%. Total payroll expenses and commissions paid to intermediaries are reflected in acquisition costs and they increased by 7% and decreased by 7% 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 35.6% at the end of 2016 and remained at the same level compared to previous year.

OPERATING EXPENSES / thousand euros



OWNER'S EQUITY

In 2016, Salva Kindlustuse AS's shareholders' equity increased by 9%, and amounted to 15 676 thousand euros. 400 thousand euros of dividends were paid to owners in 2016.

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 2016, the volatility increased in money- and capital markets. The international oil prices, Brexit and US presidential elections had their share in it. Salva invests mainly in financial investments interest rate and counterparty risk. Our financial investment portfolio was positioned in the rise of the interest rate. Our expectations partially filled. The curve descripting the term structure of European interest rates took a moderate increase in almost all maturities but is still at a low level (https://www.ecb.europa.eu/stats/ financial_markets_and_interest_rates/euro_area_yield_curves/html/index.en.html).

A moderate increase in inflation expectations also contributed to these changes. Financial investment portfolio asset values reacted as expected in accordance with the changes in the market risk.

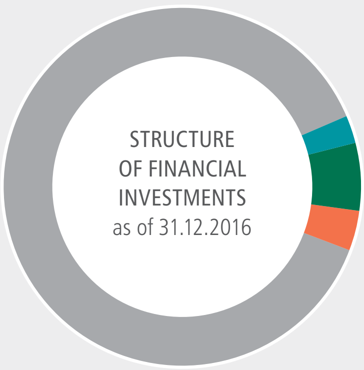
The consolidated net investment revenue from investing activities amounted to 508 thousand euros (2015: 144 thousand euros). The consolidated annual rate of return on investment was 3%. The annual rate of return of the bond portfolio was 3.25%.

As of the end of the year, financial investments exceed the net technical reserves by 8 396 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. An 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: 15% of the bonds were rated A (S&P) or Aa (Moody's), 37% had a rating of B or Baa and Ba. 90% of investments are held in euros. In the opinion of the Management Board the currency risk is minimal.

Other loans	0.16%
Mortgage loans	2.40%
Term deposits	6.08%
Equities	3.66%
Bonds	87.70%



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 (2015: 31 thousand euros).

The Company's management board has four members with the total remuneration paid to members of the management board amounting to 332 thousand euros (2015: 379 thousand euros).

Total payroll expenses (including taxes) amounted to 3 177 thousand euros in 2016. Payroll expenses have increased by 7% since last year (2015: 2 958 thousand euros).

As of the end of 2016, the Group had 117 employees, including 62 sales employees.

THE GROUP'S OUTLOOK FOR 2017

Looking at the past year, the non-life insurance market in 2016 led to moderate growth. At the same pace, the volume of premiums of Salva increased. Improvement of Estonian economic environment gives hope for stable growth in the coming years, and we expect our portfolio to strengthen among both corporate and private sector.

Already for the fifth consecutive year the most extensive type of insurance – Motor TPL- led to overall market losses amounting to more than 9 million euros. On this basis, it can be said that Salva was positively distinctive from many other insurance companies, and one of the few who managed to avoid losses. High loss ratio in the past year in Motor TPL Insurance caused the overall upward correction of the prices, which can be expected to continue in the coming year. The outlook for the overall market stabilisation is still optimistic. I look forward to the market pricing being arranged and overall minus being reduced by at least half by the end of 2017.

In the past year we saw a number of positive developments in other types of insurance. Salva continued as a market leader in travel insurance and much more stable and stronger became both vehicle and property and liability insurance portfolios. People's awareness of personal accident insurance has increased and the number of customers is steadily increasing. One important change in travel insurance product in the last year was the addition of an additional risk - terrorism protection, and bike insurance as a separate product, both of which have been adopted by customers nicely. We will try to continue the same way and develop our products and services hand in hand with our customer's needs.

According to the customers' expectations, we are continuously engaged in the development of e-solutions – today salva24.ee enables fast and convenient online price comparison and conclusion of contracts for the five most common class of insurance. We will undoubtedly contribute to the development of the environment in the years to come. In this way the personal accident insurance will be added to the sale in 2017. Besides the development of e-channels we will strengthen representative offices in different regions of Estonia with the local competence and manpower. We have seen that the decision to be available and have on-site representation and claims handling for clients outside the capital has fully justified itself.

Legislative changes entered into force in 2016. Most substantial of which concerned the so-called solvency regulation, i.e. the obligation to adapt your activities, management and reporting to the pan-European rules. Being well capitalised we managed to handle this task smoothly. In 2018, we have a new task ahead of us when we need to transpose the new rules of the EU Data Protection Regulation, which will require intensive work in our IT system and the adaptation of the contracts.

Being a domestic insurance company we want to continue to contribute to the development of the Estonian society, health and culture. As much as we can we have contributed to supporting number of top athletes and promoting youth basketball and volleyball, as well as supported the development of children's football training. We give out national fund scholarships for young musicians, and from 2012 onwards, we have been a big supporter of Estonian Concert.

We have been active in the Estonian market for a long time, and are proud to celebrate our 25th anniversary in 2018. This is a strong message to the market, as well as a homage to our own team. As we know there are not many domestic insurance companies left in Estonia, so I hope that we will manage to keep the flag high in the coming years, and show that we want and we can continue to provide the reliable, flexible and smart insurance solutions to the people of Estonia.

TIIT PAHAPILL

Chairman of the management board

MAIN FINANCIAL INDICATORS

Group *In euros*	2016	2015
FOR THE REPORTING PERIOD		
Gross premiums	19 310 217	19 092 524
Premiums earned, net of reinsurance	12 934 093	12 043 868
Gross claims incurred	12 110 695	11 909 283
Claims incurred, net of reinsurance	7 014 484	7 172 882
Total operating expenses	6 251 000	5 856 995
Net operating expenses	4 870 704	4 605 551
Net loss ratio	54.2%	59.6%
Net expense ratio	35.7%	36.0%
Net combined ratio	89.9%	95.6%
AS OF THE END OF THE REPORTING PERIOD		
Total assets	39 126 539	36 403 432
Financial investments	16 451 884	17 118 316
EFFICIENCY INDICATORS		
Technical result	1 307 646	534 749
Investment result	507 760	144 171
Profit for the year	1 744 648	486 515
Annual return on equity	11.6%	3.3%
Annual return on investments	3.0%	0.8%

