BTA Baltic Insurance Company AAS

ANNUAL REPORT

FOR THE YEAR ENDED
31 DECEMBER 2016

Contents

Information about the Company

Name of the company	*BTA Baltic Insurance Company*
Legal status of the company	*Joint Stock Insurance Company*
Number, place and date of registration	*40103840140, registered in Riga, Latvia on 28 October 2014*
Address	*Kr.Valdemara 63, Riga, Latvia, LV-1010*
Board members and their positions	*Jānis Lucaus – Chairman of the Board* *Oskars Hartmanis – Member of the Board* *Evija Matveja – Member of the Board* *Wolfgang Kurt Wilhelm Stockmeyer – Member of the Board from 24.10.2016*
Council members and their positions	*Franz Fuchs – Chairman of the Council from 24.08.2016* *Elisabeth Stadler – Deputy Chairman of the Council from 24.08.2016* *Jan Bogutyn – Member of the Council from 24.08.2016* *Artur Borowinski – Member of the Council from 24.08.2016* *Gints Dandzbergs – Chairman of the Council until 24.08.2016, Member of the Council until 13.01.2017* *Pauls Dandzbergs – Deputy Chairman of the Council until 24.08.2016* *Marts Dandzbergs – Deputy Chairman of the Council until 24.08.2016* *Andrejs Galanders – Member of the Council until 24.08.2016* *Agris Dambenieks – Member of the Council until 24.08.2016*
Reporting period	*01.01.2016 – 31.12.2016*
Auditors	*KPMG Baltics SIA* *Vesetas iela 7* *Riga, Latvia, LV-1013* *Licence No 55*

Letter of the Chairman of the Supervisory Board

In the Baltic markets Vienna Insurance Group AG Wiener Versicherung Gruppe ("VIG") has taken a big step forward in 2016 in realizing its strategy to develop a leading position among insurance companies in the Baltics through the acquisition of a 90% share of BTA Baltic Insurance Company AAS.

Thanks to this development, VIG collected more than 270 million EUR of premiums and took the number 1 position in the Baltic insurance markets. VIG's total market share increased to 18% in 2016.

Moreover, the importance of the Baltic region rose internally within the VIG group. The Baltic markets take now the 6th position among the regions of the VIG group. Along with the total market growth of 8% in 2016 and the favourable outlook for the future years, it emphasizes the significance of the Baltic markets for VIG.

VIG is going to continue in the Baltic markets its proven strategy of high standard of customer service and customer proximity. As our local employees in the three Baltic markets know best the needs of the customers, VIG places trust into them and into the entrepreneurship of the local managements.

Secondly, VIG pursues its multi-brand strategy that retains the well-established brands on the Baltic markets and allows getting access to customers through a wide variety of distribution channels.

The present Annual Report of BTA Baltic Insurance Company AAS illustrates that BTA fits ideally into the VIG strategy. The company has been able to tap the potential of the Baltic markets successfully: Over the past years, the gross written premiums in the Baltics have been rising steadily, they reached 132.5 million EUR in 2016. Thereby BTA clearly outperformed the market and strengthened its market position in all three Baltic countries.

Since the acquisition in August 2016 BTA integrated successfully into VIG. The company will be continuing its conservative risk strategy and solid underwriting processes. Where necessary, guidelines have been amended by VIG standards. The financial result for the year 2016 of 2.5 million EUR (before tax) reflects the company's risk-conscious policy in a competitive market as well as its financial solidity.

For the future years, BTA is going to focus continuously on best customer service through efficient and lean processes and a broad variety of sales channels. BTA is systematically exploiting the possibilities of digital communication with customers and intermediaries. Already today, by introducing innovative service and sales portals the company is a digital pioneer in the Baltic market as well as in VIG and it will continue its successful strategy in the coming years.

I would like to thank the Company's management, employees and business partners for the efforts, which enabled BTA to develop its business as well as to strengthen its position as a company providing the best standard of customer services. I would like to thank all customers for their trust in BTA. Their satisfaction and loyalty are the highest distinction for BTA.

Please become acquainted with the detailed information regarding BTA and its achievements in 2016, which are presented in the enclosed Annual Report.

Franz Fuchs
Chairman of the Supervisory Board of
BTA Baltic Insurance Company AAS

31 March 2017

Management Report

BTA Baltic Insurance Company AAS (the "Company") was established in 2014 as a result of reorganization of BTA Insurance Company SE (Balcia Insurance SE as of 1 November 2016). The Company provides all types of non-life insurance services in Latvia, and through its branches in Lithuania and Estonia. The largest shareholder of the Company is one of the leading insurers in Europe – Vienna Insurance Group AG Wiener Versicherung Gruppe ("VIG").

About BTA

Upon enlargement of the shareholding structure, the Company successfully continued self-sustaining development in the Baltic market, preserving the Company brand, the Company values and the basic operating principles – to offer high-quality insurance services, which comply with customer requirements, by means of the cutting-edge technologies employed to promote the Company development, thereby ensuring stability and safe compliance with the Company commitments. The Company Board represented by the Chairman of the Board Jānis Lucaus, Members of the Board Oskars Hartmanis and Evija Matveja and Wolfgang Kurt Wilhelm Stockmeyer (Board Member since 24 October 2016), set forward development and reinforcement of the Company positions in the Baltic market as the Company main task assignments for the year 2016, especially promotion of business development in Estonia and competitiveness in corporate customer segment. In order to accomplish the set priorities – priorities encompassing improvement of customer service and business processes, the Company paid special attention to development of information technology project, which contributed to reduction of the Company administrative costs and affected positively the Company financials.

Financials

Upon purposeful development of insurance service portfolio, the Company achieved successful results in 2016. The Company has written gross insurance premiums of 132.5 million euros altogether in the Baltic States in 2016. For the business portfolio taken over through reorganization, the volume of gross insurance premiums increased by 15.4 % in year 2016, as compared to the results of year 2015.

VIG shareholder engagement and a business strategy chosen successfully allowed the Company to raise considerably the overall business volume in Estonia (+29 %) and in Lithuania (+24 %), as well as to reinforce its positions in corporate customer segment, where the volume of gross written insurance premiums increased by 18 %. Latvian market also showed upward dynamics and moderate: 1 % growth of the volume of written insurance premiums in 2016. Intense competition prevailing on the market impedes a more vigorous growth in Latvia.

Within breakdown by types of insurance, it ought to be noted that, in 2016, the steepest growth of written insurance premiums marked MTPL (+ 23 %), private accident insurance (+ 20 %), health (+ 18 %), CASCO (+ 17 %) and property insurance (+ 13 %).

Meanwhile, the former positive trend remained – the volume of written insurance premiums in voluntary insurance types continued to grow all around the Baltic States. Altogether, the Company's volume of written insurance premiums in voluntary insurance types reached 82.7 million euros in 2016, which is 11.3 % more than in 2015.

Ensuing from the growth of the volume of gross written insurance premiums, the volume of insurance claims disbursed by the Company increased by 9.8 % in 2016 and reached 77.5 million euros. The Company disbursed almost 304 thousand euros on average every business day in 2016, which makes it approximately 38 thousand euros every business hour. A significant increase of disbursed insurance claims (+ 109 %) in 2016 based on several large extensive disbursements in corporate client segment marked Motor Third Party Liability insurance. The volume of insurance indemnities disbursed by the Company in 2016 increased also in private accident insurance (+ 28 %), MTPL (+ 11 %) and CASCO (+ 9%). Increase of the volume of indemnities in motor insurance is mostly related to increasing costs of car service and spare parts.

Notwithstanding the amount of heavy losses of MTPL type of insurance in Latvia and also Estonia, as well as the increase of the volume of insurance indemnities disbursed by the Company, the business strategy implemented successfully allowed the Company to gain a 2.5 million euros profit in the Baltic States in 2016.

The sum of the Company's gross technical reserves reached 113.6 million euros at the end 2016, while net technical reserves made 104.6 million euros. The total value of equity, reserves and liabilities made 164.5

Management Report

million euros, which is the highest indicator among Latvian insurance companies and one of the highest indicators among the Baltic insurers.

In the reporting year, the Company exercised conservative approach towards investment policy based on low risk assets. The Company mostly invested in state debt securities having high investment rating (between A and AAA according to international rating agency Standard & Poor's classification). The ratio of such investments constituted 97 % of the total volume of the Company's investments on 31 December 2016.

Insurance market profile

Competition in the Baltic insurance market remains very intense. The toughest competition, same as in the previous years, marks motor insurance types. Negative trend in MTPL insurance type proceeded in 2016 in Latvia and Estonia – the losses within the type continued to increase. In 2016, MTPL market made 11.8 million euros losses in Latvia and 9.7 million euros losses in Estonia. The fierce competition in the insurance market does not allow MTPL policy price to reach the amount, which would be objectively adequate and cost-efficient for this insurance type. In the meantime, the increase of traffic accidents and car service costs throughout three Baltic States affects the increase of MTPL insurance indemnity disbursement. The losses of MTPL type of insurance affect considerably the financial indicators of insurance companies. The year 2016 was marked by an increase in the average MTPL price both in Estonia and in Lithuania, while MTPL prices in Latvia reached the level, when the insurers should re-evaluate their onward business strategy and priorities in good earnest. Altogether, in 2016, the Company has written 49.8 million euros in MTPL gross insurance premiums in the Baltics, which is 22.9 % more than in the year 2015, taking into account business portfolio taken over in the result of reorganization. The overall increase of MTPL gross insurance premiums written by the Company was driven by the promotion of business development in Estonia as well as increase of business volume in Lithuania, where the MTPL market situation is considerably more favourable, as prices of MTPL policies in these countries are higher and more adequate to the actual market situation than in Latvia.

Positive trend throughout the Baltic States remained in voluntary insurance type segment in 2016 – the volume of gross insurance premium continued to increase. The Company has altogether written 82.7 million euros in voluntary insurance gross insurance premiums in the year 2016, in the Baltics, which is 11.3 % more than in the year 2015, taking into account business portfolio taken over in the result of reorganization. Voluntary insurance becomes ever more popular not only among natural persons (+ 13.5 %), but also among corporate entities (+ 10.3 %).

Of voluntary insurance types, CASCO was marked by the largest increase in gross written insurance premiums. The Company has altogether written 31.6 million euros in CASCO gross insurance premiums in the Baltics, in 2016, which is 16.9 % more than in the year 2015, taking into account business portfolio taken over in the result of reorganization. The volume of gross written insurance premiums increased in all three Baltic States. It was affected both by the purchasing power of residents and increase in insurance significance awareness, and by the increase in the number of new cars registered in the Baltic States.

Same as in 2015, the year 2016 was marked by a positive trend, namely an increase of the volume of property gross insurance premiums. The Company has written by 13.1 % more of property gross insurance premiums in the Baltics in 2016 than in 2015, taking into account the business portfolio taken over as a result of the reorganization. There is a growing number of natural persons, who chose to purchase all risk property insurance, all around the Baltic States. Intense competition intrinsic to the insurance market induces offering conditions that are ever more advantageous to natural persons within property insurance services; thereby the year 2016 was marked by an increase in long-term property insurance policies sold. All around the Baltic States, corporate entities purchase commercial property insurance with a more extensive insurance scope, including equipment breakdown risk, business interruption risk, and other risks.

The total volume of written private accident gross insurance premiums increased considerably in the Baltic market in 2016. In 2016, the Company has written by 19.9 % more private accident gross insurance premiums in the Baltics than in 2015, taking into account the business portfolio taken over as a result of reorganization. The Company reached a significant 29 % increase of written private accident gross insurance premiums in the corporate customer segment in the year 2016. It proves that both natural persons, corporate entities and employers consider private accident insurance and trauma- or convalescence–related financial protection provided therein, to be ever more required.

Management Report

The volume of gross health insurance premiums written by the Company in Latvia and Lithuania in the year 2016 has increased considerably – by 17.7 %. It suggests that employers complement motivation and social guarantee programme packages for their employees more frequently, they purchase health insurance policies as well as expand the scope of paid services included in these policies.

Major events and development

Compliance with solvency requirements

The Company operated successfully in accordance with the European Commission Solvency II directive guidelines. The directive is structured according to the three-pillar approach: assessment of quantitative capital adequacy requirement (Pillar I), qualitative requirements – governance system, risk management and supervision process (Pillar II), as well as a requirement of information disclosure and reporting to the respective supervisory institutions (Pillar III). The Company consistently complied with the statutory solvency margin requirements in accordance with the regulatory framework in force as of 1 January 2016. Solvency margin compliance evidences that preparatory work performed by the Company during the previous years and aimed at ensuring compliance with the margin proved purposeful and efficient, a fact also supported by the high capital adequacy ratio.

Business development in Estonia and Lithuania

Upon purposeful development of cooperation channels and segmentation of insurance services, in 2016, the Company's development in Estonia and Lithuania proved considerably more rapid growth than the overall non-life insurance market development in the respective countries. In terms of percentage points, Estonia was marked by the largest increase in gross insurance premiums written by the Company, namely, 29 %. The Company turnover in 2016 grew almost three times more rapidly in Estonia than the overall Estonian non-life insurance market, and the growth indicator achieved proved one of the highest in Estonian non-life insurance market. While, in Lithuania, the Company reached the largest increase of written gross insurance premiums – in 2016, the Company has written by 13.2 million euros more in gross insurance premiums than in the year 2015, and thus presented development twice more rapid than the overall Lithuanian non-life insurance market.

Business portfolio enforcement

In an effort to improve the portfolio efficiency and to choose sustainable development scenario, in 2016, the Company has gradually increased MTPL service prices in Latvia, framing a well-balanced insurance portfolio and price policy matching the actual costs.

In an effort to ensure the opportunity to choose a broader insurance coverage based on market trends, customer requirements and demands, in 2016, the Company improved insurance terms and conditions. Taking into account the terror acts occurred in European countries during the previous years, the Company complemented travel insurance programmes in 2016, and envisaged not only reimbursement of medical expenses, repatriation expenses, medical evacuation and other losses related to travellers' health and luggage, which might occur in the result of a terror act, but also to cover losses caused by the cancellation or interruption of the trip, if a terror act occurs in the travellers' destination point inside the territory of Europe shorty before the trip starts or in the course of the trip.

Information technology development

In 2016, the Company continued to make considerable investment in information technology development and improvement. It contributed to optimization of administrative processes and, at the same time, ensured business development, reduction of administrative costs and improvement of operations efficiency. Upon implementation of information technologies development projects, the Company has reduced hard copy documentation movement to its minimum and replaced it with electronic document movement. Now, more than 95 % of the Company documents, including the Company orders, decisions, contracts, invoices and other documents are transferred by electronic means.

Customer service improvement

In 2016, the Company continued to work hard on customer service improvement; the Company developed and implemented a customer self-service portal in Estonia. Customer self-service portal ensures a full-fledged customer service functionality, same as brick and mortar customer service centres. Through the intermediary of the portal, the customers may not only purchase insurance services quickly and conveniently, but also apply for insurance indemnities and follow the insurance claim case handling progress. The Company plans to implement an equal portal in Latvia and Lithuania as well in 2017.

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In an effort to improve customer service and to ensure the most convenient customer service by means of distant communication means in Latvia, Lithuania and Estonia, in 2016, the Company continued to improve indemnity application and service purchase options by means of distant communication tools. In 2016, the Customer Support Service registered 99.5 % of the total number of received insurance claim cases remotely. 32 % of all the CASCO insurance claim cases registered in Latvia and 33 % of all the property insurance claim cases were fast-tracked and handled in the course of a single or several days. In Estonia, in 2016, the Customer Support Service registered 97 % of the received insurance claim cases remotely, and 63 % of all the registered CASCO insurance claim cases were fast-tracked and handled in the course of a single or several days. Whereas in Lithuania the Customer Support Service registered 82 % of the received insurance claim cases remotely in 2016.

Alongside with the vigorous growth of distant channels in the Baltics, the Company is a leading company in customer face-to-face service – it has the broadest network of customer service centres in Latvia and one of the broadest networks in Lithuania. The Company has 55 customer service centres in Latvia, and 102 centres in Lithuania.

Customers have highly appreciated services rendered by the Company. It is evidenced by the results of the Praise Excellent Service campaign. The Company was awarded as an excellent customer service company in financial and insurance industry and was awarded the titles – “The most recommended company” and “The most polite service”.

Expansion of shareholder structure – guarantee to the financial health of the Company

Changes in the Company shareholding structure were registered on 24 August 2016 following receipt of all the required permits of the supervising institutions in Latvia, Lithuania and Estonia. The registration of these changes completed the transaction commenced in 2015 between BTA Insurance Company SE (as of 1 November 2016 – Balcia Insurance SE) and one of the leading insurers in Europe – VIG, which has acquired 90% of the Company shares.

Upon enlargement of the shareholding structure, the Company continued self-sustaining development in the Baltic market, preserving time-sensitive decision-making process, ensuring steadily broad scope of insurance services, as well as preserving the Company brand highly appreciated by the customers.

Employees

The Company pays its particular attention to systematic qualification of salespeople and agents every year, which promotes high-quality customer service and minimizes the risk of human error.

In an effort to promote professional development of the employees, the Company provided more than 1140 training days of internal and external training programmes. The employees were also offered additional professional development options by means of e-learning system.

Staff loyalty to the Company is evidenced by the length of employment of the leading employees – in 2016 it was eight years on average. BTA also ranked as high as number 12 in the largest annual employee survey of the recruitment company CV-Online Latvia, which finds out the best and most attractive employers in Latvia, and BTA was the only one of the insurance field, who made it to this top chart. The high place in the top chart suggests that the Company and its selected strategy keep developing in the right direction in a long-term perspective, which is welcomed by the staff as well as the public in general.

Risk management

The Company is exposed to various financial risks in its operations. Daily operations involve active and systematic implementation of risk management policy, encompassing insurance risks as well as risks arising from investing activities of the Company. The Company handles insurance risks management and control functions by means of insurance risk underwriting methodologies, risk underwriting limit establishment and Reinsurance policy.

The Company risk management system ensures efficient risk identification, measuring and assessment, as well supervision and control in accordance with the Company long-term strategic goals, volume of operations and operational peculiarities.

Risks related to the investments made by the Company are controlled in accordance with the Company’s Investment and financial risk management policy, which sets limitations on transactions with a single business partner, as well as thresholds on credit ratings of debt securities obtained by the Company. The Company minimizes its liquidity risk by investing into highly liquid financial instruments.

Market risks include interest rate risk, price risk and currency risk. To minimize the impact of risks, the Company constantly improves its risk policy, maintaining a conservative approach to risk management.

The Company ceded reinsurance policy has not changed significantly in 2016; the structure of reinsurance contracts remained equal the one of the previous year. The novelty of the year – the reinsurance company VIG RE zajišt'ovna a.s. complemented the list of the Company's key cooperation partners. The size of the risk share retained by the Company has been selected based on the balance-sheet figures, development of the volume of own funds, risk underwriting needs, and internal guidelines.

Risks are primarily transferred to reinsurance companies with A group credit ratings, in line with the requirements of the Company and its chief shareholder VIG.

The Company constantly monitors its capital adequacy and solvency margin requirement compliance, as well as conducts stress testing and assesses the potential effects of adverse factors on the Company's solvency. The results of stress tests evidence the ability of the Company to meet its obligations towards customers and to retain financial stability even in case unfavourable events do occur.

Proposal on distribution of profits

Taking into account the Company's planned development path, the Board recommends reinforcing the equity base and leaving at the Company's disposal 50 % of the reporting period profit.

Subsequent events

As of the last day of the reporting period until the date of signing these financial statements there have been no events requiring adjustment of or disclosure in the financial statements or notes thereto.

Further development

With reference to insurance industry development trends of 2017, and notwithstanding the fierce competition within the industry, the Company discerns a high growth potential in several types of insurance, voluntary insurance in particular.

Proceeding with improvement of its insurance products and customer service, the Company plans to increase the volume of operations in 2017 in the Baltic States, achieving 8% growth in gross insurance premiums written total for the Baltic region. The Company senses the greatest growth opportunities in Estonia, where the increase in gross written insurance premiums is expected to be 24% compared to the year 2015. Given the current insurance portfolio volumes in Latvia and Lithuania, the Company expects the growth in these countries to be moderate, with respectively 7% and 5%.

The Company plans to strengthen its insurance portfolio, proceeding with its diversification and reducing the share of MTPL insurance type. The Company sets higher goals in voluntary insurance types, such as property insurance, CASCO insurance and assistance insurance.

Meanwhile the Company is going to proceed with the started initiatives on improvement of processes management efficiency in all realms of operations, which includes improvement of private and corporate customer service standards and developing online sales.

The Company will further sustain its quick and high-quality decision-making, with a particular focus on improvement of insurance claims handling processes. The Company Board is going to enable the professional development of its staff, meanwhile keeping on with improvement of its insurances products, increasing their quality, thus maintaining and improving the Company's long-term capacity to operate at profit.

Management Report

On the behalf of the Company Board, we hereby thank our employees, our clients and our cooperation partners for the work accomplished aimed at meeting our common goals – thank you for your loyalty and trust!

Janis Lucaus
Chairman of the Board

Wolfgang Kurt Wilhelm Stockmeyer
Member of board

Oskars Hartmanis
Member of board

Evija Matveja
Member of board

31 March 2017

About Vienna Insurance Group

VIG is well established in all lines of business and thus offers a comprehensive customer-oriented portfolio of products and services with more than 50 Group companies and more than 24,000 employees in 25 countries. The Group generated around EUR 9 billion in premiums in 2016, further strengthening its market leader position in Austria and in Central and Eastern Europe (CEE), where VIG has been operating for more than 25 years.

VIG's successful expansion into the CEE region

VIG's roots reach back more than 190 years in Austria, during which time the Company developed from its start as a local insurer in 1824 to an international insurance group. In 1990, visionaries in Wiener Städtische recognised the many opportunities offered by the CEE region and took the chance of entering the market in the former Czechoslovakia. The expansion continued in following years. From Estonia to Albania and Germany to Georgia, the entire region was slowly covered. The 2014 entry into the market in the Republic of Moldova filled the final remaining gap in coverage of the CEE region.

Using its combined strengths to become number 1

VIG has worked its way to the top of the insurance market in many countries in previous years. Using a focused growth strategy and long-term perspective, it created a stable base that led to double-digit market shares in many markets.

The figures for the region show that the decision to expand into the CEE region was correct. In 2016, around half of VIG's total premium volume of around EUR 9 billion was generated in the CEE markets. The Group continues to believe in the potential offered by the ongoing economic growth in the region, which brings with it a rising demand for insurance products.

The importance of the region was confirmed by another decision by the Group in 2008 to establish the registered office of the internal Group reinsurance company VIG Re in the Czech Republic.

Focusing together on the core business

The decisions above underscore the path followed by VIG and strengthen the focus on insurance as the clear core business. It pursues a progressive and highly risk-conscious insurance strategy. Reliability, trustworthiness and solidity define its relationships with business partners, employees and shareholders.

This fundamental approach is also reflected in its strategy of continuous sustainable growth and excellent creditworthiness. The international rating agency Standard & Poor's has confirmed VIG's development with an A+ rating with stable outlook for many years. VIG continues to have the best rating of all companies in the ATX, the leading index of the Vienna Stock Exchange.

Side-by-side with our customers

Customer loyalty and customer proximity are major factors in VIG's success. Our local employees know the needs of their customers the best, which is why VIG places its trust in these employees and local entrepreneurship.

In order to create stability and trust, the Group uses a multi-brand strategy that retains established brands and unites them under the Vienna Insurance Group umbrella. This also allows a wide variety of distribution channels to be used. The Company's strategic orientation is rounded off by a conservative investment and reinsurance policy.

Erste Group and VIG: strong together

Erste Group is strongly anchored in Austria and is one of the top players in the CEE region. The strategic partnership between Erste Group and VIG began in 2008 and has grown and strengthened over the past eight years. VIG Group companies offer Erste Group products, and Erste Group branches sell VIG insurance products in return.

About Vienna Insurance Group

Stable dividend policy of the Group

VIG has been listed on the Vienna stock exchange since 1994. Today, it is one of the top companies in the “prime market” segment, and offers an attractive dividend policy with a dividend payout ratio of at least 30% of Group profits (after taxes and non-controlling interests) for shareholders.

The significance of the Central and Eastern European economic area was once again underscored by the Company’s second listing on the Prague Stock Exchange in February 2008. VIG shares have also established themselves as one of the top companies there.

The shareholder structure has remained stable since the capital increase in 2005. Around 70% of the shares are held by its principal shareholder, Wiener Städtische Versicherungsverein. The remaining 30% of the shares are in free float.

Searching for the best together

All VIG Group companies strive to attract the most talented and intelligent employees. As a result, identifying and developing individual skills is a central priority in the company’s human resources management. Promoting diversity is also highly important, as is creating a framework that offers appropriate development opportunities for employees. This is because it is clear to VIG that its success is built on the dedication of its 24,000 employees.

Further information on Vienna Insurance Group is available at www.vig.com or in the VIG Group Annual Report.

Statement of management responsibility

In 2015 and 2016, the Board of BTA Baltic Insurance Company AAS (the "Company") was responsible for the management of the Company. The Management regularly informed the Council about key developments in the Company and provided necessary explanations.

The Management assumes responsibility for the preparation of the accounting records, compliance in the process of recording transactions under the regulative norms applicable to accounting, safekeeping of the assets of the Company, as well as the prevention of fraud and other dishonest activities.

The Company's Management assumes responsibility for the preparation of the Company's financial statements for the year ended 31 December 2016 prepared in accordance with IFRS as adopted by the European Union to reflect fairly the activities and cash flows of BTA Baltic Insurance Company AAS for the year ended 31 December 2016, as well as its financial position as at 31 December 2016.

The Company's Management confirms that the Company's financial statements for the year ended 31 December 2016 have been prepared in accordance with the effective requirements of legislation and the Financial and Capital Market Commission of the Republic of Latvia, and IFRS as adopted by the European Union.

The Company's financial statements for the year ended 31 December 2016 have been prepared on the basis of prudent decisions and assumptions of the Management.

Management confirms that the requirements of Latvian legislation and applicable legislation in other European Union countries have been met and that the financial statements have been prepared on a going concern basis.

Management is not aware of any significant events after the year-end, which are not reflected in these financial statements and that might have a material impact on activities of the insurance company and the assessment of the financial statements.

Janis Lucaus
Chairman of the Board

Wolfgang Kurt Wilhelm Stockmeyer	Oskars Hartmanis	Evija Matveja
Member of board	*Member of board*	*Member of board*

31 March 2017

Statement of Comprehensive Income

	Note	2016 EUR'000	From 28 October 2014 (inception date) to 31 December 2015 EUR'000
Earned premiums			
Written premiums			
Gross written premiums	5	130 808	55 730
Reinsurers' share in written premiums	5,18	(6 661)	(3 403)
Net written premiums	5	**124 147**	**52 327**
Change in unearned premium and unexpired risk technical reserves			
Gross change	7	(8 335)	2 111
Reinsurers' share	7,18	(151)	27
Change in net unearned premium and unexpired risk technical reserves	7	**(8 486)**	**2 138**
Net earned premiums	6	**115 661**	**54 465**
Other technical income, net	8	**284**	**99**
Paid claims, net			
Gross claims paid	9	(77 467)	(35 589)
Paid claims	9	(78 959)	(35 773)
Loss adjustment expenses	9	(4 293)	(2 191)
Recovered losses	9	5 785	2 375
Reinsurers' share of claims paid	9,18	1 599	330
Net paid claims	9	**(75 868)**	**(35 259)**
Change in outstanding claim technical reserve			
Change in gross outstanding claim technical reserve	10	(3 687)	1 650
Reinsurers' share	10	(139)	(1 045)
Change in net outstanding claim technical reserve	10,18	**(3 826)**	**605**
Net incurred claims	11	**(79 694)**	**(34 654)**
Operating (expenses)/ income			
Client acquisition costs	12	(13 740)	(5 984)
Change in deferred client acquisition costs	12	754	31
Administrative expenses	13	(21 123)	(10 016)
Depreciation and amortisation	19,20,21	(1 056)	(490)
Reinsurance commission income, net	14,18	1 457	664
Change in unearned reinsurance commission	14,18	2	(118)
Net operating expenses		**(33 706)**	**(15 913)**

Statement of Comprehensive Income

	Note	2016 EUR'000	From 28 October 2014 (inception date) to 31 December 2015 EUR'000
Other technical expenses, net	15	**(603)**	**(368)**
Investment management charges		(42)	(26)
Interest income	16	1 144	618
Gain/(loss) from financial assets and liabilities at fair value through profit or loss, net		(92)	22
Gain/(loss) on foreign currency fluctuation		(267)	132
Impairment loss		-	(62)
Other income		457	104
Other expenses		(592)	(182)
Profit before tax		**2 550**	**4 235**
Income tax expense	17	(618)	(569)
Net profit for the period		**1 932**	**3 666**
Items that are or may be reclassified to profit or loss			
Available-for-sale financial assets - net change in fair value		(12)	**-**
Other comprehensive income for the period		**(12)**	**-**
Total comprehensive income for the period		**1 920**	**3 666**

The accompanying notes on pages 17 to 73 form an integral part of these financial statements.

Janis Lucaus
Chairman of the Board

Wolfgang Kurt Wilhelm Stockmeyer
Member of board

Oskars Hartmanis
Member of board

Evija Matveja
Member of board

31 March 2017

Statement of Financial Position

Assets	**Note**	**31.12.2016 EUR'000**	**31.12.2015 EUR'000**
Land and buildings	20	**418**	**449**
Property and equipment	19	**731**	**876**
Intangible assets	21	**1 642**	**1 283**
Investment property	20	**99**	**99**
Financial investments			
Financial instruments at fair value through profit or loss	22,41	76 210	93 306
Available-for-sale instruments	22	5 026	-
Deposits with banks	23	1 357	1 794
Total financial investments		**82 593**	**95 100**
Inventory		**31**	**-**
Loans and receivables			
Loans		-	41
Receivables from direct insurance activities			
Due from policy holders		18 543	13 168
Due from intermediaries		1 451	1 427
Total receivables from direct insurance activities	24	**19 994**	**14 595**
Receivables from reinsurance activities		407	669
Other receivables	25	419	963
Prepaid corporate income tax	30	502	209
Total receivables		**21 322**	**16 436**
Total loans and receivables		**21 322**	**16 477**
Deferred tax asset	29	**130**	**134**
Accrued income and deferred expenses			
Deferred client acquisition costs	12	5 600	4 846
Other accrued income and deferred expenses		472	552
Total accrued income and deferred expenses		**6 072**	**5 398**
Reinsurance contract assets			
Reinsurers' share in unearned premiums technical reserves	7,38	2 222	2 373
Reinsurers' share in outstanding claim technical reserve	10,38	6 793	6 932
Total assets from reinsurance contracts	38	**9 015**	**9 305**
Cash and cash equivalents	26	**42 479**	**19 953**
Total assets		**164 532**	**149 074**

The accompanying notes on pages 17 to 73 form an integral part of these financial statements.

Statement of Financial Position

Equity and liabilities	Note	31.12.2016 EUR'000	31.12.2015 EUR'000
Equity			
Share capital	28	29 000	29 000
Revaluation reserves	28	371	383
Retained earnings		2 750	-
Profit for the period		1 932	3 666
Total equity		**34 053**	**33 049**
Liabilities			
Technical reserves			
Technical reserves for unearned premiums and unexpired risks	7,38	56 707	48 372
Outstanding claim technical reserves	10,38	56 938	53 251
Total technical reserves		**113 645**	**101 623**
Creditors			
Direct insurance creditors			
Due to policy holders		4 136	5 141
Due to intermediaries		846	623
Total direct insurance creditors		**4 982**	**5 764**
Reinsurance creditors	31	1 574	2 498
Taxes and social insurance contributions	30	468	527
Corporate income tax liabilities	30	-	256
Other creditors	32	7 402	3 615
Total creditors		**14 426**	**12 660**
Deferred tax liabilities	29	**92**	**94**
Provisions	33	**1 653**	**983**
Unearned reinsurance commission income	14	**663**	**665**
Total liabilities		**130 479**	**116 025**
Total equity and liabilities		**164 532**	**149 074**

The accompanying notes on pages 17 to 73 form an integral part of these financial statements.

Janis Lucaus
Chairman of the Board

Wolfgang Kurt Wilhelm Stockmeyer
Member of board

Oskars Hartmanis
Member of board

Evija Matveja
Member of board

31 March 2017

Statement of Cash Flows

	Note	2016 EUR'000	From 28 October 2014 (inception date) to 31 December 2015 EUR'000
Cash flows from operating activities			
Premiums received in direct insurance		125 180	61 096
Claims paid in direct insurance		(78 959)	(35 773)
Payments received from reinsurers		3 323	659
Payments made to reinsurers		(4 326)	(3 297)
Income tax paid	30	(1 170)	(377)
Obligatory payments	27	(1 976)	(580)
Payments to employees		(11 591)	(5 296)
Payments to intermediaries		(13 740)	(14 111)
Other payments made:		(18 893)	(8 448)
Other tax paid		*(7 712)*	*(3 328)*
Payments to other suppliers		*(7 760)*	*(4 082)*
Purchase of fixed assets		*(1 281)*	*(502)*
Other payment made		*(2 140)*	*(536)*
Other payment received		12,628	10 010
Acquisition of investments		(18 351)	(25 057)
Disposal of investments		30 173	17 308
Investment income received		1 144	773
Total cash flows from operating activities		**23 442**	**(3 093)**
Cash flows from financing activities			
Paid dividends		(916)	-
Share capital increase		-	7 700
Net cash acquired as a result of reorganisation		-	15 346
Total cash flows from financing activities		**(916)**	**23 046**
Cash and cash equivalents net increase		**22 526**	**19 953**
Cash and cash equivalents at the beginning of the period		**19 953**	**-**
Cash and cash equivalents at the end of the period	26	**42 479**	**19 953**

The accompanying notes on pages 17 to 73 form an integral part of these financial statements.

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31 March 2017

Statement of Changes in Shareholders' Equity

	Share capital EUR'000	Revaluation reserve EUR'000	Retained earnings EUR'000	Total Equity EUR'000
28.10.2014 (inception date)	**3 700**	**-**	**-**	**3 700**
Total comprehensive income				
Profit for the period	-	-	3 666	**3 666**
Transactions with shareholders recorded directly in equity				
Acquired as a result of reorganisation	-	383	-	**383**
Increase of capital in the result of reorganisation	21 300	-	-	**21 300**
Increase of share capital	4 000	-	-	**4 000**
31.12.2015	**29 000**	**383**	**3 666**	**33 049**
Total comprehensive income				
Profit for the period	-	-	1 932	**1 932**
Other comprehensive income	-	(12)	-	**(12)**
Transactions with shareholders recorded directly in equity				
Dividends paid	-	-	(916)	**(916)**
31.12.2016	**29 000**	**371**	**4 682**	**34 053**

The accompanying notes on pages 17 to 73 form an integral part of these financial statements.