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

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In euros	Note	2016	2015
REVENUE			
Gross premiums	3	19 310 217	19 092 524
Reinsurance premiums	3	-6 157 561	-6 648 620
Changes in the provision for unearned premiums	3	-221 576	-706 984
Reinsurer's share of the change in provision for unearned premiums	3	3 013	306 948
PREMIUMS EARNED, NET OF REINSURANCE	3	12 934 093	12 043 868
Service and commission fee revenue	4	1 380 296	1 251 444
Net investment revenue	5	637 310	276 487
Other income		158 433	169 593
TOTAL REVENUE		15 110 132	13 741 392
EXPENSES			
Gross claims	6	-10 841 970	-10 282 929
Reinsurer's share in claims	6	3 779 829	4 016 783
Change in the provision for claims outstanding	6	-1 268 725	-1 626 354
Reinsurer's share of the change in the provision for claims outstanding	6	1 316 382	719 618
CLAIMS INCURRED, NET OF REINSURANCE	6	-7 014 484	-7 172 882
Acquisition costs	7	-4 617 690	-4 381 219
Administrative expenses	7	-1 503 760	-1 343 460
Financial expenses	7	-129 550	-132 316
TOTAL OPERATING EXPENSES		-6 251 000	-5 856 995
PROFIT BEFORE TAXES		1 844 648	711 515
TAX ON DIVIDENDS PAID		-100 000	-225 000
PROFIT FOR THE FINANCIAL YEAR		1 744 648	486 515
OTHER COMPREHENSIVE INCOME		0	0
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		1 744 648	486 515
Incl. profit attributable to shareholders of the parent company		1 731 155	469 060
Incl. profit attributable to non-controlling interests		13 493	17 455

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In euros	Note	31.12.2016	31.12.2015

ASSETS

Property, plant and equipment	9	1 141 950	1 281 989
Intangible assets/Deferred Acquisition Costs	10	1 624 880	1 844 976
Financial assets	11	16 451 884	17 118 316
Receivables under reinsurance contracts	12	12 630 929	11 209 793
Receivables from insurance activities and other receivables	13	1 195 069	1 299 949
Cash and cash equivalents	14	6 081 827	3 648 409
TOTAL ASSETS		39 126 539	36 403 432

LIABILITIES AND SHAREHOLDERS' EQUITY

Share capital		3 200 000	3 200 000
Reserve capital		321 278	320 836
Other reserves		64 428	64 428
Retained earnings		10 248 399	10 179 781
Profit for the financial year		1 731 155	469 060
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY		15 565 260	14 234 105
TOTAL EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		110 878	97 385
TOTAL EQUITY	15	15 676 138	14 331 490

Liabilities under insurance contracts	18	20 529 021	19 038 720
Liabilities from reinsurance	19	1 324 858	1 415 363
Liabilities from direct insurance activities	20	504 959	537 574
Accrued expenses and deferred revenue	21	1 091 563	1 080 285
TOTAL LIABILITIES		23 450 401	22 071 942
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		39 126 539	36 403 432

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In euros	Share capital	Reserve capital	Other reserves	Retained earnings	Non-con-trolling interest	Total
AS OF 31.12.2014	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
Other comprehensive income	0	0	0	0	0	0
TOTAL COMPREHENSIVE INCOME	0	0	0	469 060	17 455	486 515
Dividends paid	0	0	0	-900 000	0	-900 000
AS OF 31.12.2015	3 200 000	320 836	64 428	10 648 841	97 385	14 331 490
Profit for the financial year	0	0	0	1 731 155	13 493	1 744 648
Other comprehensive income	0	0	0	0	0	0
TOTAL COMPREHENSIVE INCOME	0	0	0	1 731 155	13 493	1 744 648
Dividends paid	0	0	0	-400 000	0	-400 000
Changes in reserve capital	0	442	0	-442	0	0
AS OF 31.12.2016	3 200 000	321 278	64 428	11 979 554	110 878	15 676 138

See Note 15 for additional information about equity.

CONSOLIDATED CASH FLOW STATEMENT

In euros	Note	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES			
Cash flow from operating activities		3 283 323	2 854 118
Insurance premiums received		17 980 740	17 338 198
Claims paid and claims handling expenses		-9 796 001	-8 894 103
Paid to reinsurers (net)		-1 203 381	-1 053 314
Paid as operating expenses		-4 888 650	-4 781 297
Acquisition of shares and other securities		-561 274	-877 069
Disposal of shares and other securities		770 921	629 983
Acquired fixed rate securities		-1 675 647	-2 157 550
Proceeds from disposals of fixed rate securities		3 493 375	2 289 908
Loans granted		-322 700	-65 700
Repayments of loans granted		16 523	21 988
Investments in term deposits		-1 000 000	-95 000
Return on term deposits		95 000	80 000
Interest received		456 869	490 724
Dividends received		13 845	15 610
Investment expenses paid		-96 297	-88 260
CASH FLOW USED IN INVESTING ACTIVITIES			
Cash flow used in investing activities		-349 905	-176 117
Acquisition of property, plant and equipment, and intangible assets		-376 505	-262 698
Disposal of property, plant and equipment, and intangible assets		26 600	86 581
CASH FLOW USED IN FINANCING ACTIVITIES			
Cash flow used in financing activities		-500 000	-1 125 000
Dividends paid	15	-400 000	-900 000
Tax paid on dividends		-100 000	-225 000
TOTAL CASH FLOW		2 433 418	1 553 001
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	14	3 648 409	2 095 408
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	14	6 081 827	3 648 409

NOTES
TO THE FINANCIAL STATEMENTS

Note 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 2016 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 20 March 2017. Shareholders have the right to decline the Annual Report prepared and submitted by the Management Board, and demand preparation of a new Annual Report.

Note 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 2016. 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.

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 (BIS OÜ) is recorded in the consolidated financial statements as a subsidiary, as the parent company (Salva Kindlustuse AS) has rights that give it power over the activities of BIS OÜ that significantly affect the returns of BIS OÜ.

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

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

Supplementary disclosures on the parent entity of the group

Pursuant to the Accounting Act of the Republic of Estonia, the notes to the consolidated financial statements of the consolidating entity shall contain the main statements of the consolidating entity. The parent

company's main financial statements have been prepared using the same accounting principles and basis of estimations used in preparing the consolidated financial statements.
The basis for accounting for subsidiaries in the parent entity's unconsolidated statement of financial position have been provided in subsection (B) 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 are transferred or are 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 of 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.

(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 2016 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.