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Member of board

Evija Matveja
Member of board

31 March 2017

Notes to the Financial Statements

(1) General information

(a) Principal activities

BTA Baltic Insurance Company AAS (the "Company") is a company domiciled in the Republic of Latvia ("Latvia"). The Company was registered on 28 October 2014 in Riga, Latvia as a Joint Stock Insurance Company. The head office is located in Riga, Kr. Valdemara 63, Republic of Latvia.

On 10 June 2015 the Company obtained the following insurance licenses in Latvia:

- land vehicle insurance (CASCO);
- liability for transport ownership insurance (CMTPL);
- health insurance;
- fire and natural elements insurance;
- other damage to property insurance;
- general liability insurance (TPL);
- miscellaneous financial losses insurance;
- goods in transit insurance;
- accident insurance;
- assistance (travel) insurance;
- railway rolling stock insurance;
- ships insurance;
- liability for ship ownership insurance;
- aircraft insurance;
- liability for aircraft ownership insurance;
- suretyship insurance;
- credit insurance;
- legal expenses insurance.

The Company operates in Estonia and Lithuania. No operation in Estonia and Lithuania are performed based on the basis of freedom of services. Business is conducted through permanent establishments (branches) within the European Union, and it offers a wide range of non-life insurance products to legal entities and individuals in the abovementioned insurance lines.

Insurance services are offered through the network of branches, agencies and sales points in Latvia, Lithuania and Estonia.

The Company has 2 foreign branches – in Estonia and Lithuania. The registered address of the branch in Estonia – Lõõtsa 2B, Tallinn 11415; in Lithuania - Viršuliškių skg. 34, LT-05132 Vilnius.

(b) Shareholders

Information on the shareholders:

	31.12.2016	
	Number of shares	**Shareholding**
Vienna Insurance Group AG Wiener Versicherung Gruppe	261 000	90 %
Balcia Insurance SE	29 000	10 %
	290 000	**100 %**

	31.12.2015	
	Number of shares	**Shareholding**
Balcia Insurance SE	290 000	100 %
	290 000	**100 %**

On 24 August 2016, Vienna Insurance Group AG Wiener Versicherung Gruppe, one of leading insurers in Europe, became the biggest shareholder of the Company by obtaining 90 % of the company's shares. 10 % of the Company's shares belong to Balcia Insurance SE (until 01.11.2016 – BTA Insurance Company SE).

Notes to the Financial Statements

(c) Reorganisation

In October 2014, Balcia Insurance SE (until 01.11.2016 – BTA Insurance Company SE) started a reorganisation process to split its operating activities in accordance with geographic segmentation - Baltic and other European markets. On 28 October 2014 Balcia Insurance SE established a subsidiary – BTA Baltic Insurance Company AAS (the Company) with aim to provide insurance services in the Baltic states through a separate entity.

According to the Commercial Law, the Company and Balcia Insurance SE jointly drafted a reorganisation agreement which was added to the reorganisation files of both entities following decisions No. 6-12/178040 and No. 6-12/178044 made by the Latvian Enterprise Register on 19 November 2014.

On 1 July 2015, as a result of the reorganisation, Balcia Insurance SE transferred its Baltic (Latvia, Estonia and Lithuania) operations to the Company. The business separation included transfer of the Baltic segment insurance portfolio and the related insurance technical reserves, investment portfolio and other assets and liabilities. As part of the reorganisation, share capital of the Company was increased from EUR 3.7 million to EUR 25 million. On 16 December 2015 the share capital of the Company was increased by additional EUR 4 million. The reorganisation was a transaction under a common control. An accounting policy choice was made to perform accounting of this common control transaction at book value.

The table below sets out the main categories of assets and liabilities as at 1 July 2015 representing the Baltic operations acquired from Balcia Insurance SE in the reorganization process.

	EUR'000
Land and buildings	563
Property and equipment	1 112
Intangible assets	1 058
Debt securities and other fixed income securities	85 000
Deposits with banks	2 112
Cash and cash equivalents	15 346
Current accounts with credit institutions	*14 389*
Deposits with original maturity less than 3 months	*957*
Mortgage loans	52
Receivables from policy holders	13 004
Receivables from intermediaries	1 391
Reinsurance receivables	36
Other receivables	1 188
Deferred client acquisition costs	4 815
Other next period expense and accrued income	844
Reinsurers' share in unearned premiums technical reserves	2 346
Reinsurers' share in outstanding claim technical reserve	7 977
Total Assets	**136 844**
Revaluation reserve	383
Technical reserves for unearned premiums and unexpired risks	50 483
Equalisation provision	107
Outstanding claims technical reserves	54 794
Direct insurance creditors - policyholders	3 292
Direct insurance creditors - intermediaries	890
Reinsurance creditors	849
Taxes	636
Other creditors	2 540
Provisions	956
Deferred income tax liabilities	67
Unearned reinsurance commission income	547
Total Liabilities and Revaluation reserve	**115 544**
Net assets	**21 300**

Notes to the Financial Statements

Net assets represent contribution in kind to the share capital of the Company which was made by Balcia Insurance SE upon completing the reorganisation process.

(2) Basis of preparation

(a) Statement of compliance

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, and regulations of the Financial and Capital Market Commission of the Republic of Latvia ("FCMC") in force as at the reporting date.

The financial statements were authorised for issue by the Board on 27 March 2017. The shareholders have the right to reject the financial statements and request that new financial statements are prepared and issued.

(b) Functional and Presentation Currency

These financial statements are presented in thousands of euro (EUR'000), unless stated otherwise.

The functional currency of the Company and its branches in Estonia and Lithuania is euro.

(c) Reporting period

The reporting period comprises the 12 months from 1 January 2016 to 31 December 2016. The comparative period is from 28 October 2014 (inception date) to 31 December 2015.

(d) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items, which are carried at fair value:

- derivatives,
- other financial assets and liabilities designated at fair value through profit or loss,
- available-for-sale assets,
- investment property, and
- land and buildings that are revalued periodically, correspondingly applying fair value and revaluation methods.

(e) Changes in accounting policies

Except for the changes below, the Company has consistently applied the accounting policies set out in Note 3 to all periods presented in these financial statements.

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2016.

The following guidance with effective date of 1 January 2016 did not have any impact on these financial statements:

(i) IFRS 11: Accounting for Acquisitions of Interests in Joint Operations;
(ii) IAS 1 – Presentation of Financial Statements;
(iii) IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets;
(iv) IAS 19 – Defined Benefit Plans: Employee Contributions;
(v) IAS 27 – Separate Financial Statements;
(vi) Annual Improvements to IFRSs.

(f) New Standards and Interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

Notes to the Financial Statements

(i) IFRS 9 Financial Instruments (2014) (effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted)

This Standard replaces IAS 39, *Financial Instruments: Recognition and Measurement*, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

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

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

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

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

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since the classification and the measurement of the Company's financial instruments are expected to change.

Based on its preliminary assessment the Company, expects that substantially all of financial assets classified as loans and receivables under IAS 39 will continue to be measured at amortised cost under IFRS 9.

At this stage it is still unclear what portion of the Company's debt securities will be measured at FVTPL, at FVOCI or amortized cost as this determination will depend on the outcome of the business model test. It is expected that a significant portion of debt securities will be reclassified under IFRS 9 either into or out of FVOCI.

It is also possible that a number of equity instruments currently classified as available for sale will be measured at FVTPL under IFRS 9, but this determination will depend on an election to be made by the Company at the date of initial application. The Company has not yet decided how it will classify these instruments.

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

(ii) IFRS 15 Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted)

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Company's financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Company's financial statements. The timing and measurement of the Company's revenues are not expected to change under IFRS 15 because of the nature of the Company's operations and the types of revenues it earns.

(iii) IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15)

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

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

The new Standard introduces a number of limited scope exceptions for lessees which include:

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

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

It is expected that the new Standard, when initially applied, will have an impact on the financial statements, since it will require the Company to recognise in its statement of financial position assets and liabilities relating to operating leases for which the Company acts as a lessee.

(iv) Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted)

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the entity because the Company does not enter into share-based payment transactions.

(v) Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021; to be applied prospectively)

The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4. The amendments introduce two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers. The other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.

The Company, as an insurance provider, intends to apply the exemption from adopting IFRS 9.

(vi) Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (effective date has not yet been determined by the IASB, however earlier adoption is permitted.)

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while

a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Company does not expect that the amendments, when initially applied, will have material impact on the financial statements as the Company has no subsidiaries, associates or joint ventures.

(vii) Amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Early application is permitted)

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company.

(viii) Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2018; to be applied prospectively)

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company because the Company already measures future taxable profit in a manner consistent with the Amendments.

(ix) Amendments to IAS 40 Transfers of Investment Property

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The Company does not expect that the amendments will have a material impact on the financial statements because the Company transfers a property asset to, or from, investment property only when there is an actual change in use/the entity does not have investment property.

(x) IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018).

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Company does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Company uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

(xi) Annual Improvements to IFRSs

Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IFRS 12 Disclosure of Interest in Other Entities are effective for annual periods beginning on or after 1 January 2017 and amendments on IAS 28 Investments in Associates and Joint Ventures are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted.

None of these amendments are expected to have a significant impact on the financial statements of the Company.

(g) Reclassification of balances in the financial statements

In addition, certain balances for 2016 were classified differently from the prior year, due to management's judgment. The reclassification has no impact on the financial result. The comparative information for 2015 disclosed in these financial statements was classified in line with the principles used in 2016 and is comparable. The opening balances before reclassification agree with the prior year closing balances.

(3) Significant accounting policies

3.1 Foreign currency

Foreign exchange transactions are translated to the functional currency of the Company in accordance with the exchange rate set by the European Central Bank on the date of the respective transaction.

Monetary assets and liabilities, including commitments and contingencies denominated in foreign currencies are retranslated into functional currency in accordance with the exchange rate set by the European Central Bank on the last date of the reporting period.

Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value or cost are translated at the exchange rate as at the date fair value or cost was determined.

Foreign exchange rates at the end of the reporting period are as follows:

	31.12.2016	**31.12.2015**
USD	1,05410	1,08870
PLN	4,41030	4,26390
RUB	64,30000	80,67360
GBP	0,85618	0,73395
NOK	9,08630	9,60300

Profit or loss relating to fluctuations in the exchange rate on assets and liabilities denominated in a foreign currency is recognised in the profit or loss.

3.2 Insurance contracts

(a) Classification of insurance contracts

An insurance contract signed by the insurer is classified as an insurance contract only if it transfers a significant insurance risk from the policy holder to the insurer. All contracts concluded are classified as non-life insurance contracts and the Company does not conclude any investment contracts.

Non-life insurance contracts include the contracts:

- in which the insurer assumes substantial insurance risk on behalf of the other contracting party – the policy holder, by agreeing to compensate losses to the policy holders if a certain unexpected future event (insured occurrence) has been previously agreed, which adversely impacts the policy holder. An unexpected future event is considered to be a situation when at the time of signing the insurance contract is not known:
    1. whether the insured occurrence will occur;

2. when it will occur;
3. how much the insurer will have to pay if it occurs.

- in which the insured event is the discovery of a loss during the term of the contract, even if the loss arises from an event that occurred before the inception of the contract;
- in which the insured event is an event that occurred during the term of the contract, even if the resulting loss is discovered after the end of the contract term;
- which comprise events, which have already occurred, but whose financial impact is not yet fixed. For example, reinsurance contracts that protect direct insurer from the adverse development of claims already reported by the policy holder;
- which require or permit payment in kind, e.g., the insurer directly replaces a stolen thing rather than compensates the claim to the policy holder in money;
- which stipulate a fixed charge services, in which the service level depends on an unexpected event. Fixed charge services are based on the number of expected equipment malfunctions, but it cannot be determined on whether some specific equipment will not function;
- in which one insurer (reinsurer) compensates the losses of one or several contracts closed with other insurers (assignor).

Recognition and evaluation of insurance contracts

A contract, which is deemed to be an insurance contract, remains an insurance contract, until all rights and liabilities are paid off or their validity period has expired. A contract, if in form and substance an insurance contract, may not be reclassified to another contract.

When classifying insurance contracts for accounting purposes, the basis is the substance of transfer of insurance risk and common signs of possible risk. For example:

- insurance of persons against personal accidents
- travel insurance
- insurance against property damage or thefts
- motor vehicle insurance
- general third party liability (TPL) insurance

Each of these contract groups may be divided in more detail by taking into account the substance of the transferred insurance risk.

(b) Insurance premium and premium income

Written premiums are insurance premiums for the insurance contracts signed during the reporting period, that have come into force in the reporting period irrespective whether these premiums have become due or not. Premiums written are decreased by premiums cancelled and terminated during the reporting period. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums.

The earned portion of premiums received is recognised as revenue. Premiums are recognised as earned on a pro-rata basis over the term of the related policy coverage and are reported as earned premiums.

The unearned portion of premiums is recognised as an unearned premium technical reserves.

Ceded reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance service received and the portion of reinsurance premiums attributable for future periods are recognised as assets under the reinsurance part of the unearned premium reserve.

(c) Unearned premium and unexpired risk reserves

Unearned premium reserves (UPR)

Unearned premium reserves represent the proportion of premiums written which relate to the period of risk subsequent to the reporting period. Reserves are calculated for each insurance policy under the 365 – day Pro Rata Temporis method based on the period in force for a particular policy.

Unexpired risk reserve (URR)

Unexpired risk reserve (URR) is set aside for unexpired risks arising from general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting period end date exceeds the unearned premiums reserve in relation to such policies.

Notes to the Financial Statements

(d) Claims incurred

Claims incurred from insurance activities are claims attributable to the reporting period and consist of claims paid in the financial period, the corresponding claim handling expenses (loss adjustment expenses) and changes in the claim reserves. Claims paid are decreased by the amount of losses recovered through cession, sales of salvage, or subrogation. Recovered losses are recognised on a cash basis when they are recovered.

The claims amounts recoverable under reinsurance contracts are assessed on each reporting period end date. The value of those assets decrease if due to an event subsequent to initial recognition there is objective evidence that the Company will not be able to recover all amounts, and this event has a reasonable measurable impact on the amounts receivable by the Company from the reinsurer.

(e) Outstanding claim technical reserves

Outstanding claim technical reserves comprise reserves for the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the period end date whether reported or not, and the related internal and external claims handling expenses. Reserves outstanding are not discounted, with the exception of annuities which may arise from third part liability insurance.

Reported but not settled claims reserve (RBNS)

The RBNS claims reserve is calculated on a case-by-case basis by the Company's loss adjusters for claims reported and not yet settled (including loss adjustment expenses) as at the reporting date.

Incurred but not reported claims reserve (IBNR)

IBNR is calculated in respect of claims incurred but not reported prior to the end of the reporting period.

The IBNR reserve is calculated using statistical methods (triangulation, coefficient methods or modifications thereof) for the following lines of insurance:

- motor own damage insurance;
- property insurance (fire risks);
- property insurance (other risks);
- personal accident insurance;
- travel accident insurance;
- guarantee insurance;
- general third party liability;
- cargo insurance;
- various financial risks;
- health insurance;
- motor compulsory third party liability insurance.

The accuracy of such claims reserves is assessed by run-off testing performed by the actuary of the Company.

A triangulation and loss rate method was used in the calculation of the IBNR reserve for motor compulsory third party liability.

Where available statistics are considered to be insufficient, e.g. lack of historical data, the IBNR reserve is calculated as a percentage of premiums (5%) written in last 12 months for the following lines of business or at least 1 500 EUR:

- marine insurance;
- voluntary motor third party liability insurance;
- marine third party liability insurance;
- legal expenses insurance;
- railway insurance;
- aircraft insurance;
- aircraft third party liability insurance;
- credit insurance.

Notes to the Financial Statements

(f) Reinsurance

Ceded (outwards) reinsurance

The Company cedes risks into reinsurance in the normal course of business for the purpose of limiting its potential net loss through the diversification of the risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Reinsurance assets include the recoveries due from reinsurance companies in respect of claims paid and the reinsurance share in the technical insurance reserves.

The reinsurance share of the incurred but not reported claims technical provision in the case of non-proportional or proportional facultative reinsurance contracts is not recognised for ceded reinsurance contracts as the reinsurance asset cannot be reliably measured.

Reinsurance commissions and profit participations include commissions received or receivable from reinsurers and profit participations based on the reinsurance contracts. Non-life reinsurance commissions are deferred in a manner consistent with the deferral of acquisition costs in non-life insurance.

(g) Client acquisition costs

Client acquisition costs include commissions paid to intermediaries and other expenses related to the acquisition of insurance policies.

Deferred client acquisition costs, primarily consisting of intermediary commissions are deferred to the extent that they are recoverable out of future premiums and are recognised as expenses over the life of the insurance policies.

(h) Allocation of administration expenses among cost centres and insurance types

The allocation of administrative expenses to claims costs, client acquisition costs and investment costs is based on the expenses incurred in different cost centres.

Administration expenses, which are not directly referred to in a specific type of insurance, are distributed among types of insurance in proportion to the volume of the gross premiums written.

(i) Claims technical reserves

Forecast inflation and discount rates are one of the key assumptions used in the estimates of the claims technical reserves. Every year the Company evaluates the adequacy of its previous year provisions by preparing run-off tests. Additionally sensitivity of main assumptions is checked. Below are the results of sensitivity analysis as at 31 December 2016 for economic inflation:

EUR'000	**Projected annual inflation increased by 1%**	**Projected annual inflation decreased by 1%**
Increase/ (decrease) in insurance technical reserves	102	(100)

(j) Insurance receivables and payables

Amounts due to and from policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract provisions or reinsurance assets.