Other Income Revenue

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

(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 (previous period rate 21/79) of the net dividend paid.
Therefore, all temporary differences between the tax basis and carrying values of assets and liabilities cease to exist. Rather than being subjected to income tax on the profit, Estonian companies are subjected to income tax on the dividends paid from retained earnings. Corporate income tax on the payment of dividends is recorded under income tax expense in the statement of comprehensive income at the moment of announcing the dividends, irrespective of the period for which the dividends were announced or when the dividends are actually paid.
Taxes on cross-border portfolio are calculated in accordance with the tax rules in each country. In Belgium our intermediary is acting as the fiscal representative for the business which they write on our behalf in Belgium.
The maximum possible income tax liability related to dividend payment is disclosed in Note 23.

(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 sold 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 11.5.
Level 1 includes financial assets traded in active markets, with the inputs based on quoted prices in active markets for identical assets that the entity can access at the measurement date.
Level 2 includes financial assets traded in the free market, with the inputs based on prices that are observable for the asset or liability, either directly or indirectly.
Level 3 includes financial assets not traded in the market, with the inputs not directly observable on money and capital market data.

(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 (31.12.2016) 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 2016.

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 2016:

Amendments to IAS 1 Presentation of financial statements: Disclosure

The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports.

The amendments are effective for annual periods beginning on or after 1 January 2016. The Group has made no use of this amendment. The implementation of this standard had no impact on the Groups results.

Amendments to IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendment is effective for annual periods beginning on or after 1 January 2016 and 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 had no impact on the financial statements of the Group, as the Group does not use revenue-based depreciation and amortisation methods.

Amendments to IAS 19 Employee Benefits

The amendment is effective for annual periods beginning on or after 1 January 2015. The amendments address accounting for the employee contributions to a defined benefit plan. The Group does not have any plans that fall within the scope of this amendment therefore the implementation of this amendment did not have any impact on the financial statements of the Group.

Amendments to IAS 27 Equity method in separate financial statements

The amendment is effective for annual periods 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 made use of this amendment.

Amendment to IFRS 11 Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations

The amendment is effective for annual periods 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 Group had no transactions in scope of this amendment.

Amendments to IFRS

The IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. None of these had an effect on the Company's financial statements.

- 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 did not have any impact on accounting policies or disclosures, also did they not have any significant impact on the financial position or performance 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:

IFRS 9 Financial Instruments

(effective for financial years beginning on or after 1 January 2018).

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.

IFRS 15 Revenue from Contracts with Customers

(effective for financial years beginning on or after 1 January 2018)

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 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.

IFRS 15: Revenue from Contracts with Customers (Clarifications) *(effective for annual periods beginning on or after 1 January 2018, once endorsed by the EU)*

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. 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.

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.

Amendments to IAS 7 Statementof 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.

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 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 2: Classification and Measurement of Share based Payment Transactions (Amendments)

(effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The implementation of this amendment will have no impact on the financial statements of the Group, as the Group does not use this kind of payments.

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.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

(effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Amendments are effective for annual periods beginning on or after 1 January 2018. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach, which would permit entities that issue contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 40: Transfers to Investment Property

(effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The implementation of this amendment will not have any impact on the Group.

IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration

(effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The implementation of this amendment will have no impact on the financial statements of the Group.

The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and

Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. 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.

IFRS 1 First-time Adoption of International Financial Reporting Standards: This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

IAS 28 Investments in Associates and Joint Ventures: The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

IFRS 12 Disclosure of Interests in Other Entities: The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

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 2015 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 2017 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.

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 2016, the technical reserve amounted to 20 529 thousand euros (2015: 19 039 thousand euros).

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	13 390	4 613	887	1 646	20 529

(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%.

Note 3.

PREMIUMS EARNED, NET OF REINSURANCE

In euros	Gross premiums	Changes in the provision for unearned premiums	Reinsurance premiums	Reinsurer's share of the change in provision for unearned premiums	Premiums earned, net of reinsurance
2016					
Motor third party liability insurance	6 263 025	-95 596	-2 607 950	38 238	3 597 717
Property insurance	5 143 260	-46 822	-1 259 251	-39 981	3 797 206
Motor vehicle insurance	4 162 178	-60 489	-1 665 956	22 043	2 457 776
Short-term health insurance	2 967 396	-23 754	-120 025	-11 772	2 811 845
Motor vehicle owner's liability	343 554	19 062	-228 709	-16 639	117 268
Liability insurance	261 611	-12 701	-209 289	5 912	45 533
Monetary damage	108 124	2 417	-19 572	2 220	93 189
Insurance of goods in transit	25 921	1 123	-16 724	-1 682	8 638
Railway rolling stock and small craft	35 148	-4 816	-30 085	4 674	4 921
TOTAL	19 310 217	-221 576	-6 157 561	3 013	12 934 093
2015					
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

Note 4.
SERVICE AND COMMISSION FEE REVENUE

In euros	Note	2016	2015
Reinsurer commission revenue	8	1 357 039	1 242 590
Reinsurer's profit sharing	8	1 410	1 503
Reinsurance share of changes in acquisition costs	8	21 172	7 229
Other technical income, net of reinsurance		675	122
TOTAL		1 380 296	1 251 444

Note 5.
NET INVESTMENT REVENUE

In euros	Note	2016	2015
Dividend revenue		13 846	15 610
Interest income from deposits		1 548	1 372
Other financial revenue, incl. interest revenue from loans granted		10 149	5 939
Trade portfolio revenue		629 364	518 428
Loss from trade portfolio		-17 597	-264 862
TOTAL		637 310	276 487

Note 6.
CLAIMS INCURRED, NET OF INSURANCE

In euros	Note	2016	2015
Claims paid, gross		-10 456 304	-9 705 318
Claims handling expenses	7	-1 035 662	-987 467
Amounts received from recoveries and salvage		649 996	409856
TOTAL CLAIMS, GROSS		-10 841 970	-10 282 929
Change in the provision for claims outstanding		-1 268 725	-1 626 354
CLAIMS INCURRED, GROSS		-12 110 695	-11 909 283
Reinsurer’s share in claims paid	8	3 779 829	4 016 783
Reinsurer’s share of the change in the provision for claims outstanding	8	1 316 382	719 618
REINSURER’S SHARE IN CLAIMS INCURRED		5 096 211	4 736 401
TOTAL CLAIMS INCURRED		-7 014 484	-7 172 882

Note 7.