3.3 Financial instruments

(a) Classification

At inception, all financial instruments are classified into one of the following categories:

Financial instruments at fair value through profit or loss are financial assets or liabilities that are acquired or incurred principally for the purpose of selling or repurchasing in the near term; or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or that are a derivative (except for a derivative that is a designated and effective hedging instrument); or that are upon initial recognition, designated by the entity as at fair value through the profit or loss. These include groups of financial assets designated at fair value through profit and loss which are managed and performance evaluated on a fair value basis, in accordance with the Company's documented investment strategy and information about the Company internally on that basis is provided to key management personnel.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include loans, term deposits with banks and debtors in the statement of financial position. Insurance receivables are classified in this category.

Available-for-sale instruments are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity instruments or financial instruments at fair value through profit or loss.

Financial liabilities carried at amortised cost represent financial liabilities of the Company other than financial instruments designated at fair value through profit or loss. This category includes due to creditors balances.

Derivative financial instruments

Derivative financial instruments are initially recognised in the statement of financial position at their fair value. Fair values are obtained from quoted market prices or discounted cash flow models as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when negative.

Changes in the fair value of derivatives are included in net gains and losses on financial instruments designated at fair value through profit or loss.

(b) Recognition and derecognition

Financial instruments are recognised when the Company becomes a party to the contractual rights of the instrument. All regular way purchase and sales of financial assets are recognised in the statement of financial position on the transaction date representing the date when the financial asset is delivered. In the period between the dates of transaction and settlement, the Company accounts for the changes in the fair value of the received or transferred asset based on the same principles used for any other acquired asset of the respective category.

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or where the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

(c) Initial and subsequent measurement

Financial instruments are initially measured at fair value and except for financial instruments at fair value through profit or loss include directly attributable transaction costs.

Subsequent to initial measurement, all financial assets and liabilities designated at fair value through profit or loss and all available for sale financial assets are measured at fair value except those instruments for which no reliable fair value measurement is possible. In this case, such instruments are carried at cost less transaction expenses and impairment.

All financial liabilities other than financial liabilities designated through profit or loss and all loans and receivables are measured at amortised cost using the effective interest rate method.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

All instruments, excluding investments at fair value through profit and loss, are subject to revaluation when impaired.

Profit or loss arising from changes to the fair value of financial instruments designated through profit or loss is recognised in the profit or loss. Differences arising from changes to the fair value of available for sale financial instruments are recognised through other comprehensive income, except for impairment which is recognised in profit or loss. For financial assets and liabilities carried at amortised cost, a gain or loss is recognized in the profit or loss when the financial asset or liability is derecognized.

Notes to the Financial Statements

3.4 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Chief Financial Officer.

Specific controls include:

- Verification of observable pricing;
- Regular re-performance of model valuations;
- A review and approval process for new models against observed market transactions;
- Analysis and investigation of significant daily valuation movements;
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month.

The methods described below have been used for the determination of fair values.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions with the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When the transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in the statement of comprehensive income depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

When applicable, the Company measures the fair value of an instrument using quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Valuation techniques include recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data. Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the Company assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS as adopted by EU. This includes:

- Verifying that equity broker or pricing service is approved by the Company for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;

For further analysis of basis for fair value and fair value determination principles are disclosed in Note 20 (Land and buildings and Investment property) and Note 41 (Fair value of financial instruments).

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.5 Impairment

(a) Financial assets

At each reporting period end date the Company assesses whether there is objective evidence that the financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Insurance receivables that are overdue are reversed against premium income once the policy is cancelled. No impairment allowances are recognised in respect of amounts that have not yet become due if no portion of the premium is taken to income. Receivables are disclosed net of impairment allowance. The amount of allowance represents the difference between the gross and recoverable amount of receivables.

Other debtors are stated at the recoverable amount. Impairment allowances are recognised on doubtful receivables.

(b) Non-financial assets

Non-financial assets, other than deferred taxes and deferred acquisition costs, are assessed at each reporting date for any indications of impairment. In the presence of such evidence, the Company estimates the recoverable amount of the related asset. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in the profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.6 Property and equipment

Property and equipment, excluding land and building used for own purposes, are disclosed at cost less accumulated depreciation and impairment. Depreciation is calculated using a linear method over the entire useful life of the respective asset in order to write their value down to the residual value at the end of the useful life based on the following rates:

Office equipment	20% per year
Computers, electrical equipment	33% per year
Vehicles	20% per year
Buildings for own use	5% per year

Land and buildings used for the Company's operating activities are initially stated at cost. Subsequently buildings for own use are carried at a revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Land is not depreciated and is carried at a revalued amount, being the fair value at the date of revaluation less any subsequent accumulated impairment losses.

An increase of value resulting from revaluation is recognised under "Revaluation reserves" in Other comprehensive income. Valuations are regularly, at least once in 3 years, carried out by independent external certified valuators. If the fair value of land and buildings used for operating activities at the reporting period end date is lower than their book value, they are re-measured at the lower value. The decrease of value resulting from revaluation is first used to reverse the revaluation reserve of the same asset previously recognised in "Revaluation reserves" and only if in excess of it, the revaluation decrease is recognized in the profit or loss.

The fair values are based on market values, being the estimated amount at which a property could be exchanged on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing. An external independent valuation expert, having a recognised professional qualification and experience, values each investment property in order to reflect market conditions at the reporting period end date.

Maintenance costs of property and equipment are recognised in the profit or loss as incurred. Costs of capital repairs of property and equipment (leasehold improvements) are added to the value of the respective asset and written off over the useful lifetime of the asset. Capital repair costs on leased property and equipment are written off on a straight line basis during the shorter of the useful lifetime of the capital repairs and the period of lease.

Profit or loss from disposal of property and equipment is calculated as the difference between the carrying amount of the asset and income generated from sale, and reflected as profit or loss in the profit or loss when disposed.

When revalued fixed assets are disposed, the related revaluation reserve is transferred to retained earnings.

Depreciation methods, useful lives and residual values are reviewed annually.

3.7 Intangible assets

Software licences

Software licences are capitalised. Software licences are recorded at cost including acquisition and implementation costs less accumulated amortisation and impairment. Amortisation is calculated using the linear method over the entire useful life of the respective asset in order to write their value down to the estimated residual value at the end of the useful life based on a 20% per year rate.

3.8 Investment property

Land and buildings held either to earn rental income or for capital appreciation or both are classified as investment property and are measured at fair value, with any change therein recognised as profit or loss.

Transfers to or from investment property are made when there is a change in use.

When an item of land and buildings is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in other comprehensive income if it is a gain.

If an investment property becomes owner-occupied, it is reclassified as property and equipment and its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

Notes to the Financial Statements

3.9 Leases

The lease of property and equipment is classified as a finance lease if it transfers substantially all risks and rewards of ownership to the lessee. Title does not have to be transferred. All other leases are classified as operating leases. In the reporting period the Company has only operating lease agreements.

- ***The Company as a lessor***

Rental income from an investment property leased out under an operating lease is recognised on a straight-line basis over each lease term.

- ***The Company as a lessee***

Operating lease payments are recognised in the profit or loss on a straight-line basis over the lease term. Discounts received are recognised in the profit or loss as a significant part of the total lease expenses.

3.10 Corporate income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss income except to the extent it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised providing for temporary differences between the carrying value of assets and liabilities in the financial statements (financial reporting purposes) and the amounts used for tax purposes. These differences have mainly occurred from the different depreciation rates of property and equipment applied, which are used for tax accounting and financial accounting and provisions made.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are not discounted.

3.11 Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents comprise cash in hand, demand deposits, overnight deposits and term deposits with banks with the initial maturity term of less than three months. In the statement of cash flows, cash flows are presented using the direct method.

3.12 Dividends

Dividends are reflected as an appropriation of retained earnings in the period in which they are declared.

3.13 Employee benefits

Short term employee benefits, including salaries and social security contributions, bonuses and vacation benefits are included in net operating expenses on an accrual basis as the services are provided. The Company pays fixed social security contributions to State Social Fund on behalf of its employees during the employment period in accordance with local legal requirements and will have no obligations to pay further contributions relating to employee services in respect of retired employees.

Notes to the Financial Statements

3.14 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.15 Related parties

Related parties represent both legal entities and private individuals related to the company in accordance with the following rules.

a) A person or a close member of that person's family is related to a reporting entity if that person:
   - i) has control or joint control over the reporting entity;
   - ii) has significant influence over the reporting entity;
   - iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

b) An entity is related to a reporting entity if any of the following conditions applies:
   - i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   - ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   - iii) Both entities are joint ventures of the same third party.
   - iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
   - v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
   - vi) The entity is controlled, or jointly controlled by a person identified in (a).
   - vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
   - viii) The entity, or any member of a group to which the entity belongs provides management personnel services to the entity or to the parent of the entity.

Related party transaction - a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a consideration is determined.

3.16 Significant accounting estimates and judgement in applying accounting policies

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, the actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period, in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

<u>Key sources of estimation uncertainty:</u>

Insurance technical reserves

The nature of the business makes it difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case-by-case basis with due regard to the claim circumstances, information available from loss adjusters and the historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The reserve estimation difficulties also differ by class of business due to claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

The most judgemental estimation is related to incurred-but-not-reported reserves (IBNR). The key assumptions in respect of sufficiency of insurance technical reserves are monitored regularly through claims reserves run-off analyses and liability adequacy testing, performed for each line of business.

Valuation of investment property, buildings and land for own use

Investment property is stated at its fair value with all changes in fair value recorded in the profit or loss.

Land and buildings used for the Company's operating activities are carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation result is attributed to Other comprehensive income unless impairment should be recognised.

When measuring the fair value of the investment property and buildings for own use, the management commissions external valuations, but critically assesses the reliability of such valuations in light of the current market situation.

Impairment of loans and receivables

Loans and receivables, or those amounts that are overdue, or for which there are indications of impairment are assessed for objective evidence of impairment individually. The Company assesses probability of the debtor fulfilling its obligations in the future and timing of fulfilment of those obligations, to be able to assess recoverable amount of the assets.

Loans and receivables for which no individual impairment loss is measured are assessed on collective level using statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred. These are then adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate. They will, however, always include uncertainty and may change depending on financial position of customers or general economic environment.

Measurement of fair values

More detailed description of fair value measurement is disclosed in Note 3.4.

(4) Risk and risk management

4.1 Risk and risk management

The Company's risk management is an integral part of the governance and decision-making system, and a systematic set of measures that ensure risk identification, assessment, monitoring and control of the individual exposure level as well as at-risk transaction sets and on Company overall risk level.

Risk management system ensures three levels of defence:

- the first level – daily risk management within the business unit (followed "four eyes" principle; documentation of critical processes; KRI);
- the second level of defence is ensured by risk management and compliance functions, as well as actuarial function by creation and maintenance of overall risk management system, regular risk profile monitoring, supporting business units and with direct access to the Company's Board;
- the third level control is carried out by Internal Audit activities providing independent assurance on risk management and control processes and with direct access to Company management and the Council.

As the business of insurance represents the transfer of risk from the policy holder to the insurer and management of this risk, the largest risks result from accepting insurance risk, choosing the reinsurance cover and fulfilling obligations with respect to signed insurance contracts.

In addition, the Company is also exposed to financial risks incurred during investment activities and operational risk arising in day to day operations.

Each of these risks are divided into subcategories where significant risks are identified. There are risk mitigation plans in place for each substantial risk.

According to Solvency II requirements, the Company conducts its own risk and solvency assessment (ORSA), the results are used for annual planning process and strategic decision-making.

4.2 Insurance risks and risk management

Insurance risk is the most significant risk faced by the Company in day-to-day activities.

In order to manage insurance risk, the Company has developed different control and management tools. For all insurance types, insurance terms and conditions have been developed, which are binding both for the Company, as well as for the customers. Methodologies have been developed for all insurance types, which should be followed when assessing and accepting the risk assumed by the Company. The Company has established a Risk Underwriting Institution which employees are responsible for development of a specific insurance product, insurance terms and conditions and risk assessment methods. In addition, limits have been fixed, up to which each of the employees is allowed to make a decision on risk underwriting. When fixing limits, the hierarchy principle is observed; employee with higher the level of responsibility has the higher risk underwriting authority.

Irrespective of the steps detailed above and risks being managed, the Company's management is aware that there is a risk that the insurance risk might not be qualitatively assessed and an incorrect decision may be made. In addition, there is a risk that the insurance indemnity will be insufficient for the losses caused or the claims case will be administered for an extended amount of time.

In order to minimise such risks, the Company has developed and uses the quality management system, which describes the insurance administration process and the claims regulation procedures. It has been identified when and in what circumstances certain types of procedures should be observed. Quality measurements can be carried out in any process and identify whether this process is being carried out in accordance with the Company's interests and described procedures to provide high quality service to the customers and to minimise the risk that is connected with the insurance processes.

(a) Underwriting strategy

Underwriting risk means the risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions. To mitigate underwriting risk the Company's underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome. The underwriting strategy is set out in an annual business plan that sets out the classes of business to be written and the industry sectors to which the Company is prepared to expose itself.

This strategy is cascaded down to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business and industry in order to enforce appropriate risk selection within the portfolio.

Risk diversification is assumed as highly important through the same risk underwriting process across all Baltic countries.

Stress tests and analysis of the critical situation are used for underwriting strategy assessment.

The calculation of the tariffs and prices on insurance products reflects current market conditions and covers the most probable assumptions necessary for the adjustment of future results, aiming to significantly mitigate financial risks.

Adherence to the underwriting authorities is being monitored by management on an on-going basis. Those transaction requiring special authorisation are subject to the special attention of the Company's Board of Directors.

(b) Basic products

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below. In addition, the following gives an assessment of the Company's main products and the ways in which it manages the associated risks.

Notes to the Financial Statements

Casco insurance

Product features

The insurance indemnifies for losses which arise from damage to, destruction or loss of vehicle. Several additional insurance covers may also be purchased which are related to the insured vehicle. The largest losses arise from theft or destruction.

Management of risks

The key risks associated with this product are underwriting risk and claims development risk.

Casco insurance premiums are determined on the basis of the bonus-malus system, driver's driving experience period, insurance territory and other criteria which decreases the insurance premium upon the absence of losses and increases the insurance premium upon the occurrence of losses. The sums insured very rarely exceed EUR 70 000. Insurance premiums are set in line with applicable insurance methodology. Motor vehicles are divided into four risk groups with different insurance premiums. Motor insurance usually contains a retention element by the policyholder.

Motor third party liability insurance

Product features

This insurance is a compulsory insurance, whose policy conditions and indemnification rules are prescribed by the respective regulations on Motor Third Party Liability Insurance. MTPL insurance covers physical injury claims and property claims in countries where the policies has been issued as well as claims caused abroad by insured motorists under the Green Card system. Most of the motor third party liability insurance indemnities are for property damage and lump sum personal injuries, mostly medical treatment costs, and temporary absence from work. However, long-term indemnities may also be possible, such as pensions and permanent inability to work which may be paid out over a long term as annuities.

Even if from previous statistics the claims have been notified promptly and can be settled without delay, the situation can change and claims arising from motor third party liability insurance are classified as 'long-tail' classes where the ultimate claim cost takes longer to determine.

Management of risks

The key risks associated with this product are underwriting risk and claims development risk. The Company therefore monitors and reacts to changes in the general economic and commercial environment in which it operates. For determining the premiums of motor third party liability insurance, a bonus-malus system is used which reduces the insurance premium upon the absence of losses created by the insured persons and increases the insurance premium upon the existence of losses created by the insured persons.

Health insurance

Product features

The health insurance product is offered to companies that purchase health insurance for their employees. Health insurance indemnifies against expenses such as doctor visits, laboratory and diagnostic tests and hospital treatment.

Management of risks

The Company monitors and reacts to changes in the prices for medical services, monitors the claim ratios on employer's bases and adjusts insurance premiums accordingly each year when renewal takes place.

Property insurance

Product features

Property insurance indemnifies, subject to any specified limits or deductibles, the insured against loss or damage to material damage of property. The risks covered by property insurance include fire risk, pipe leakage explosion, burglary and robbery, and storm risk. The most frequently occurring risks for property include pipe leakages and fire. Larger losses result most often from fire.

Generally, claims in the property insurance line are notified promptly and can be settled without delay. Property business is therefore classified as 'short-tail', contrasted with the 'long-tail' classes where the ultimate claim cost takes longer to determine.

Notes to the Financial Statements

In addition to property insurance customer can get the indemnity of business interruption arising from insured property damage, as well as to purchase liability insurance with insuring real estate assets.

Business interruption insurance covers lost business profits and fixed costs incurred that arise from the realisation of any risk covered by the property insurance of the Company. Upon the sale of that insurance type, it is considered to be particularly important to take into account the reliability of the customers and the transparency of the financial statements.

Management of risks

The key risks associated with this product are underwriting risk and claims development risk.

To charge premiums appropriate specifics of different properties are assessed. For private property insurance, it is expected that there will be large numbers of properties with similar risk profiles. However, for commercial business this may not be the case. Many commercial property proposals comprise a unique combination of location, type of business, and safety measures in place. Calculating a premium commensurate with the risk for these policies will be more complex.

Property classes are exposed to the risk that the insured will make false or invalid claims, or exaggerate the amount claimed following a loss. This largely explains why economic conditions correlate with the profitability of the property insurance line of business. Insurance risk is managed primarily through pricing, independent assessment of property under international standards, product design, risk selection and reinsurance. The Company therefore monitors and reacts to changes in the general economic and business by changing pricing or product conditions.

(c) Insurance risk concentration

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Company’s liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

Risk concentration may occur as a result of different coincidences and regularities. In property insurance, risk concentration might occur if one densely populated area experiences any of the exposures (e.g. fire), which may easily transfer from one property to another one and this action cannot be avoided.