OPERATING EXPENSES

In euros	Note	2016	2015
CLAIMS HANDLING EXPENSES	6	-1 035 662	-987 467
Insurance contract acquisition expenses		-4 617 690	-4 381 219
Administrative expenses		-1 503 760	-1 343 460
Financial expenses		-129 550	-132 316
TOTAL OPERATING EXPENSES		-6 251 000	-5 856 995
TOTAL EXPENSES		-7 286 662	-6 844 462

Payroll expenses		-3 177 002	-2 957 882
Brokers' commission fees		-1 535 278	-1 655 467
Outsourced services		-160 044	-149 352
Depreciation and impairment of PPE and intangible assets		-598 567	-537 305
Other operating expenses		-1 801 970	-1 642 343
Change in deferred acquisition costs		-13 801	97 887
TOTAL EXPENSES		-7 286 662	-6 844 462

Note 8.

REINSURANCE RESULT

In euros	Note	2016	2015
Reinsurance premiums	3	-6 157 561	-6 648 620
Reinsurer’s share of the change in provision for unearned premiums	3	3 013	306 948
Reinsurer’s share in claims paid	6	3 779 829	4 016 783
Reinsurer’s share of the change in the provision for claims outstanding	6	1 316 382	719 618
Reinsurance commission fees and profit sharing	4	1 379 621	1 251 322
TOTAL		321 284	-353 949

Note 9.

PROPERTY, PLANT AND EQUIPMENT

In euros	Land and buildings	Other PPE	Total
Acquisition cost			
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
Acquisition	0	90 638	90 638
Disposal	0	-38 531	-38 531
Write-off	0	-18 361	-18 361
31.12.2016	1 508 408	873 124	2 381 532
Accumulated depreciation			
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
Depreciation charge for the year	-55 984	-149 420	-205 404
Depreciation charge of disposals	0	13 258	13258
Depreciation charge of write-offs	0	18 361	18361
31.12.2016	-744 014	-495 568	-1 239 582
Net book value			
31.12.2015	820 378	461 611	1 281 989
31.12.2016	764 394	377 556	1 141 950

Carrying amount of property fully amortised yet in use as at 31.12.2016 was 149 323 euros (2015: 122 478 euros). Value of land is not depreciated and is 108 842 euros.

Note 10.
INTANGIBLE ASSETS /DEFERRED ACQUISITION COSTS

In euros	Other intangible assets	Prepayments for intangible assets	Total intangible assets
Acquisition cost			
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
Acquisition	58 610	128 258	186 868
Reclassification	128 258	-128 258	0
Write-off	-57 333	0	-57 333
31.12.2016	2 794 427	0	2 794 427
Accumulated amortisation			
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
Amortisation charge for the year	-393 163	0	-393 163
Depreciation charge of write-offs	57 333	0	57 333
31.12.2016	-1 567 499	0	-1 567 499
31.12.2015	1 433 223	0	1 433 223
31.12.2016	1 226 928	0	1 226 928

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 2016 include internally capitalised development costs amounting to 108 979 euros. Carrying amount of intangible assets fully amortised yet in use as at 31.12.2016 was 14 597 euros (2015: 71 930 euros).

DEFERRED ACQUISITION COSTS

In euros	
31.12.2014	313 866
Deferred	2 036 849
Amortised	-1 938 963
31.12.2015	411 753
Deferred	1 947 120
Amortised	-1 960 921
31.12.2016	397 952

Note 11.
FINANCIAL ASSETS

In euros	Note	31.12.2016	31.12.2015
Shares and equity funds	11.1	601 788	757 082
Bonds and other fixed income securities	11.2	14 428 072	16 136 078
Loans	11.3	421 736	129 957
Term deposits	11.4	1 000 288	95 199
TOTAL		16 451 884	17 118 316

	31.12.2016		31.12.2015	
In euros	Fair value	Acquisition cost	Fair value	Acquisition cost
Financial assets measured at fair value through profit and loss				
Designated at fair value through profit and loss at inception				
Shares and equity funds	601 788	654 388	757 082	800 197
Bonds and other fixed income securities	14 428 072	14 442 350	16 136 078	16 331 244
Financial assets measured at amortised cost				
Loans	421 736	459 635	129 957	149 335
Term deposits	1 000 288	1 000 000	95 199	95 000
TOTAL	16 451 884	16 556 373	17 118 316	17 375 776

11.1. SHARES AND EQUITY FUNDS

In euros	31.12.2016	31.12.2015
Shares	508 416	625 519
Equity funds	93 372	131 563
TOTAL	601 788	757 082

Shares and equity fund units are divided by individual currencies

EUR	394 792	427 117
USD	183 980	308 050
GBP	23 016	21 915
TOTAL	601 788	757 082

In thousand euros	31.12.2016	31.12.2015
Change in share and equity fund prices and its potential effect on the Group's performance and equity		
Share prices +10%	60	76
Share prices +20%	120	151
Share prices -10%	-60	-76
Share prices -20%	-120	-151

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

11.2. BONDS

In euros	31.12.2016 At fair value	31.12.2015 At fair value
Bonds with a fixed interest rate		
Government and government owned institutions bonds	1 764 212	1 229 457
Other bonds	4 524 451	4 751 972
TOTAL	6 288 663	5 981 429
Bonds with a floating interest rate		
Government and government owned institutions bonds	2	162
Bonds of financial institutions	5 429 390	7 542 051
Other bonds	2 710 037	2 612 436
TOTAL	8 139 409	10 154 649
TOTAL BONDS	14 428 072	16 136 078

BASED ON THE RATING OF THE BOND ISSUER, THE BOND PORTFOLIO IS DIVIDED

Standard & Poor's	Moody's	31.12.2016	31.12.2015
AAA	Aaa	105 589	0
AA	Aa	2 013 288	2 413 033
A	A	0	996 942
BBB	Baa	2 342 010	1 873 273
BB	Ba	2 930 221	2 836 107
CCC	Caa	2	162
without rating		7 036 962	8 016 561
TOTAL		14 428 072	16 136 078

In euros	31.12.2016	31.12.2015
By individual currencies, bonds are divided		
EUR	13 048 691	14 943 203
NOK	1 379 381	1 192 875
TOTAL	14 428 072	16 136 078
The bond portfolio is divided by maturity terms		
Up to 6 months	207 687	1 101 125
6 months – 1 year	252 199	716 961
1-3 years	10 736 039	4 781 289
Over 3 years	3 232 147	9 536 703
TOTAL	14 428 072	16 136 078
By interest rates, the bond portfolio is divided		
Interest rate: 0.0-2.9%	7 266 139	9 390 322
Interest rate: 4.0-4.9%	1 932 816	1 201 131
Interest rate: 5.0-5.9%	1 695 187	1 572 236
Interest rate: 6.0-6.9%	3 433 250	3 871 737
Interest rate: 7.0-7.9%	100 680	100 652
TOTAL	14 428 072	16 136 078

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.

Thousand euros	31.12.2016	31.12.2015
Change in interest rate and its potential effect on the Group's performance and equity		
Change in yield curve +50 base points	-62	-72
Change in yield curve -50 base points	+13	+74
Change in yield curve +100 base points	-123	-143
Change in yield curve -100 base points	+69	+145
Change in yield curve +200 base points	-242	-281
Change in yield curve -200 base points	+128	+330

11.3. LOANS

In euros	31.12.2016	31.12.2015
Mortgage loans		
Loans to related parties with a term 3-12 months	26 000	27 000
Other mortgage loans with a term up to 3 months	301 125	0
Other mortgage loans with a term of 3-12 months	60 000	60 000
Other mortgage loans with a term of over 3 years	8 062	0
TOTAL	395 187	87 000
Other loans		
Loans with a term of 3-12 months	9 285	569
Loans with a term of 1-3 years	17 264	38 688
Loans with a term of over 3 years	0	3 700
TOTAL	26 549	42 957
TOTAL LOANS	421 736	129 957

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.

11.4. TERM DEPOSITS

In euros	31.12.2016	31.12.2015
Term deposits with credit institutions, by terms:		
Term of 3-12 months	1 000 288	95 199
TOTAL	1 000 288	95 199

The annual interest rates for term deposits are 0.05%.
Deposits are held in euros.

11.5. EVALUATION OF FINANCIAL INSTRUMENTS UNDER IFRS 13 LEVELS

	31.12.2016			
In euros	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Shares and equity funds	524 822	0	76 966	601 788
Bonds	14 327 392	0	100 680	14 428 072
Assets measured at amortised cost				
Term deposits	0	1 000 288	0	1 000 288
Loans	0	0	421 736	421 736
Cash and cash equivalents	0	0	6 081 827	6 081 827
Receivables from insurance activities	0	0	1 195 069	1 195 069
Receivables from reinsurance	0	0	157 823	157 823
Liabilities measured at amortised cost				
Liabilities from direct insurance activities and reinsurance and deferred liabilities	0	0	1 596 522	1 596 522

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
Assets measured at amortised cost				
Term deposits	0	95 199	0	95 199
Loans	0	0	129 957	129 957
Cash and cash equivalents	0	0	3 648 409	3 648 409
Receivables from insurance activities	0	0	1 299 949	1 299 949
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

Profit from revaluation of financial assets amounting to 173 thousand euros is recognised in investment income. There were no changes in valuation policy.

Note 12.
ASSETS/RECEIVABLES FROM REINSURANCE

In euros	Note	31.12.2016	31.12.2015
Receivables from reinsurance		157 823	56 082
Reinsurer's share in provisions	18	12 473 106	11 153 711
TOTAL		12 630 929	11 209 793

All receivables from reinsurance are due within 12 months.

Note 13.

RECEIVABLES FROM INSURANCE ACTIVITIES AND OTHER RECEIVABLES

In euros	31.12.2016	31.12.2015
Policyholders	97 857	170 053
Insurance brokers	286 176	338 277
Recoveries and salvages	679 008	675 018
Other accrued income	37 247	26 712
Other prepaid expenses	94 782	89 889
TOTAL	1 195 069	1 299 949

Term of the receivables

- not due yet	1 050 777	1 068 653
- due for up to 3 months	119 845	212 109
- due for 3-6 months	24 447	1 680
- due for 6-12 months	0	17 507
TOTAL	1 195 069	1 299 949

Note 14.

CASH AND CASH EQUIVALENTS

In euros	31.12.2016	31.12.2015
Cash in hand	6 367	6 428
Cash at bank	6 075 460	3 641 927
TOTAL	6 081 827	3 648 409

Cash and cash equivalents by individual currencies

EUR	5 729 925	3 423 964
USD	350 309	206 316
NOK	306	18 129
GBP	1 287	0
TOTAL	6 081 827	3 648 409

Note 15.

SHAREHOLDERS' EQUITY AND REQUIRED SOLVENCY MARGIN

The Insurance Activities Act lays down the requirements established for non-life insurance undertakings with respect to shareholders' equity as well as Minimum and Solvency Capital Requirements under Solvency II. Requirement shall correspond to the amount of the eligible own funds where the availability of the eligible basic own funds in a lesser sum would result, upon continuation of the activities of an insurance undertaking, in extremely great risk that the obligations assumed with respect to the policyholders, insured persons and beneficiaries remain unperformed.

The floor of the Minimum Capital Requirement of a non-life insurance undertaking shall amount to 3.7 million euros. The Group and regulated entities within it have met all of these requirements throughout the financial year.

The capital management principles are described in Note 16.

SHARE CAPITAL

As of 31.12.2016, the registered share capital of the Group amounted to 3.2 mln euros (2015: 3.2 mln euros), divided into 1 mln shares (2015: 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 2016, a total of 400 000 euros was paid in dividends, i.e. 0.4 euros per share (2015: 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 320 000 euros, and the mandatory reserve of Salva Kahjukäsitluse OÜ (pursuant to subsection 160 (2) of the Commercial Code) in the amount of 1 278 euros.

OTHER RESERVES

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

Note 16.

RISK POLICY AND RISK MANAGEMENT OF SALVA KINDLUSTUSE AS

In as much as the daily business of the Group entails taking of various risks, the management of these risks also forms a significant part of the Group's activity. The structure of the internal audit and risk management organisation covers various levels of the Group.
The availability of resources and approval of the strategy is ensured at the supervisory board level.
Their actual implementation is handled at the management board level. The management board distributes responsibilities, rights and obligations, and defines the strategic objectives.
Operation and financial risk management committees have been established to assess the risk on a systematic basis; these committees handle most of the risk identification, analyses, disclosure and management processes. The risk committee meets when there are changes in outside environment or inside the company. The committee is charged with the task of generating transparency of the entire risk situation, as well as identifying the areas requiring special attention.
In addition, the Group has engaged an organisation responsible for internal auditing; this organisation provides an external Group valuation of the functioning of the entire risk management model, participating in the work of various levels if required and reporting to the supervisory board and management board.
While separate units are formed to manage operational and financial risks, the management of the insurance risk - the Company's main activity - involves the best efforts of the entire organisation.
For the purpose of securing liabilities arising from non-life insurance contracts, it is essential to select assets which, by their durability and value at maturity date, match the estimated cash flows from damage arising from the portfolio. This allows to hedge risks in the most natural way. A reference base is provided by the money and capital market.