In addition, the management is aware that the possible risk concentration can be in one company or an industry in total, for which several risks are insured. When insuring such risks, a precondition is the assessment of the company’s financial position and capacity, as well as identifying how large financial liabilities can arise, how large the liabilities are that are already held by the Company and what it can afford. When evaluating financial risks, the trends of economic growth and the risks that might impact this area are studied.

In order to minimise losses that could occur because of risk concentration, the Company uses reinsurance effectively – by protecting risks proportionally and non-proportionally. Placing reinsurance, the Company’s net retention for one risk is defined per one object and per one event, when losses happen simultaneously for several objects. The Company follows the Reinsurance policy, which has been approved by the Board.

The Company’s key methods in managing these risks are two-fold. Firstly, the risk is managed through appropriate underwriting. Underwriters are not permitted to underwrite risks unless the expected profits are commensurate with the risks assumed. Secondly, the risk is managed through the use of reinsurance. The Company purchases reinsurance coverage for various insurance lines of business. The Company assesses the costs and benefits associated with the reinsurance programme on an ongoing basis.

The Company sets out the total aggregate exposure that it is prepared to accept in relation to the concentrations of risk. It monitors these exposures both at the time of underwriting a risk, and on a monthly basis by reviewing reports which show the key aggregations to which the Company is exposed. The Company uses a number of modelling tools to monitor risk accumulation in order to measure the effectiveness of the reinsurance programme and the Company’s net retention.

Concentration risk is tested and evaluated within different scenario tests. Stress test results are used for decision making to understand what concentration risk the Company may undertake.

Notes to the Financial Statements

Geographic concentration of risks

Business concentration risk is a serious aspect of the insurance business. In view of this and to reduce the concentration risk in one country, the Company continues to develop operations in all Baltic countries. As a result, in the reporting period, 36.2% of all business (by net earned premiums) was conducted in Latvia and 50.7% in Lithuania.

Concentration of risks by industry

The concentration of insurance risks by industry does not exceed 20% for an industry, therefore the Company's management does consider the risk concentration is at the acceptable level.

(d) Catastrophes

The Company's management is aware that catastrophe risks are possible. In the Company's geographic position these risks are mostly connected with meteorological phenomena: storms, floods, nature disasters (hail, snow, freezing, etc.). Large fires and earthquakes are unlikely, but they may occur. The most characteristic catastrophes in Baltics are floods and storms. In order to minimise the impact of catastrophe risk on the Company, reinsurance is arranged. Reinsurance is arranged both proportionally and non-proportionally. In addition, facultative reinsurance is purchased for large risks. The Company has developed methodology for calculating its retention. It depends on many factors and the historical statistical information in each product group. According to management, the measures taken sufficiently reduce the impact of catastrophe risk on the Company.

(e) Liability adequacy test

The Company assesses its insurance liabilities shown annually, by undertaking a liability adequacy test (LAT).

A liability adequacy test is carried out by line of business, defined in Latvia by supervisory authorities, in Latvia, Lithuania and Estonia at each reporting date and assesses whether recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. Current estimates of future cash flows are best estimates without risk margin. If the assessment indicates reserves are inadequate in the light of the established future cash flows, the deficiency is recognised in the profit or loss. Expected cash flows relating to claims and expenses are estimated by reference to the experience, adjusted for significant individual losses which are not expected to recur.

Liability adequacy test is performed by countries and lines of business using information on gross claims paid and reserves. The test takes into account potential decrease of claims paid due to regress. However, it does not take into account reinsurance.

Liability adequacy tests as at 31.12.2016 and 31.12.2015 did not identify any impairment in respect to evaluation for the prior period.

Claims development

Information on the claims development has been provided in order to illustrate the insurance risk to which the Company is subject. The claim table discloses a comparison of cumulative payments to date and the development of technical reserves made for these insurance claims by accident year.

Excesses or deficits indicated in each column should be evaluated separately by ignoring other columns because such corrections made in the prior years may be included as part of the corrections made during the prior years.

The recalculated technical reserves and the cumulative deficit or excess, which is indicated in the enclosed table, may subsequently vary due to changes in different factors.

Although the information provided in the table reflects the estimates of historical unpaid claims made in the prior years, the users of these financial statements should avoid extrapolation of past remains or deficits in respect to the balance of unpaid losses of this period.

Notes to the Financial Statements

The following table illustrates the Company's adequacy of gross claim reserves for each accident year.

Claim development analysis, EUR'000

	Year of insured occurrence		
	2015 year and before it EUR'000	**2016 year EUR'000**	**Total EUR'000**
Total claims for the year	58 853*	**81 587**	81 587
-one year later	**84 521**		84 521
Total payments	52 600**	56 570	109 170
Total claim reserves 31.12.2016	31 921	25 017	**56 938**

* Total claims includes claims for insurance portfolio assumed by the Company on 1 July 2015 as a result of reorganisation process described in Note 1.

** In 2015 gross claim payments related only to period from 1 July 2015 to 31 December 2015.

(h) Sensitivity analysis assumption made for general business

Assumptions that are used in the calculations are based on the Company's own experience, information form market and expert opinions on market trends. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out annually. The assumptions are checked to ensure that they are consistent with inflation rates observable in markets or other published information. There is more emphasis on current trends. Where in early years there is insufficient information to make a reliable best estimate of claims development, prudent assumptions are used.

The estimated amount of IBNR could be influenced by inflation, the risk that significantly large claims will be reported with delay, seasonality of the reporting of claims and other risks.

As at 31 December 2016 87% of IBNR consists of the following lines of business: compulsory motor TPL, CASCO and general liability. Considering the current market situation, the Company believes that the most volatile assumptions, which stands in one line with claim amount and average number of amount insured, is inflation.

The table below presents the change in IBNR as at 31 December 2016 in the case if the annual economic inflation used in the IBNR estimation would change as a result of a 3% change in inflation.

EUR'000 Line of business	**IBNR, as at 31.12.2016**	**IBNR if projected annual inflation increased by 3%**	**IBNR without annual inflation**
Compulsory motor TPL	8 737	9 191	8 457
General TPL	2 133	2 238	2 065
CASCO	634	646	626

EUR'000 Line of business	**IBNR, as at 31.12.2015**	**IBNR if projected annual inflation increased by 3%**	**IBNR without annual inflation**
Compulsory motor TPL	7 633	7 914	7 453
General TPL	1 861	1 931	1 816
CASCO	658	669	651

The main assumption used in the calculation of technical reserves is a stable claims statistics. Management expect that development of claims in the future will have the same pattern as in the past. Reserves are not discounted.

The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate case by case basis, with due regard to the claim circumstances, information available to loss amount and the historical evidence of the size of similar claims. Potential claim estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on the information currently available. However, the claims paid may vary from the previously reserved amount as a result of subsequent developments or if catastrophic events occur. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The provision estimation difficulties also differ by class of business due to differences in the underlying insurance contract, the volume of claims and the frequency of claims, determining the occurrence date of a claim, and reporting lags.

For most of the risks, the costs of outstanding IBNR reserves are estimated using a range of statistical methods such as the Chain Ladder methods. Such methods extrapolate the development of paid and incurred claims, average cost per claims and claim numbers for each accident year based upon observed development of earlier years and expected loss ratios.

The key methods, which are used and have remained unchanged from prior year, are:

- Chain Ladder methods, which use historical data to estimate potential claims incurred in future;
- other chain coefficient method to evaluate the frequency of insurance events;
- loss ratio methods is used, based on the Company's expectation of the loss ratio for a class of business.

The actual method or blend of methods used varies by line of business and observed historical claims development.

To the extent that these methods use historical claims development information, they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- changes in processes that affect the development/ recording of claims paid and incurred (such as changes in claim reserving procedures);
- economic, legal, political and social trends (resulting in different than expected levels of inflation);
- changes in mix of business;
- random fluctuations, including the impact of large losses.

Assumptions used for estimation of MTPL claim reserves

IBNR estimation of MTPL claims is performed for the main part of claims incurred excluding pensions and another bodily injury claims and separate calculation is performed for pensions and bodily injury claims. Chain coefficients are calculated separately for material claims incurred triangle for all 3 Baltic states.

For pensions' and bodily injury's claims, chain coefficients are calculated on a combined triangle basis, and then are applied for each country's triangle separately.

RBNS reserves for pensions are calculated based on life insurance formulas. The main assumptions in these calculations are mortality tables, inflation and discount rates. General Latvian mortality tables are used for RBNS calculations if people are second or third group disabled person and special disabled person mortality tables are used for first group disabled persons. Cash flows are calculated till end of life tables. EIOPA given discount rates are used for discounting cash flows.

4.3 Financial risks and risk management

The Company is exposed to financial risks due to operations with financial instruments. Financial risks include market risk, credit risk and liquidity risk. Below is a description of each of these financial risks and a summary of the methods used by the Company to manage these risks. Exposure to those risks arises in the normal course of the Company's business.

The Company's financial assets and liabilities, including investments, deposits with banks, loans, insurance receivables and receivables from reinsurance activities, are exposed to financial risk as follows:

- Market risk: risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments, including interest rate risk, price risk and currency risk;
- Credit risk: risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which Company is exposed, in the form of counterparty default risk, or spread risk, or market risk concentrations;
- Liquidity risk: risk that Company is unable to realise investments and other assets in order to settle its financial obligations when they fall due.

Notes to the Financial Statements

Market risks

All financial instruments and positions are subject to market risk, the risk that future changes in market conditions may make an instrument more or less valuable. The Company is subject to potential market risks and can incur losses from financial assets and financial liabilities as the result of changes in interest rates, currency exchange rates and changes in price of equity instruments.

In order to limit investment risk, investments are made in different financial instruments. When choosing financial instruments, the requirements of the insurance company and the law on supervision of insurance companies are observed.

When carrying out investing activities, the employees of Financial Department are guided according to the approved Investment establishment procedure, which regulates many issues related to control and the minimisation of investments risk.

The reduction of investments risk is carried out in two ways – firstly, by diversifying the investments portfolio, and secondly, by analysing the specific asset before the purchase of this asset and following the available information on this asset.

(a) Currency risk

Currency risk: the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates.

Some insurance liabilities are denominated in foreign currencies. The Company's policy is to restrict the currency risk with respect to known and expected transactions in foreign currencies. Currency risk management is based on investments in the respective currencies. The Company is not engaged in any speculative transactions that may increase the currency risk.

An analysis of sensitivity of the Company's net income for the period and equity to changes in the foreign currency exchange rates based on currency positions from assets and liabilities denominated in foreign currency existing as at 31 December 2016 and 2015 and a simplified scenario of a 10% change in PLN, GBP, USD to EUR exchange rate is as follows:

	2016	**2015**
EUR'000	**Net income**	**Net income**
10% depreciation of PLN against EUR	2	113
10% appreciation of PLN against EUR	(2)	(113)
10% depreciation of GBP against EUR	(4)	361
10% appreciation of GBP against EUR	4	(361)
10% depreciation of USD against EUR	(24)	(48)
10% appreciation of USD against EUR	24	48

Notes to the Financial Statements

The split of financial assets and liabilities and technical reserves by currencies as at period end were as follows:

31 December 2016	**EUR EUR'000**	**USD EUR'000**	**DKK EUR'000**	**NOK EUR'000**	**PLN EUR'000**	**GBP EUR'000**	**Other EUR'000**	**Total EUR'000**
Financial assets								
Debt securities and other fixed income securities	79 110	539	-	115	1 472	-	-	**81 236**
Deposits with banks	1 357	-	-	-	-	-	-	**1 357**
Receivables	20 561	-	-	-	-	-	-	**20 561**
Cash and cash equivalents	39 080	280	109	24	8	2 735	243	**42 479**
Total financial assets	**140 108**	**819**	**109**	**139**	**1 480**	**2 735**	**243**	**145 633**
Technical reserves, net								
Technical reserves for unearned premiums and unexpired risks, net	53 906	578	-	-	1	-	-	**54 485**
Outstanding claim technical reserves, net	45 478	4	237	6	1 494	2 696	230	**50 145**
Total technical reserves, net	**99 384**	**582**	**237**	**6**	**1 495**	**2 696**	**230**	**104 630**
Financial liabilities	11 435	-	-	-	-	-	-	**11 435**
Technical reserves, net and financial liabilities	**110 819**	**582**	**237**	**6**	**1 495**	**2 696**	**230**	**116 065**
Open currency position	**29 289**	**237**	**(128)**	**133**	**(15)**	**39**	**13**	**29 568**

31 December 2015	**EUR EUR'000**	**USD EUR'000**	**DKK EUR'000**	**NOK EUR'000**	**PLN EUR'000**	**GBP EUR'000**	**Other EUR'000**	**Total EUR'000**
Financial assets								
Debt securities and other fixed income securities	92 204	991	-	111	-	-	-	**93 306**
Deposits with banks	1 794	-	-	-	-	-	-	**1 794**
Other loans	41	-	-	-	-	-	-	**41**
Receivables	15 655	-	-	-	-	-	-	**15 655**
Cash and cash equivalents	18 834	935	153	23	-	6	2	**19 953**
Total financial assets	**128 528**	**1 926**	**153**	**134**	**-**	**6**	**2**	**130 749**
Technical reserves, net								
Technical reserves for unearned premiums and unexpired risks, net	45 372	625	-	-	2	-	-	**45 999**
Outstanding claim technical reserves, net	40 140	822	272	10	1 131	3 612	332	**46 319**
Total technical reserves, net	**85 512**	**1 447**	**272**	**10**	**1 133**	**3 612**	**332**	**92 318**
Financial liabilities	9 692	-	-	-	-	-	-	**9 692**
Technical reserves, net and financial liabilities	**95 204**	**1 447**	**272**	**10**	**1 133**	**3 612**	**332**	**102 010**
Open currency position	**33 324**	**479**	**(119)**	**124**	**(1 133)**	**(3 606)**	**(330)**	**28 739**

(b) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Company takes a long or short position in a financial instrument.

Notes to the Financial Statements

An analysis of the sensitivity of the Company's profit or loss and equity to changes in securities prices based on positions existing as at 31 December 2015 and 2016 and a simplified scenario of a 5% change in all securities prices is as follows:

	2016 EUR'000	2015 EUR'000
5% increase in securities prices	4 036	4 637
5% decrease in securities prices	(4 036)	(4 637)

(c) Interest rate risk

Interest rate risk is defined as the loss in value resulting from a change in interest rates and is viewed both from the asset-only perspective and in relation to the interest-rate sensitivity of the liabilities.

Measures for management of the interest rate risk in the Company are based on the assessment of the impact of the interest rate risk on the Company's financial indices. The Company does not have significant interest bearing liabilities and a significant share of interest bearing assets are at a fixed interest rate, therefore, the Company is not exposed to a significant interest rate risk and to the effects of fluctuations in interest rates resulting from different maturity or interest re-pricing profile of the Company's interest bearing assets and liabilities.

	31.12.2016		31.12.2015	
EUR'000	**Profit or loss**	**OCI**	**Profit or loss**	**OCI**
10 bp parallel increase	82	82	94	94
10 bp parallel decrease	(82)	(82)	(94)	(94)

Changes in fair value that impact changes of interest rate of financial assets with fixed interest rate, are reflected in price risk sensitivity analysis.

The following table present the Company's financial assets analysed according to repricing periods determined as the earlier of the remaining contractual maturity and the contractual repricing. The interest rate repricing profile of the Company's assets as at end of the period:

31 December 2016	**Within 6 months EUR'000**	**6-12 months EUR'000**	**1-5 years EUR'000**	**Over 5 years EUR'000**	**Non-interest bearing EUR'000**	**Total EUR'000**	**Of which subject to fixed rates EUR'000**
Financial assets							
Investments at fair value through profit or loss	12 892	5 333	56 569	1 416	-	76 210	**76 210**
Available-for-sale instruments	-	226	4 800	-	-	5 026	**5 026**
Deposits with banks	-	1 064	293	-	-	1 357	**1 357**
Receivables	-	-	-	-	20 561	20 561	**-**
Cash and cash equivalents	-	-	-	-	42 479	42 479	**-**
Total financial assets	**12 892**	**6 623**	**61 662**	**1 416**	**63 040**	**145 633**	**82 593**

31 December 2015	**Within 6 months EUR'000**	**6-12 months EUR'000**	**1-5 years EUR'000**	**Over 5 years EUR'000**	**Non-interest bearing EUR'000**	**Total EUR'000**	**Of which subject to fixed rates EUR'000**
Financial assets							
Investments at fair value through profit or loss	25 604	-	67 181	521	-	93 306	**93 306**
Deposits with banks	922	-	872	-	-	1 794	**1 794**
Loans	-	41	-	-	-	41	**41**
Receivables	-	-	-	-	15 655	15 655	**-**
Cash and cash equivalents	19 946	-	-	-	7	19 953	**-**
Total financial assets	**46 472**	**41**	**68 053**	**521**	**15 662**	**130 749**	**95 141**

Notes to the Financial Statements

Liquidity risks

In accordance with the approved investment policy, the Company needs to ensure that at least 90% of the assets required for the technical reserve cover would be placed in high liquidity investments.

High liquidity investments are deemed to be the following assets:

1) claims on demand to credit institutions;
2) other claims to solvent credit institutions (term deposits, etc.) whose remaining repayment term does not exceed 30 days, and deposits with another term if the agreement stipulates an option to withdraw money before the due date (less the amount of contractual penalty for preterm withdrawal of deposits if such is provided);
3) investments in securities if they have a constant, unrestricted market, i.e., they can be sold in a short time without considerable losses or can be used as a collateral for receipt of loan.

The tables below shows the allocation of the Company's assets and liabilities to maturity groups based on the time remaining from the reporting period end date to the maturity dates or expected dates of settlement. While the tables below reflect the liquidity risk, it is based on time to contractual maturity. Investments classified as financial assets at fair value through profit and loss, are considered as highly liquid financial assets and management has the ability to sell them earlier than the contractual date, thereby helping to manage its liquidity gap, if needed.

31 December 2016	**Up to 12 months EUR'000**	**From 1 to 5 years EUR'000**	**Over 5 years EUR'000**	**No fixed maturity EUR'000**	**Total EUR'000**
Financial assets					
Financial instruments at fair value through profit or loss	18 225	56 569	1 416	-	**76 210**
Available-for-sale instruments	226	4 800	-	-	**5 026**
Deposits with banks	1 064	293	-	-	**1 357**
Receivables from direct insurance activities	19 994	-	-	-	**19 994**
Receivables from reinsurance activities	407	-	-	-	**407**
Other receivables	160	-	-	-	**160**
Cash and cash equivalents	42 479	-	-	-	**42 479**
Total financial assets taking into account maturity	**82 555**	**61 662**	**1 416**	**-**	**146 633**
Total financial assets taking into account liquidity	**145 340**	**293**	**-**	**-**	**146 633**
Technical reserves and financial liabilities					
Technical reserves, net	90 904	9 049	2 000	2 677	**104 630**
Financial liabilities	11 435	-	-	-	**11 435**
Total technical reserves and financial liabilities	**102 339**	**9 049**	**2 000**	**2 677**	**116 065**
Maturity gap	**(19 784)**	**52 613**	**(584)**	**(2 677)**	**29 568**
Maturity gap taking into account liquidity	**43 001**	**(8 756)**	**(2 000)**	**(2 677)**	**29 568**
Accumulated maturity gap taking into account liquidity	**43 001**	**34 245**	**32 245**	**29 568**	**29 568**

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31 December 2015	**Up to 12 months EUR'000**	**From 1 to 5 years EUR'000**	**Over 5 years EUR'000**	**No fixed maturity EUR'000**	**Total EUR'000**
Financial assets					
Investments at fair value through profit or loss	25 604	67 181	521	-	**93 306**
Deposits with banks	922	872	-	-	**1 794**
Loans	41	-	-	-	**41**
Receivables from direct insurance activities	14 595	-	-	-	**14 595**
Receivables from reinsurance activities	669	-	-	-	**669**
Other receivables	391	-	-	-	**391**
Cash and cash equivalents	19 953	-	-	-	**19 953**
Total financial assets taking into account maturity	**62 175**	**68 053**	**521**	**-**	**130 749**
Total financial assets taking into account liquidity	**129 877**	**872**	**-**	**-**	**130 749**
Technical reserves and financial liabilities					
Technical reserves, net	81 796	4 573	744	5 205	**92 318**
Financial liabilities	9 692	-	-	-	**9 692**
Total technical reserves and financial liabilities	**91 488**	**4 573**	**744**	**5 205**	**102 010**
Maturity gap	**(29 313)**	**63 480**	**(223)**	**(5 205)**	**28 739**
Maturity gap taking into account liquidity	**38 389**	**(3 701)**	**(744)**	**(5 205)**	**28 739**
Accumulated maturity gap taking into account liquidity	**38 389**	**34 688**	**33 944**	**28 739**	**28 739**

The Company does not perform gross cash flows analysis, as the majority of financial liabilities and technical reserves have maturity up to 12 months.

Credit risk

The Company takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one issuer of securities, debtor, borrower, or group of the above. Such risks are monitored regularly.

Credit risk mainly arising from direct insurance debtors and reinsurance debtors in case the counterparty fails to fulfil its payment obligations.

Impact from credit crisis, inactive real estate market

Exposure to credit risk is managed through the regular analysis of the ability of issuers and borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

The current market value of collateral, where relevant, is regularly assessed by either independent appraisal companies or the Company's specialists.

Maximum credit risk	**2016 EUR'000**		**2015 EUR'000**	
	Gross	**Net**	**Gross**	**Net**
Government bonds	79 168	79 168	92 665	92 665
Corporate bonds	2 068	2 068	641	641
Deposits with banks	1 357	1 357	1 794	1 794
Loans	-	-	41	41
Due from policy holders	18 745	18 543	13 301	13 168
Due from intermediaries	1 556	1 451	1 457	1 427
Receivables from reinsurance activities	408	407	733	669
Other debtors	473	160	786	391
Cash	42 479	42 479	19 953	19 953
Total	**146 254**	**145 633**	**131 371**	**130 749**

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Credit risk arises on the financial investments, direct insurance amounts receivable and the reinsurance amounts receivable and is the risk the counterparty defaults on the payment of the amount due.

Management of Financial investments

The Company manages credit risks by investing most of the investments in markets and investments with high ratings. Deposits are mainly invested in Latvian, Lithuanian and Estonian commercial banks that are subsidiaries of foreign banks and that do not have separate ratings.

Investment analysis by ratings:

2016	Rating	Listed debt securities EUR'000	Government bonds EUR'000	Total EUR'000
Agency: S&P, Fitch, Moody's				
	AAA	-	4 048	4 048
	A+	115	-	115
	A-	-	74 845	74 845
	A	-	275	275
	Baa2	1 953	-	1 953
Total		**2 068**	**79 168**	**81 236**

2015	Rating	Listed debt securities EUR'000	Government bonds EUR'000	Total EUR'000
Agency: S&P				
	AAA	-	3 046	3 046
	AA+	-	2 751	2 751
	AA-	-	1 020	1 020
	A+	112	285	397
	A-	-	85 563	85 563
	No rating	529	-	529
Total		**641**	**92 665**	**93 306**

Insurance receivables

Direct insurance amounts receivable are monitored by management on a periodic basis and policies are cancelled if appropriate notification has been provided to the policy holder and the amounts due are not paid.

Reinsurance

The Company reinsures a part of underwritten risks in order to control its exposure to losses and protect own capital. It purchases the obligatory and facultative reinsurance coverage to reduce the net exposure and not to exceed the actual margin of solvency. The Company also buys reinsurance treaties for the main lines of its business that protect the Company from any cumulative losses that may arise from multiple claims resulting from the same event.

Ceded reinsurance contains credit risk, and such reinsurance recoverable is reported after deductions for known counterparty insolvencies and uncollectible items. The Company monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically.

Risks are ceded to the reinsurance companies with a sound reputation. The decision of choosing a cooperation partner with a rating below A- level by Standard and Poor's, Moody, Reuters, A.M. Best and FITCH, upon evaluating all risks, is coordinated with the Board.

Reinsurance companies settle their obligations in the time period of 30 days. Reinsurance agreements also stipulate for cases when upon the insurance indemnity exceeding a certain amount, the reinsurance claim is paid immediately.

Notes to the Financial Statements

During the reporting period, there have been no cases where a reinsurance company has not fulfilled its obligations to the Company.

	31 December 2016		
Rating	**Reinsurance debtors EUR'000**	**Reinsurer's share on written premiums EUR'000**	**Reinsurer's share in claims paid EUR'000**
AA-, AA, AA+	16	3 409	1 041
A-, A, A+	10	2 914	475
BBB-, BBB, BBB+	-	3	-
BB-, BB, BB+	-	-	78
B-, B, B+	-	20	-
No rating	381	315	5
Total	**407**	**6 661**	**1 599**

	31 December 2015		
Rating	**Reinsurance debtors EUR'000**	**Reinsurer's share on written premiums EUR'000**	**Reinsurer's share in claims paid EUR'000**
AA-, AA, AA+	129	1 775	181
A-, A, A+	67	1 560	138
BBB-, BBB, BBB+	-	4	-
No rating	473	64	11
Total	**669**	**3 403**	**330**

Taking into account the reinsurance agreements the Company's liability for each insurance risk for the main business lines is as follows:

	31 December 2016 EUR'000	**31 December 2015 EUR'000**
Motor own damage insurance	Retained on net	Retained on net
CMTPL	800	800
Health insurance	Retained on net	Retained on net
Property insurance	1 000	1 800
Travel accident insurance	Retained on net	Retained on net
General third party liability	400	400
Various financial risks	1 000	1 800
Guarantee insurance	1 500	2 400
Credit insurance	800	800
Cargo insurance	1 000	1 800
Personal accident insurance	Retained on net	Retained on net
Aircraft third party liability insurance	5 000	5 000
Marine insurance	700	700
Aircraft insurance	300	300
Railway insurance	1 000	1 800
Marine third party liability insurance	700	700
Legal expense insurance	Retained on net	Retained on net

4.4 Operating risks and risk management

The Company has determined that customers should receive high quality service. The most significant risk in the provision of these services has been defined to be qualified and knowledgeable employees representing the Company. In order to attract and keep middle and top level qualified employees in the Company, the Company has implemented a competitive salary and motivation system thus achieving a very high retention on the top and middle management level.

Notes to the Financial Statements

The Company has established its training centre, which is engaged in raising the employees' qualification. A knowledge base has been established, which is available to the employees and can be used in day-to-day activities.

In the management's opinion, the risk that any of the employees may intentionally or unintentionally influence the technical result of an insurance line of business by fixing an unreasonably low price or granting unreasonably high discounts has been minimised. When fixing the price, the methodologies should be strictly followed, but deviations are necessary in connection with the market situation and such deviations should be approved by top management. A discount policy is fixed by the Company's Board and no deviations from this policy are permitted.

A significant tool in ensuring the efficiency of these activities is the information system (IS). The Company's management pays heightened attention to ensure that these systems work and comply with up-to-date requirements. The Company has an IT Department whose assignment is to ensure and maintain a stable and safe environment in the Company's IS. The activities of the Department are regulated by IS security regulations, which have been developed in accordance with the legislation requirements. IS systems should ensure constant performance and it should comply with the employees' and clients' requirements.

4.5 Capital adequacy requirements and Capital management

According to the requirements of the „Insurance and Reinsurance Law" of the Republic of Latvia, Directive 2009/138/EC of the European Parliament and of the Council and Commission Delegated Regulation 2015/35 which are in force for the reporting period, the Company should constantly have at its disposal own funds, which should equal or be higher than a determined solvency margin.

The Company has developed a capital management policy to be sure:

(a) that own fund items, both at issue and subsequently, are classified according to the features in Articles 71, 73, 75 and 77 of Commission Delegated Regulation 2015/35.
(b) before issuance of any own fund items that it can satisfy the criteria for the appropriate tier on a continuous basis;
(c) that own funds items are not encumbered by the existence of any agreements or connected transactions, or as a consequence of a group structure, which would undermine their efficacy as capital;
(d) that the actions required or permitted under the contractual, statutory or legal provisions governing an own fund item are initiated and completed in a timely manner;
(e) that the contractual terms governing own fund item items are clear and unambiguous in relation to the criteria for classification into tiers;
(f) that any policy or statement in respect of ordinary share dividends is fully taken into account in consideration of the capital position and the assessment of the foreseeable dividends;
(g) that the manner in which items included in own funds under the transitional measures operate in times of stress, and in particular how the items absorb losses is assessed and, if necessary, taken into account in the ORSA.

Capital risk management

The Company has adopted the Solvency II regulation, which entered into force on 1 January 2016 and served as the main model for capital risk management in the reporting period. The Company has chosen to use the Standard model for calculating and reporting the capital requirements according to principles described by the regulation.

Risk management

Implementation of the Solvency II regulations has been one of the key priorities of the Company in the reporting period. Solvency II entails new rules for calculating capital requirements and qualifying capital, risk management and internal control requirements and requirements for the reporting of the risk and capital situation. The Solvency II entail requirements for a higher capitalisation level than under previous capital adequacy regulations.

Notes to the Financial Statements

The Company have made active use of the legislative changes to further strengthen its risk management in the Company.

Notes to the Financial Statements

(5) Gross written premiums

	2016 EUR'000			From 28 October 2014 (inception date) to 31 December 2015 EUR'000		
	Gross written premiums	**Reinsurer's share in premiums**	**Net written premiums**	**Gross written premiums**	**Reinsurer's share in premiums**	**Net written premiums**
Personal accident insurance	3 412	-	3 412	1 124	-	1 124
Health insurance	12 633	-	12 633	4 340	-	4 340
CASCO	31 572	-	31 572	13 685	-	13 685
Railway insurance	281	(11)	270	232	(10)	222
Aircraft insurance	134	(108)	26	5	(5)	-
Marine insurance	1 164	(1 049)	115	456	(412)	44
Cargo insurance	869	(200)	669	278	(16)	262
Property insurance	15 900	(1 804)	14 096	7 211	(1 100)	6 111
Aircraft third party liability insurance	351	(348)	3	239	(131)	108
Marine third party liability insurance	121	(112)	9	50	(45)	5
General third party liability	6 529	(962)	5 567	2 946	(360)	2 586
Credit insurance	217	(75)	142	80	(19)	61
Guarantee insurance	4 839	(922)	3 917	2 754	(733)	2 021
Various financial risks	185	(69)	116	73	(35)	38
Legal costs insurance	31	-	31	13	-	13
Travel accident insurance	4 468	-	4 468	2 401	-	2 401
CMTPL*	48 102	(1 001)	47 101	19 843	(537)	19 306
Total	**130 808**	**(6 661)**	**124 147**	**55 730**	**(3 403)**	**52 327**

* The Company makes obligatory deductions in accordance with the law "On compulsory motor third party liability" and the related Cabinet of Ministers regulations of the Republic of Latvia. Gross written premiums on motor third party liabilities insurance are shown net of the obligatory deductions EUR 369 thousand (2015: EUR 186 thousand).

The Company makes obligatory deductions to the Motor Bureaus of Lithuania and Estonia in accordance with the statutory requirements. Gross written premiums on motor third party liabilities insurance are shown net of the obligatory deductions to the transport insurance offices of Lithuania and Estonia in the amount of EUR 1 301 thousand (EUR 493 thousand).

According to the law "On Motor Vehicles Third Party Liability Obligatory Insurance" and the related Cabinet Regulations of the Republic of Latvia, during the reporting period the Company made the following obligatory deductions from gross premiums written in this insurance type:

Co-financing of the activities of the Latvian Motor Vehicle Insurance Bureau:	EUR 0.50 per contract + EUR 2 340 per month
For the Guarantee Fund and the Interests Protection Fund in Latvia:	According to a special calculation by taking into account the period of contract and the type of insured motor vehicle
For the Road Traffic Safety Fund in Latvia:	2% from gross written premium

Notes to the Financial Statements

(6) Net earned premiums

	2016 EUR'000			From 28 October 2014 (inception date) to 31 December 2015 EUR'000		
	Gross earned premiums	**Reinsurer's share in premiums**	**Net earned premiums**	**Gross earned premiums**	**Reinsurer's share in premiums**	**Net earned premiums**
Personal accident insurance	3 091	-	3 091	1 376	-	1 376
Health insurance	11 735	-	11 735	5 339	-	5 339
CASCO	29 117	-	29 117	13 509	-	13 509
Railway insurance	349	(11)	338	181	(10)	171
Aircraft insurance	112	(90)	22	66	(52)	14
Marine insurance	1 039	(938)	101	390	(348)	42
Cargo insurance	819	(191)	628	410	(118)	292
Property insurance	14 500	(2 037)	12 463	7 059	(917)	6 142
Aircraft third party liability insurance	426	(340)	86	263	(250)	13
Marine third party liability insurance	104	(97)	7	38	(31)	7
General third party liability	6 353	(923)	5 430	3 380	(469)	2 911
Credit insurance	215	(69)	146	66	(32)	34
Guarantee insurance	4 807	(1 043)	3 764	2 415	(569)	1 846
Various financial risks	182	(72)	110	75	(41)	34
Legal costs insurance	30	-	30	14	-	14
Travel accident insurance	4 568	-	4 568	2 505	-	2 505
CMTPL	45 026	(1 001)	44 025	20 755	(539)	20 216
Total	**122 473**	**(6 812)**	**115 661**	**57 841**	**(3 376)**	**54 465**

(7) Technical reserves for unearned premiums and unexpired risks

	Gross EUR'000	**Reinsurer share EUR'000**	**Net EUR'000**
Balance at 28 October 2014 (inception date)	**-**	**-**	**-**
Acquired as a result of reorganisation (note 1)	50 483	(2 346)	48 137
Written premiums	55 730	(3 403)	52 327
Premiums earned	(57 841)	3 376	(54 465)
Changes during period	*(2 111)*	*(27)*	*(2 138)*
Balance at 31 December 2015	**48 372**	**(2 373)**	**45 999**
Written premiums	130 808	(6 661)	124 147
Premiums earned	(122 473)	6 812	(115 661)
Changes during period	*8 335*	*151*	*8 486*
Balance at 31 December 2016	**56 707**	**(2 222)**	**54 485**

Notes to the Financial Statements

	31.12.2016 EUR'000		31.12.2015 EUR'000	
	Gross	**Net**	**Gross**	**Net**
Unearned premium reserve	56 477	54 255	48 065	45 692
Unexpired risk reserve (note 3.2. c)	230	230	307	307
	56 707	**54 485**	**48 372**	**45 999**

(8) Other technical income

	2016 EUR'000	**From 28 October 2014 (inception date) to 31 December 2015 EUR'000**
Fee for policy amendments and cancellation	151	59
Other technical income	133	40
	284	**99**

The Company acts as an agent when paying out insurance claims on behalf of other non-resident companies. The Company does not accept insurance risks and receives full reimbursement of claims paid on behalf of other insurance companies. The Company receives an agent fee for the services.