INSURANCE RISK MANAGEMENT

Risk management principles and insurance risk management policy

The Group's insurance activities presume a risk of a loss event occurring to a person or company directly associated with an insurance contract.
Such risk may be related to the person's property, liability, health, financial or other losses, deriving from an insured event. The Group as such is not fully protected against time-related uncertainties and gravity of losses stemming from insurance contracts. Moreover, we are also open to market risks arising from insurance and investment activities. Bearing risks is the main activity of an insurance company.
Insurance risk management is carried out on a daily basis, relying on various sources: information provided by the market, information contained in the existing sales system, actuarial knowledge/models, as well as know-how and processes used by the insurance departments. Insurance risk is hedged and managed by applying the underwriting limitations, procedures and limits for co-ordination of the activities, as well as pricing guidelines and reinsurance.
The Group applies various methods for assessing and monitoring the occurrence of insurance risks both at the single risk level and the general level. These methods involve internal risk measuring models and sensitivity analyses.
The main risk stems from the fact that the actual frequency and gravity of losses can be higher than

expected. Moreover, any insured event is accidental by its nature, and in any year the actual number of events and their dimensions can differ from the estimates calculated by applying statistical methods.

Underwriting strategy

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

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

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

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

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

Reinsurance strategy

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

Reinsurance risk

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

Property insurance

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

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

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

Motor vehicle insurance

Product features. 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.

Type of insurance *In thousand euros*	Gross liabilities related to insurance contracts	Reinsurer's share of liabilities	Net liabilities
31.12.2016			
Motor third party liability insurance	13 464	9 232	4 232
Property insurance	4 162	2 052	2 110
Motor vehicle insurance	1 674	792	882
Other lines of insurance	1 229	555	674
TOTAL	20 529	12 631	7 898
31.12.2015			
Motor third party liability insurance	13 007	8 733	4 274
Property insurance	3 380	1 309	2 071
Motor vehicle insurance	1 409	594	815
Other lines of insurance	1 243	574	669
TOTAL	19 039	11 210	7 829

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.

Factors *In thousand euros*	Value	Potential change	Effect on equity, thousands of euros	Effect on equity, %
31.12.2016				
Net claims incurred	7 014	+5%	-351	-2.24
High net loss of motor third party liability insurance			-250	-1.59
High net loss of property insurance			-450	-2.87
Operating expenses	6 251	+5%	-313	-2.00
31.12.2015				
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

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 11 (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	Note	31.12.2016	31.12.2015
Financial assets measured at fair value through profit and loss				
Shares and equity funds	Market risk, liquidity risk	11.1	601 788	757 082
Bonds	Market risk, liquidity risk, interest risk(fixed), credit risk	11.2	14 428 072	16 136 078
Financial assets at amortised cost				
Loans and term deposits	Credit risk	11.3, 11.4	1 422 024	225 156
Receivables under reinsurance contracts	Credit risk	12	12 630 929	11 209 793
Receivables from insurance activities and other receivables	Credit risk	13	1 195 069	1 299 949
Cash and cash equivalents	Credit risk	14	6 081 827	3 648 408
TOTAL EXPOSURE TO FINANCIAL RISK			36 359 709	33 276 466

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

Concentration risk

Concentration risk means greater risk of loss related to an inadequately distributed portfolio of assets or/and liabilities. Concentration risk mainly concerns market and credit risks related to investment portfolios of single counterparties. The below table provides an overview of the concentration of market and credit risk in five greater single counterparties and financial classes as at 31.12.2016:

In euros	Deposits	Shares	Bonds
Nordea Bank	1 000 288	0	1 253 870
Nokia Co	0	0	1 343 454
Tallink Group	0	96 322	1 273 792
Stora Enso OYJ	0	0	1 151 114
Kemira OYJ	0	0	1 062 292
TOTAL	1 000 288	96 322	6 084 522

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.

CAPITAL MANAGEMENT

Capital content and capital management

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

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

Legislative capital requirements

The Insurance Activities Act (hereinafter: the KtS) version valid since 01.01.2016 provides capital requirement principles for the insurance undertakings.

Company shall calculate the Minimum Capital Requirement at least once a quarter and submit the received calculation to the Financial Supervision Authority.

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

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

The definition of Solvency Capital Requirement is provided in KtS §61. The Solvency Capital Requirement shall correspond to the amount of the own funds of an insurance undertaking, which provides an insurance undertaking with an opportunity to perform with 99.5% probability the obligations assumed under an insurance contract within the next 12 month.

Company is preparing and disclosing the solvency report pursuant to the provisions of KtS § 123-125 and Articles 290–297 of Commission Delegated Regulation (EU) No. 2015/35. The solvency report is submitted to the supervisory authorities and also published in Company webpage within deadline set in law.

Company did not detect any deficiencies in the Company's capital in compliance with Solvency II capital requirements.

Note 17.
DEVELOPMENT OF CLAIMS

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

In thousand euros	First year of validity												
Cumulative estimate of losses	Before 2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
As at 31 December starting from the validity of the policy		16 754	14 364	11 762	10 321	11 155	7 572	9 239	10 577	10 601	13 407		
2 year later		16 358	14 015	11 603	10 055	10 749	7 550	9 281	10 240	10 378			
3 years...		16 225	13 794	11 453	9 963	10 370	14 082	9 093	9 991				
4 years...		16 147	13 590	11 306	9 557	10 242	14 094	8 925					
5 years...		15 742	13 312	11 160	9 544	10 149	13 958						
6 years...		15 763	13 199	11 096	9 523	9 977							
7 years...		15 759	13 196	11 111	9 500								
8 years...		15 819	13 219	11 087									
9 years...		15 747	13 213										
10 years...		15 745											
Cumulative estimate of claims		15 745	13 213	11 087	9 500	9 977	13 958	8 925	9 991	10 378	13 407		
The adequacy of estimate made 1 year after the end of validity of the policy as at 31.12.2016		106%	109%	106%	109%	112%	54%	104%	106%	102%			
Total disbursements as at 31.12.2016		14 701	12 957	10 854	9 361	9 858	9 440	8 569	8 990	8 888	11 072	5 032	
Provision for outstanding claims as at 31.12.2016	476	1044	256	233	139	119	4518	356	1001	1490	2335	3717	15 684

In the management's opinion, the amounts of technical reserves reported in the financial statements prepared as of the end of 2016 are accurate and sufficient for covering any future liabilities arising from the insurance portfolio. Technical reserves have been calculated on the basis of the information available as of the reporting date on the risks involved in the insurance portfolio, and comply with the generally accepted actuarial principles, and internal guidelines of the Company.

Note 18.