Notes to the Financial Statements

(9) Gross claims paid

	2016 EUR'000			From 28 October 2014 (inception date) to 31 December 2015 EUR'000		
	Gross claims paid	**Reinsurer's share in claim**	**Net claims paid**	**Gross claims paid**	**Reinsurer's share in claim**	**Net claims paid**
Personal accident insurance	(1 637)	-	(1 637)	(657)	-	(657)
Health insurance	(9 065)	-	(9 065)	(4 075)	-	(4 075)
CASCO	(21 509)	-	(21 509)	(10 022)	-	(10 022)
Railway insurance	(15)	-	(15)	(1)	-	(1)
Aircraft insurance	-	-	-	(11)	8	(3)
Marine insurance	(1 218)	1011	(207)	(81)	62	(19)
Cargo insurance	(90)	-	(90)	(106)	-	(106)
Property insurance	(6 210)	246	(5 964)	(3 398)	101	(3 297)
Aircraft third party liability insurance	-	-	-	-	-	-
Marine third party liability insurance	-	-	-	(1)	1	-
General third party liability	(1 575)	143	(1 432)	(350)	10	(340)
Credit insurance	(76)	31	(45)	(116)	34	(82)
Guarantee insurance	(128)	(10)	(138)	(131)	67	(64)
Various financial risks	(40)	-	(40)	(57)	-	(57)
Legal costs insurance	-	-	-	-	-	-
Travel accident insurance	(1 083)	-	(1 083)	(634)	-	(634)
CMTPL	(34 821)	178	(34 643)	(15 949)	47	(15 902)
Total	**(77 467)**	**1 599**	**(75 868)**	**(35 589)**	**330**	**(35 259)**

Gross claims paid include:

	2016 EUR'000	**From 28 October 2014 (inception date) to 31 December 2015 EUR'000**
Paid claims	(78 959)	(35 773)
Loss adjustment expenses*	(4 293)	(2 191)
Recovered losses	5 785	2 375
	(77 467)	**(35 589)**

*Loss adjustment expenses in the reporting period include EUR 2 331 thousand (2015: EUR 1 136 thousand) salary and social contributions for employees dealing with claims handling.

Notes to the Financial Statements

(10) Outstanding claim technical reserve

	Gross EUR'000	Reinsurer share EUR'000	Net EUR'000
Balance at 28 October 2014 (inception date)	**-**	**-**	**-**
Acquired as a result of reorganisation (note 1)	54 901	(7 977)	46 924
Claims incurred during the period	33 939	715	34 654
Claims paid	(35 589)	330	(35 259)
Changes during period	*(1 650)*	*1 045*	*(605)*
Balance at 31 December 2015	**53 251**	**(6 932)**	**46 319**
Claims incurred during the period	81 154	(1 460)	79 694
Claims paid	(77 467)	1 599	(75 868)
Changes during period	*3 687*	*139*	*3 826*
Balance at 31 December 2016	**56 938**	**(6 793)**	**50 145**

	31.12.2016 EUR'000			**31.12.2015 EUR'000**		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
RBNS	43 763	(6 793)	36 970	41 145	(6 932)	34 213
IBNR	13 175	-	13 175	12 106	-	12 106
	56 938	**(6 793)**	**50 145**	**53 251**	**(6 932)**	**46 319**

Notes to the Financial Statements

(11) Outstanding claim technical reserve

	2016 EUR'000			From 28 October 2014 (inception date) to 31 December 2015 EUR'000		
	Gross claims incurred	Reinsurer's share in claims incurred	Net claims incurred	Gross claims incurred	Reinsurer's share in claims incurred	Net claims incurred
Personal accident insurance	(1 647)	-	(1 647)	(822)	-	(822)
Health insurance	(8 829)	-	(8 829)	(4 193)	-	(4 193)
CASCO	(21 685)	-	(21 685)	(9 932)	-	(9 932)
Railway insurance	(6)	-	(6)	-	-	-
Aircraft insurance	(2)	-	(2)	42	(38)	4
Marine insurance	(526)	306	(220)	425	(154)	271
Cargo insurance	(188)	-	(188)	(349)	-	(349)
Property insurance	(6 686)	239	(6 447)	(3 254)	13	(3 241)
Aircraft third party liability insurance	11	-	11	(10)	-	(10)
Marine third party liability insurance	-	-	-	(3)	1	(2)
General third party liability	(2 074)	121	(1 953)	(555)	13	(542)
Credit insurance	(66)	23	(43)	(108)	26	(82)
Guarantee insurance	(246)	91	(155)	(29)	5	(24)
Various financial risks	22	-	22	(79)	-	(79)
Legal costs insurance	12	-	12	-	-	-
Travel accident insurance	(1 093)	-	(1 093)	(532)	-	(532)
CMTPL	(38 151)	680	(37 471)	(14 540)	581	(15 121)
Total	**(81 154)**	**1 460**	**(79 694)**	**(33 939)**	**(715)**	**(34 654)**

(12) Deferred client acquisition costs

	EUR'000
Balance at 28 October 2014 (inception date)	**-**
Acquired as a result of reorganisation (note 1)	4 815
Client acquisition costs	5 984
Deferred commissions allocated to the profit or loss	(5 953)
Changes during period	*31*
Balance at 31 December 2015	**4 846**
Client acquisition costs	13 740
Deferred commissions allocated to the profit or loss	(12 986)
Changes during period	*754*
Balance at 31 December 2016	**5 600**

Notes to the Financial Statements

Client acquisition costs	2016 EUR'000	From 28 October 2014 (inception date) to 31 December 2015 EUR'000
Intermediaries commissions payable	13 491	5 812
Agents' commissions payable	79	123
Other payable to intermediaries	170	49
	13 740	**5 984**

(13) Administrative expenses

	2016 EUR'000	From 28 October 2014 (inception date) to 31 December 2015 EUR'000
Salaries and social contribution expenses	15 275	6 983
Rent payments	1 138	558
Computer programs rent and maintenance	887	351
Obligatory payments*	350	295
Business related costs	479	279
Utility expenses (electricity, heating, water)	414	204
Car maintenance costs	434	185
Telecommunication costs	461	162
Advertising expenses	415	152
Other personal expenses	367	147
Presentation expenses	232	144
Legal expenses	67	141
Computer maintenance	51	94
Audit and consultant services	132	78
Cleaning expenses	112	55
Public relations expenses	83	45
Typographic costs	60	29
Other administrative expenses	166	114
	21 123	**10 016**

* According to the Latvian legislation 0.20% of gross premiums in the MTLP line and 0.236% of gross premiums in other lines of insurance should be transferred to the FCMC. Payments to the Insured Interests Protection Fund should be made amounting to 1% of premiums paid by private person policy holders for certain lines of insurance.

Notes to the Financial Statements

Administrative expenses allocated by insurance types:

	2016 EUR'000	From 28 October 2014 (inception date) to 31 December 2015 EUR'000
Personal accident	556	217
Health insurance	2 179	938
CASCO	4 879	1 764
Railway insurance	35	29
Aircraft insurance	16	1
Marine insurance	147	68
Cargo insurance	136	54
Property insurance	2 523	1 984
Aircraft third party liability insurance	52	36
Marine third party liability insurance	14	7
General third party liability	1 047	525
Credit insurance	37	14
Guarantee insurance	769	461
Financial risks	27	12
Legal insurance	6	3
Travel insurance	705	448
CMTPL	7 995	3 455
	21 123	**10 016**

(14) Change in unearned reinsurance commission

	EUR'000
Balance at 28 October 2014 (inception date)	**-**
Acquired as a result of reorganisation (note 1)	547
Written commissions	(664)
Deferred commissions allocated to the profit or loss	782
Changes during period	*118*
Statement of financial position at 31 December 2015	**665**
Written commissions	(1 457)
Deferred commissions allocated to the profit or loss	1 455
Changes during period	*(2)*
Statement of financial position at 31 December 2016	**663**

(15) Other technical expenses

	2016 EUR'000	From 28 October 2014 (inception date) to 31 December 2015 EUR'000
Impairment allowance for receivables from direct insurance and reinsurance operations	(44)	92
Expenses related to distribution of policies	587	265
Other	60	11
	603	**368**

Notes to the Financial Statements

(16) Interest income

	2016 EUR'000	From 28 October 2014 (inception date) to 31 December 2015 EUR'000
Interest income from financial assets at fair value through profit or loss	1 083	580
Interest income from deposits with credit institutions	60	37
Interest on loans	1	1
	1 144	**618**

(17) Income tax expense

	2016 EUR'000	From 28 October 2014 (inception date) to 31 December 2015 EUR'000
Current tax	616	542
Deferred tax	2	27
	618	**569**

Effective tax rate reconciliation

	2016 EUR'000	From 28 October 2014 (inception date) to 31 December 2015 EUR'000
Profit before tax	**2 550**	**4 235**
Theoretical tax using the 15% rate	383	635
Non-deductible expenses	416	28
Tax exempt income	(181)	(60)
Donations	-	(34)
Tax expenses	**618**	**569**

According to the double taxation treaty between Latvia and Estonia income declared by the Estonian branch is taxable in Latvia. According to the treaty, the Company applies the credit method in order to avoid double taxation.

According to the double taxation treaty between Latvia and Lithuania income declared by the Lithuanian branch is taxable in Lithuania. According to the treaty, the Company applies the release method in order to avoid double taxation. When determining taxable income, income generated by the Company's branch in Lithuania is not taken into account. Taxable income is reduced by the Company's income for the taxation period that was generated in Lithuania and included in the profit or loss of the Company and the taxable amount has been increased by the amount of expenses that are connected with generating the above income and included in the profit or loss of the Company.

Notes to the Financial Statements

(18) Reinsurance cession result

	2016 EUR'000	From 28 October 2014 (inception date) to 31 December 2015 EUR'000
Reinsurance premiums	(6 661)	(3 403)
Changes in reinsurers' share in unearned premiums reserve	(151)	27
Reinsurers' share in claims paid	1 599	330
Changes in reinsurers' share in reserve for outstanding claims	(139)	(1 045)
Reinsurance commissions and profit participation	1 457	664
Change in unearned reinsurance commissions	2	(118)
Total reinsurance cession result	**(3 893)**	**(3 545)**

(19) Property and equipment

	Vehicles EUR'000	Other property and equipment EUR'000	Total EUR'000
Cost			
28.10.2014 (inception date)	**-**	**-**	**-**
Acquired as a result of reorganisation (note 1)	1 580	2 424	4 004
Purchased	25	35	60
Disposals	(107)	(47)	(154)
31.12.2015	**1 498**	**2 412**	**3 910**
Purchased	157	199	356
Disposals	(100)	(188)	(288)
31.12.2016	**1 555**	**2 423**	**3 978**
Accumulated depreciation			
28.10.2014 (inception date)	**-**	**-**	**-**
Acquired as a result of reorganisation (note 1)	(1 003)	(1 889)	(2 892)
Depreciation for the period	(120)	(138)	(258)
Depreciation on disposed assets	71	45	116
31.12.2015	**(1 052)**	**(1 982)**	**(3 034)**
Depreciation for the period	(213)	(246)	(459)
Depreciation on disposed assets	74	172	246
31.12.2016	**(1 191)**	**(2 056)**	**(3 247)**
Balance at 31.12.2015	**446**	**430**	**876**
Balance at 31.12.2016	**364**	**367**	**731**

Depreciation for the period is presented in the profit or loss under Depreciation and amortisation caption.

Notes to the Financial Statements

(20) Land and buildings and Investment property

(a) Land and buildings

	Land and buildings EUR'000
Cost	
28.10.2014 (inception date)	**-**
Acquired as a result of reorganisation (note 1)	627
Deemed cost 31.12.2015	**627**
Deemed cost 31.12.2016	**627**
Accumulated depreciation at 28.10.2014 (inception date)	-
Accumulated depreciation acquired as a result of reorganisation (note 1)	(163)
Depreciation for the period	(15)
Accumulated depreciation at 31.12.2015	**(178)**
Depreciation for the period	(31)
Accumulated depreciation at 31.12.2016	**(209)**
Balance at 31.12.2015	**449**
Balance at 31.12.2016	**418**

Depreciation for the period is presented in the profit or loss under Depreciation and amortisation caption.

Type	Fair value, EUR'000	Valuation technique	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Buildings and land located in Jelgava	43	Discounted cash flows technique*	Rental income of EUR 4.55 per m^2 Discount rate 10.70%	The estimated fair value would increase/ (decrease) if rental income per m^2 was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Tukums	75	Discounted cash flows technique*	Rental income of EUR 3.50 per m^2 Discount rate 10.30%	The estimated fair value would increase/ (decrease) if rental income per m^2 was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Liepaja	56	Discounted cash flows technique*	Rental income of EUR 3.45 per m^2 Discount rate 10.30%	The estimated fair value would increase/ (decrease) if rental income per m^2 was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Daugavpils	125	The income capitalization approach	Rental income per m^2 in the range between EUR 3.50 and EUR 5.00 Discount rate 10.90%	The estimated fair value would increase/ (decrease) if rental income per m^2 was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Talsi	29	Discounted cash flows technique*	Rental income of EUR 4.50 per m2 Discount rate 10.30%	The estimated fair value would increase/ (decrease) if rental income per m2 was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower (higher)

Notes to the Financial Statements

Type	Fair value, EUR'000	Valuation technique	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Buildings and land located in Balvi	7	The income capitalization approach	Rental income per m2 in the range between EUR 3.00 and EUR 4.00 Discount rate 10.90%	The estimated fair value would increase/ (decrease) if rental income per m2 was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Rēzekne	17	The income capitalization approach	Rental income per m2 in the range between EUR 4.00 and EUR 5.00 Discount rate 10.90%	The estimated fair value would increase/ (decrease) if rental income per m2 was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Saldus	32	Discounted cash flows technique*	Rental income of EUR 3.31 per m2 Discount rate 11.00%	The estimated fair value would increase/ (decrease) if rental income per m2 was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Jūrmala	34	Discounted cash flows technique*	Rental income of EUR 7.05 per m^2 Discount rate 11.00%	The estimated fair value would increase/ (decrease) if rental income per m2 was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower (higher)

*Discounted cash flows technique is a model based on discounted cash flows from rental income.

The Company has assessed that there are no significant changes in significant unobservable inputs as at 31 December 2016 in comparison to date when the land and buildings were acquired as a result of Reorganization process; therefore, no comparative analysis is made.

(b) Investment property

	Investment property EUR'000
28.10.2014 (inception date)	**-**
Acquired as a result of reorganisation (note 1)	99
Total as at 31.12.2015	**99**
Total as at 31.12.2016	**99**

Investment property comprises a number of commercial properties that are leased to third parties.

Rental income and operating expenses are recognized in the profit or loss under Other income.

Notes to the Financial Statements

The fair value measurement for investment property of EUR 99 thousand has been categorised as a Level 3 in the fair value hierarchy. The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used:

Type	Fair value, EUR'000	Valuation technique	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Buildings and land located in Tukums	78	Discounted cash flows technique	Rental income of EUR 3.50 per m^2 Discount rate 10.30%	The estimated fair value would increase/ (decrease) if rental income per m^2 was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Talsi	21	Discounted cash flows technique	Rental income of EUR 4.50 per m^2 Discount rate 10.30%	The estimated fair value would increase/ (decrease) if rental income per m^2 was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower (higher)

The Company has assessed that there are no significant changes in significant unobservable inputs as at 31 December 2016 in comparison to date when the investment property was acquired as a result of Reorganization process; therefore, no comparative analysis is made.

(21) Intangible assets

	Software EUR'000
Cost	
28.10.2014 (inception date)	**-**
Acquired in the reorganisation process (note 1)	2 508
Purchased	442
Cost 31.12.2015	**2 950**
Purchased	925
Disposals	(7)
Cost 31.12.2016	**3 868**
Accumulated amortisation	
28.10.2014 (inception date)	-
Acquired in the reorganisation process (note 1)	(1 450)
Amortisation for the period	(217)
Accumulated depreciation 31.12.2015	**(1 667)**
Amortisation for the period	(566)
Amortisation on disposed assets	7
Accumulated depreciation 31.12.2016	**(2 226)**
Balance at 31.12.2015	**1 283**
Balance at 31.12.2016	**1 642**

Amortisation for the period is presented in the profit or loss under Depreciation and amortisation caption.