LIABILITIES RELATED TO INSURANCE CONTRACTS AND REINSURANCE SHARE

In euros	31.12.2016	31.12.2015
Gross		
Provision for losses incurred in previous periods	8 414 861	7 522 032
Provision for losses incurred in the reporting period	3 506 808	3 459 771
Provision for losses which were incurred in previous periods but have not yet been reported (IBNR)	46 579	97 744
Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR)	585 610	658 599
Provision for annuity under motor third party liability insurance incurred in previous periods	2 549 849	2 677 562
Provision for annuity under motor third party liability insurance incurred in the reporting period	580 726	0
Provision for unearned premiums	4 844 588	4 623 012
TOTAL	20 529 021	19 038 720
Reinsurer's share		
Provision for losses incurred in previous periods	7 527 812	6 099 413
Provision for losses incurred in the reporting period	948 184	1 464 652
Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR)	36 298	91 890
Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR)	377 828	312 394
Provision for annuity under motor third party liability insurance incurred in previous periods	1 506 632	1 569 574
Provision for annuity under motor third party liability insurance incurred in the reporting period	457 551	0
Provision for unearned premiums	1 618 801	1 615 788
TOTAL	12 473 106	11 153 711
Net		
Provision for losses incurred in the previous periods	887 049	1 422 619
Provision for losses incurred in the reporting period	2 558 624	1 995 119
Provision for losses which were incurred in the previous periods but have not yet been reported (IBNR)	10 281	5 854
Provision for losses which were incurred in the reporting period but have not yet been reported (IBNR)	207 782	346 205
Provision for pension under motor third party liability insurance incurred in the previous periods	1 043 217	1 107 988
Provision for pension under motor third party liability insurance incurred in the reporting period	123 175	0
Provision for unearned premiums	3 225 787	3 007 224
TOTAL	8 055 915	7 885 009

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

18.1 PROVISION FOR UNEARNED PREMIUMS

In euros	Liabilities under insurance contracts	Reinsurer's share	Net
AS AT 01.01.2016	4 623 012	-1 615 788	3 007 224
Premiums written in the year	19 310 217	-6 157 561	13 152 656
Premiums earned during the year	-19 088 641	6 154 548	-12 934 093
AS AT 31.12.2016	4 844 588	-1 618 801	3 225 787
BALANCE 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
BALANCE 31.12.2015	4 623 012	1 615 788	3 007 224

18.2 PROVISION FOR LOSSES INCURRED

In euros	Liabilities under insurance contracts	Reinsurer's share	Net
AS AT 01.01.2016	14 415 708	-9 537 923	4 877 785
Claims paid during the year that incurred in prior accident years	-2 280 405	798 628	-1 481 777
Claims paid during the year that incurred in the current accident year	-9 129 839	2 985 699	-6 144 140
Adjustment to claims incurred in prior accident years	-335 506	-788 998	-1 124 504
Losses incurred during the year	13 014 475	-4 311 711	8 702 764
AS AT 31.12.2016	15 684 433	-10 854 305	4 830 128
BALANCE 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	-999 413
Claims paid during the year that incurred in the current accident year	-8 602 464	2 967 595	-5 634 869
Adjustment to claims incurred in prior accident years	-577 612	142 437	-435 175
Losses incurred during the year	12 720 834	-4 744 641	7 976 193
AS AT 31.12.2015	14 415 708	-9 537 923	4 877 785

Note 19.
LIABILITIES UNDER REINSURANCE

In euros	31.12.2016	31.12.2015
Payables to reinsurers	807 921	881 752
Reinsurer's share in recoveries and salvage	278 686	274 188
Reinsurer's share of the deferred acquisition costs	238 251	259 423
TOTAL	1 324 858	1 415 363

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

Note 20.
LIABILITIES FROM DIRECT INSURANCE ACTIVITIES

In euros	31.12.2016	31.12.2015
Policyholder prepayments	224 525	343 066
Payables to insurance brokers	254 840	175 501
Other liabilities	25 594	19 007
TOTAL	504 959	537 574

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

Note 21.

ACCRUED EXPENSES AND OTHER DEFERRED REVENUE

In euros	31.12.2016	31.12.2015
Payables to employees	135 434	139 458
Vacation accrual	86 486	77 048
Value added tax	36 169	43 927
Personal income tax	61 324	58 921
Social tax	129 999	126 603
Unemployment insurance	7 869	7 759
Funded pension liability	6 461	6 155
Corporate income tax	35 359	8 922
Accounts payable	66 495	85 525
Government grant	525 967	525 967
TOTAL	1 091 563	1 080 285

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.

Note 22.
OPERATING LEASE

ASSETS USED UNDER OPERATING LEASE

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

In euros	2016	2015
Passenger car rental payments	17 980	13 354
Office space rental payments	203 936	197 753

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

In euros	
up to 1 year	31 986
1-5 years	63 113

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	2016	2015
Office space rental revenue	56 787	54 762

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

In euros	
up to 1 year	36 025
1-5 years	34 280

Note 23.
PROVISIONS AND CONTINGENT LIABILITIES

INCOME TAX

As of 31.12.2016, the company's retained earnings amounted to 11 979 554 euros (last year: 10 648 841 euros) and net book value of intangible assets amounted to 1 624 880 euros (last year: 1 844 976). The maximum possible income tax liability related to the payment of the company's retained earnings as dividends is 2 070 935 euros (last year: 1 760 773 euros). The company can thus pay a total of euros in net 8 283 739 dividends (last year 7 043 092 euros). The maximum possible income tax liability has been calculated based on the assumption that the net dividends to be paid, and the related total income tax expenses to be recorded in the comprehensive income statement would not exceed the distributable profit as of 31.12.2016.

OTHER

Claims of action in the amount of 3 441 000 euros have been submitted against Salva Kindlustuse AS in connection with insurance losses. The management board estimates approximately 823 818 euros of these claims to be satisfied, with the corresponding amount charged to the outstanding claims reserve.

Note 24.

RELATED PARTY TRANSACTIONS

RELATED PARTY

Related parties are considered:

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

TRANSACTIONS WITH MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

In 2016, insurance contracts with aggregate premiums of 8 028 euros were concluded with members of the management board and claims paid amounted to 485 euros. The wages of the members of the management board amounted to 332 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 31.12.2016, the balance of loans granted to own employees and related parties amounted to 59 059 euros. (31.12.2015: 66 569)

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

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

Note 25.

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

Note 26.

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	2016	2015
REVENUE		
Gross premiums	19 330 478	19 113 942
Reinsurance premiums	-6 157 561	-6 648 620
Changes in the provision for unearned premiums	-221 576	-706 984
Reinsurer's share of the change in provision for unearned premiums	3 013	306 948
PREMIUMS EARNED, NET OF REINSURANCE	12 954 354	12 065 286
Service and commission fee revenue	1 380 296	1 251 444
Net investment revenue	1 798 064	1 260 230
Other income	38 297	37 755
TOTAL REVENUE	16 171 011	14 614 715
EXPENSES		
Gross claims	-11 406 254	-10 706 556
Reinsurer's share in claims	3 779 829	4 016 783
Change in the provision for claims outstanding	-1 268 725	-1 626 354
Reinsurer's share of the change in the provision for claims outstanding	1 316 382	719 618
CLAIMS INCURRED, NET OF REINSURANCE	-7 578 768	-7 596 509
Acquisition costs	-4 618 650	-4 397 163
Administrative expenses	-1 594 337	-1 390 649
Financial expenses	-119 985	-125 992
TOTAL OPERATING EXPENSES	-6 332 972	-5 913 804
TAX ON DIVIDENDS PAID	-25 000	-145 000
PROFIT/LOSS FOR THE FINANCIAL YEAR	2 234 271	959 402
COMPREHENSIVE PROFIT FOR THE FINANCIAL YEAR	2 234 271	959 402

STATEMENT OF FINANCIAL POSITION OF SALVA KINDLUSTUSE AS

In euros	31.12.2016	31.12.2015

ASSETS

Property, plant and equipment	85 220	93 272
Intangible assets/Deferred acquisition costs	1 875 891	2 095 086
Subsidiaries	6 910 385	5 978 206
Financial investments	14 655 324	14 999 469
Receivables under reinsurance contracts	12 630 929	11 209 793
Receivables from insurance activities and other receivables	1 176 120	1 278 355
Cash and cash equivalents	4 323 061	2 806 568
TOTAL ASSETS	41 656 930	38 460 749

LIABILITIES AND SHAREHOLDERS' EQUITY

Share capital	3 200 000	3 200 000
Reserve capital	320 000	319 558
Other reserves	64 428	64 428
Retained earnings	12 557 613	11 998 653
Profit for the financial year	2 234 271	959 402
TOTAL OWNER'S EQUITY	18 376 312	16 542 041

Liabilities under insurance contracts	20 529 021	19 038 720
Liabilities from reinsurance	1 324 858	1 415 363
Liabilities from direct insurance activities	504 959	537 574
Other liabilities	514 291	541 728
Accrued expenses and deferred revenue	407 489	385 323
TOTAL LIABILITIES	23 280 618	21 918 708

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	41 656 930	38 460 749

CASH FLOW STATEMENT OF SALVA KINDLUSTUSE AS

In euros	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES	2 257 011	2 567 213
Insurance premiums received	18 001 001	17 359 615
Claims paid and claims handling expenses	-11 104 463	-9 873 925
Paid to reinsurers	-1 203 381	-1 053 314
Paid as operating expenses	-4 242 509	-4 047 271
Acquisition of shares and other securities	-494 440	-877 069
Disposal of shares and other securities	770 921	629 983
Acquired fixed rate securities	-1 106 186	-2 157 550
Disposals of fixed rate securities	2 586 984	2 289 908
Loans granted	-322 700	-65 700
Repayment of loans granted	16 523	21 988
Investments in term deposits	-1 000 000	-50 000
Return on term deposits	50 000	40 000
Interest received	378 254	416 923
Dividends received	13 845	15 610
Investment expenses paid	-86 838	-81 985
CASH FLOW USED IN INVESTING ACTIVITIES	-315 518	-222 372
Acquisition of property, plant and equipment, and intangible assets	-315 518	-222 372
CASH FLOW USED IN FINANCING ACTIVITIES	-425 000	-1 045 000
Dividends paid	-400 000	-900 000
Tax paid on dividends	-25 000	-145 000
TOTAL CASH FLOW	1 516 493	1 299 841
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	2 806 568	1 506 727
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4 323 061	2 806 568

STATEMENT OF CHANGES IN EQUITY OF SALVA KINDLUSTUSE AS

In euros	Share capital	Reserve capital	Other reserves	Retained earnings	Total
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
AS OF 31.12.2015	3 200 000	319 558	64 428	12 958 055	16 542 041
Profit for the financial period	0	0	0	2 234 271	2 234 271
Dividends paid	0	0	0	-400 000	-400 000
Change in Reserve capital	0	442	0	-442	0
AS OF 31.12.2016	3 200 000	320 000	64 428	14 791 884	18 376 312

See Note 15 for additional information.

PARENT COMPANY'S ADJUSTED UNCONSOLIDATED EQUITY IN ACCORDANCE WITH THE REQUIREMENTS OF THE COMMERCIAL CODE, AS OF 31 DECEMBER 2016

In euros	2016	2015
Parent company's unconsolidated equity	18 376 312	16 542 041
Investment in the parent company's balance sheet at fair value	-6 910 385	-5 978 206
Subsidiary's value under the equity method	4 099 333	3 670 270
TOTAL	15 565 260	14 234 105

PROFIT ALLOCATION PROPOSAL

In euros	
Retained earnings	10 248 399
Net profit for 2016	1 731 155
Intangible assets at book value (Subsection 59 (2) of the Insurance Activities Act)	-1 624 880
Total distributable profit as of 31.12.2016	10 354 674

The Management Board proposes to allocate the profit as follows:

To be distributed as dividends	900 000
Balance of distributable profit after profit allocation	9 454 674

SIGNATURES OF THE MANAGEMENT BOARD TO THE ANNUAL REPORT 2016

The Management Board of Salva Kindlustuse AS has prepared the management report and financial statements for 2016.

Management Board:

Tiit Pahapill	Chairman of the Management Board	....	27.03.2017
Irja Elias	Member of the Management Board	....	27.03.2017
Urmas Kivirüüt	Member of the Management Board	....	27.03.2017
Andres Lõhmus	Member of the Management Board	....	27.03.2017

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VAT payer code: EE 100770654

Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Salva Kindlustuse AS

Opinion

We have audited the consolidated financial statements of Salva Kindlustuse AS and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the *"Auditor's responsibilities for the audit of the consolidated financial statements"* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (Estonia), and we have fulfilled our other ethical responsibilities in accordance with the requirements of code of ethics.

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

Other information

Management is responsible for the other information. Other information consists of management report, but does not consist of the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated 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 of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

Tallinn, 30 March 2017

Olesia Abramova
Authorised Auditor's number 561
Ernst & Young Baltic AS
Audit Company's Registration number 58

Tanel Paide
Authorised Auditor's number 603