(22) Investments at fair value

	31.12.2016 EUR'000	31.12.2015 EUR'000
Financial instruments at fair value through profit or loss	76 210	93 306
Available-for-sale instruments	5 026	-
	81 236	**93 306**

Notes to the Financial Statements

Fixed income securities	31.12.2016 EUR'000		31.12.2015 EUR'000	
	Purchase cost	Fair value	Purchase cost	Fair value
Debt securities issued or guaranteed by central governments or municipalities	74 396	79 168	90 711	92 665
Debt securities and other securities with fixed income, which are listed in a regulated market	2 021	2 068	603	641
	76 417	**81 236**	**91 314**	**93 306**

Investment portfolio of fixed income securities by geographic split:	31.12.2016 EUR'000	31.12.2015 EUR'000
Latvia, Lithuania	75 325	86 093
Other European Union countries	5 911	7 213
	81 236	**93 306**

(23) Deposits with banks

Investment maturity structure:	31.12.2016 EUR'000	31.12.2015 EUR'000
With original maturity from 6 to 12 months	1 064	922
With original maturity from 1 to 5 years	293	872
	1 357	**1 794**

Investment structure by geographical split:	31.12.2016 EUR'000	31.12.2015 EUR'000
Latvia	950	1 022
Estonia	-	372
Lithuania	407	400
	1 357	**1 794**

(24) Receivables from direct insurance activities

	31.12.2016 EUR'000	31.12.2015 EUR'000
Due from policy holders	18 745	13 301
Due from intermediaries	1 556	1 457
Impairment allowance for bad debtors	(307)	(163)
	19 994	**14 595**

	Allowance for policy holders EUR'000	Allowance for intermediaries EUR'000	Total allowance for insurance debtors EUR'000
Allowance as at 28.10.2014 (inception date)	-	-	-
Acquired as a result of reorganisation	(80)	(29)	(109)
Impairment loss charge	(53)	(1)	(54)
Allowance as at 31.12.2015	**(133)**	**(30)**	**(163)**
Recovered debts	29	17	46
Impairment loss charge	(98)	(92)	(190)
Allowance as at 31.12.2016	**(202)**	**(105)**	**(307)**

Notes to the Financial Statements

	31.12.2016 EUR'000	31.12.2015 EUR'000
Other intermediaries	1 556	1 457
Allowances for doubtful debts	(105)	(30)
Intermediaries	**1 451**	**1 427**
Overdue receivables		
More than 3 months	153	509
Less than 3 months	1 682	1 380
Outstanding receivables not yet due	16 910	11 412
Allowances for doubtful debts	(202)	(133)
Policyholders	**18 543**	**13 168**
Total direct insurance debtors	**19 994**	**14 595**

(25) Other receivables

	31.12.2016 EUR'000	31.12.2015 EUR'000
Non-financial assets		
Advance payments	225	568
Tax prepayments	34	4
Total non-financial assets	**259**	**572**
Financial assets		
Receivables for claims handling services provided	72	122
Other debtors	401	664
Impairment allowance	(313)	(395)
Total financial assets	**160**	**391**
	419	**963**

	Gross EUR'000
Allowance as at 28 October 2014 (inception date)	-
Acquired as a result of reorganisation	(396)
Written off	1
Allowance as at 31 December 2015	**(395)**
Written off	82
Allowance as at 31 December 2016	**(313)**

(26) Cash and cash equivalents

	31.12.2016 EUR'000	31.12.2015 EUR'000
Cash on hand	4	7
Current accounts with credit institutions	42 475	18 956
Cash and cash equivalents	**42 479**	**18 963**
Deposits with original maturity less than 3 months	-	990
Cash and cash equivalents as disclosed in the statement of cash flows	**42 479**	**19 953**

Notes to the Financial Statements

Credit institutions:		
Latvian credit institutions	20 061	16 744
Lithuanian credit institutions	17 459	1 544
Estonian credit institutions	2 955	1 658
	42 475	**19 946**
Rated from Aa3/AA- to Aa1/AA+	40 965	14 337
Rated A3/A- to A1/A+	13	3 813
Rated from B3/B- to Ba1/BB+	1 486	667
Not rated	11	1 129
	42 475	**19 946**

(27) Obligatory payments disclosed in statement of cash flows

Payments made to:	**31.12.2016 EUR'000**	**31.12.2015 EUR'000**
Latvian Transport Insurance Bureau	357	124
Estonian and Lithuanian Transport Insurance Bureaus	1 221	289
FCMC commission	334	122
Estonian and Lithuanian insurance supervisory institutions	64	45
	1 976	**580**

(28) Capital and reserves

Share capital

The authorized and issued share capital of the Company at 31 December 2016 is EUR 29 000 000, comprised of 290 000 ordinary shares and is fully paid. Nominal value of one share was EUR 100.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company and rank equally with regard to the Company's residual assets.

Dividends

	2016 EUR'000	**2015 EUR'000**
Dividends declared	916	-
Dividends paid	916	-
Dividends declared per share	0.00316	-
Dividends paid per share	0.00316	-

Revaluation reserve

The revaluation reserve relates to revaluation on property and equipment used by the Company for its own activities, revaluation of available-for-sale instruments, net of deferred tax.

	31.12.2016 EUR'000	**31.12.2015 EUR'000**
Land and buildings revaluation reserves	451	451
Deferred tax liabilities at 15%	(68)	(68)
Other investment revaluation reserves	(12)	-
	371	**383**

Notes to the Financial Statements

	EUR'000
Balance at 28 October 2014 (inception date)	**-**
Acquired as a result of reorganisation	383
Balance at 31 December 2015	**383**
Changes of revaluation reserves	(12)
Balance at 31 December 2016	**371**

(29) Deferred tax assets/ (liabilities)

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets and liabilities as of 31 December 2016 and 2015. These deferred tax assets have been recognised in these financial statements.

Deferred tax asset/(liabilities) attributable to:	**2016 EUR'000**	**2015 EUR'000**
Latvia	(92)	(94)
Lithuania	130	134

Movement in temporary differences during the year ended 31 December 2016

				31 December 2016	
'000 EUR	**Net balance 1 January 2016**	**Recognised in profit or loss**	**Net balance 31 December 2016**	**Deferred tax asset**	**Deferred tax liability**
Property and equipment	(232)	44	(188)	-	(188)
Provisions	272	(46)	226	226	-
Deferred tax assets/(liabilities) before set-off	**40**	**(2)**	**38**	**226**	**(188)**
Set off of tax				(96)	96
Net deferred tax assets/(liabilities)				**130**	**(92)**

(30) Taxes and social contributions

Tax type	**Balance at 31.12.2015 EUR'000**	**Calculated in reporting period EUR'000**	**Paid in reporting period EUR'000**	**Balance at 31.12.2016 EUR'000**
Social contributions	380	4 835	(4 906)	309
Personal income tax	114	2 397	(2 355)	156
Value added tax	29	364	(424)	(31)
Real estate tax	3	3	(3)	3
Risk Duty	1	12	(13)	-
Other taxes	(4)	12	(11)	(3)
CIT in Latvia	256	4	(513)	(253)
CIT in Lithuania	(209)	617	(657)	(249)
Total	**570**	**8 244**	**(8 882)**	**(68)**

	Balance at 31.12.2015 EUR'000	**Balance at 31.12.2016 EUR'000**
Including:		
Prepaid corporate income tax	(209)	(502)
Corporate income tax liabilities	256	-
Other tax prepayment, see note 25	(4)	(34)
Other tax liabilities	527	468

Notes to the Financial Statements

	Tax payable 31.12.2015 EUR'000	Tax receivable 31.12.2015 EUR'000	Calculated in reporting period EUR'000	Paid in reporting period EUR'000	Tax payable 31.12.2016 EUR'000	Tax receivable 31.12.2016 EUR'000
Latvia	555	(1)	3 793	(4 201)	386	(240)
Lithuania	184	(212)	3 897	(4131)	34	(296)
Estonia	44	-	554	(550)	48	-
Total	**783**	**(213)**	**8 244**	**(8 882)**	**468**	**(536)**

(31) Reinsurance creditors

	31.12.2016 EUR'000	31.12.2015 EUR'000
Reinsurance companies	1 060	1 691
Reinsurance brokers	514	807
	1 574	**2 498**

Reinsurance creditors by geographic split:	31.12.2016 EUR'000	31.12.2015 EUR'000
European Union member countries	1 477	2 366
North America	10	6
Commonwealth of Independent States, Central Asia	87	126
	1 574	**2 498**

(32) Other creditors

	31.12.2016 EUR'000	31.12.2015 EUR'000
Non-financial liabilities		
Due to the Transport Insurance Bureau	75	63
Due to employees (remuneration)	271	436
Due to the Financial Capital and Market Commission, Latvia	79	122
Accrued liabilities	2 098	1 564
Total non-financial liabilities	**2 523**	**2 185**
Financial liabilities		
Financial pledge	3 625	-
Other creditors	1 254	1 430
Total financial liabilities	**4 879**	**1 430**
	7 402	**3 615**

(33) Provisions

	31.12.2016 EUR'000	31.12.2015 EUR'000
Provision for staff bonuses	871	222
Accruals for unused employee vacations	782	740
Other provisions	-	21
	1 653	**983**

Notes to the Financial Statements

	Gross EUR'000
Provisions as at 28 October 2014 (inception date)	**-**
Acquired as a result of reorganisation (note 1)	956
Paid	(243)
Increase of provisions	270
Provisions as at 31 December 2015	**983**
Paid	(453)
Increase of provisions	1 123
Provisions as at 31 December 2016	**1 653**

(34) Number of employees and information on branches

	At 31 December 2016	At 31 December 2015
Employees	961	992
Insurance agents	130	152
	1 091	**1 144**

Insurance agents are persons who pursue insurance mediation on behalf of and in the interests of only one insurance company, but are not employees of the Company.

Number of employees as at end of the period:

	At 31 December 2016	At 31 December 2015
Latvia	471	503
Branch in Lithuania	442	441
Branch in Estonia	48	48
	961	**992**

Number of branches and sales points:

	At 31 December 2016	At 31 December 2015
Customer service centres abroad	102	106
Customer service centres in Latvia	8	8
Customer business centres in Latvia	21	21
Customer regional centres in Latvia	2	2
Sales points	24	25

(35) Personnel expenses

	2016 EUR'000	From 28 October 2014 (inception date) to 31 December 2015 EUR'000
Remuneration	13 863	6 369
Social contribution expenses	3 743	1 750
	17 606	**8 119**

Notes to the Financial Statements

	2016 EUR'000	From 28 October 2014 (inception date) to 31 December 2015 EUR'000
Personnel expenses (included in administrative expenses in note 13)	15 275	6 983
Personnel expenses (included in loss adjustment expenses in note 9)	2 331	1 136
	17 606	**8 119**

(36) Information on the remuneration of the members of the Board of Directors and Supervisory Council

	2016 EUR'000	From 28 October 2014 (inception date) to 31 December 2015 EUR'000
Supervisory Council	83	64
Board of Directors	481	141
Social contribution expenses	133	45
	697	**250**

Remuneration to the Board and Council members includes remuneration for their direct responsibilities.

(37) Related parties

Control relationships

The largest shareholder of the Company is Vienna Insurance Group AG Wiener Versicherung Gruppe ("VIG"), one of the leading insurers in Europe. More than 50 companies in 25 countries constitute VIG, a group with a solid brand and with 190 year experience in the insurance field and close cooperation with customers. VIG employs 23,000 employees and is a clear leader in its core markets. VIG is a group with the best rating of all companies in the ATX, the leading index of the Vienna Stock Exchange, with a secondary listing on the Prague Stock Exchange.

Transactions with related parties

Transactions with related parties are conducted on arm's length bases.

Notes to the Financial Statements

The Company has the following significant related party transactions and debtors/creditors balances as at 31 December 2016 and 2015:

Transactions with related parties:	**2016 EUR'000**	**From 28 October 2014 (inception date) to 31 December 2015 EUR'000**
BTA Īpašumi SIA		
Expenses for utilities	-	74
Expenses for car rent	-	2
Income from salvage realization	-	76
Balcia Insurance Company SE		
Expenses for loss adjustment	-	290
Expenses for office rent	-	20
Interasista UAB		
Expenses for loss adjustment	-	88
Expenses for office rent	-	10
Compensa Life insurance SE Lietuvos filiāle		
Contributions to Life Insurance	3	-
Compensa Vienna Insurance Group UADB (Lithuania)		
Received regress	23	-
Asigurarerea Romaneasca S.A. - Asirom		
Received regress	21	-
VIG RE zajišt'ovna a.s.		
Reinsurer's share in gross written premiums		
Janis Lucauss		
Income from insurance premiums	1	-
Evija Matveja		
Income from insurance premiums	1	-
Paid claims	1	-

	31.12.2016 EUR'000	**31.12.2015 EUR'000**
Other receivables		
BTA Īpašumi SIA	-	23
Balcia Insurance Company SE	-	107
Interasista UAB	-	144
Compensa Towarzystwo Ubezpieczeń S.A. Vienna Insurance Group 006216959	1	-
Compensa TU S.A. Vienna Insurance Group 012806455	1	-
Compensa Vienna Insurance Group, UADB EESTI filiaal 12970620	1	-
	3	**274**
Other payables		
VIG RE zajišt'ovna a.s.	11	-
Balcia Insurance Company SE	-	158
Interasista UAB	-	14
	11	**172**

Notes to the Financial Statements

(38) Remaining maturities of insurance liabilities

	2016 EUR'000			From 28 October 2014 (inception date) to 31 December 2015 EUR'000		
	Gross liabilities	Reinsu-rance	Net liabilities	Gross liabilities	Reinsu-rance	Net liabilities
Unearned premium and unexpired risk technical reserves	56 707	(2 222)	54 485	48 372	(2 373)	45 999
Outstanding claim technical reserves	56 938	(6 793)	50 145	53 251	(6 932)	46 319
Total	**113 645**	**(9 015)**	**104 630**	**101 623**	**(9 305)**	**92 318**
Up to 1 year	99 919	(9 015)	90 904	90 894	(8 991)	81 903
1-5 years	9 049	-	9 049	4 887	(314)	4 573
Over 5 years	2 000	-	2 000	744	-	744
No fixed maturity	2 677	-	2 677	5 098	-	5 098

(39) Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31.12.2016 EUR'000	31.12.2015 EUR'000
Within one year	470	621
From 1 to 5 years	2 399	75
More than 5 years	533	-
	3 402	**696**

(40) Contingent liabilities and commitments

General claims

In the normal course of the business the Company receives claims from policyholders. Management has reviewed such claims and believes that no material liabilities will arise from these cases other than already provided for.

As at 31 December 2016 there were no material open legal claims against the Company, other than claims from policyholders.

Credit related commitments

As at 31 December 2016 the Company did not have off balance sheet credit related commitments.

Capital commitments

As at 31 December 2016 the Company did not have any capital commitments, or any other contingent liabilities.

(41) Fair value of financial instruments

(a) Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

31 December 2016	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets				
Financial instruments at fair value through profit or loss	76 210	-	-	76 210
Available-for-sale instruments	5 026	-	-	5 026
	81 236	**-**	**-**	**81 236**

Notes to the Financial Statements

31 December 2015	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets				
Financial instruments at fair value through profit or loss	93 306	-	-	93 306
	93 306	-	-	**93 306**

In the reporting period, financial instruments were not transferred into or out of Level 3.

Total gains or losses for the period in the above table are presented in the statement of comprehensive income as follows:

31 December 2016	Financial instruments at fair value EUR'000	Total EUR'000
Total gains and losses included in profit or loss:		
Net unrealised gain/(loss) on financial instruments at fair value through profit or loss	(91)	(91)
Net realised gain/(loss) on financial instruments at fair value through profit or loss	(1)	(1)
Interest income	1 083	1 083
Total gains and losses included in other comprehensive income:		
Available-for-sale financial assets – net change in fair value	(12)	(12)

31 December 2015	Financial instruments at fair value EUR'000	Total EUR'000
Total gains and losses included in profit or loss:		
Net unrealised gain/(loss) on financial instruments at fair value through profit or loss	(35)	(35)
Net realised gain/(loss) on financial instruments at fair value through profit or loss	57	57
Interest income	580	580

Notes to the Financial Statements

(b) Financial instruments not measured at fair value

The table below analyses the fair values of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised:

31 December 2016	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair values EUR'000	Total carrying amount EUR'000
Financial assets					
Cash	-	-	-	42 479	42 479
Deposits with banks[1]	-	-	1 357	-	1 357
Receivables from direct insurance activities[2]	-	-	-	19 994	19 994
Receivables from reinsurance activities[2]	-	-	-	407	407
Other receivables[3]	-	-	-	160	160
Financial liabilities					
Direct insurance creditors[4]	-	-	-	4 982	4 982
Reinsurance creditors[4]	-	-	-	1 574	1 574
Other creditors[5]	-	-	-	4 879	4 879

31 December 2015	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair values EUR'000	Total carrying amount EUR'000
Financial assets					
Cash	-	-	-	19 953	19 953
Other loans	-	-	41	-	41
Deposits with banks[6]	-	-	1 794	-	1 794
Receivables from direct insurance activities[7]	-	-	-	14 595	14 595
Receivables from reinsurance activities[2]	-	-	-	669	669
Other receivables[8]	-	-	-	391	391
Financial liabilities					
Direct insurance creditors[9]	-	-	-	5 764	5 764
Reinsurance creditors[4]	-	-	-	2 498	2 498
Other creditors[10]	-	-	-	1 430	1 430

[1] Deposits with banks are highly liquid assets; thus their carrying amount approximates the fair value.

[2] Receivables from direct insurance and Reinsurance activities are short term financial assets whose carrying amount approximates the fair value.

[3] The item includes short term receivables whose carrying amount approximates the fair value.

[4] Direct insurance and Reinsurance creditors are short term financial liabilities whose carrying amount approximates the fair value.

[5] The item includes short term payables whose carrying amount approximates their fair value.

[6] Deposits with banks are highly liquid assets; thus their carrying amount approximates the fair value.

[7] Receivables from direct insurance and Reinsurance activities are short term financial assets whose carrying amount approximates the fair value.

[8] The item includes short term receivables whose carrying amount approximates the fair value.

[9] Direct insurance and Reinsurance creditors are short term financial liabilities whose carrying amount approximates the fair value.

[10] The item includes short term payables whose carrying amount approximates their fair value.

Notes to the Financial Statements

(42) Subsequent events

As of the last day of the reporting period until the date of signing these financial statements there have been no events requiring adjustment of or disclosure in the financial statements or notes thereto.

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Independent Auditors' Report

To the shareholders of BTA Baltic Insurance Company AAS

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of BTA Baltic Insurance Company AAS ("the Company") set out on pages 14 to 76 of the accompanying Annual Report, which comprise:

- the statement of financial position as at 31 December 2016,
- the statement of comprehensive income for the year then ended,
- the statement of changes in shareholders' equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of BTA Baltic Insurance Company AAS as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

In accordance with the 'Law on Audit Services' of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibility for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the 'Law on Audit Services' of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and the 'Law on Audit Services' of the Republic of Latvia.

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

Reporting on Other Information

The Company's management is responsible for the other information. The other information comprises:

- information about the Company, as set out on page 3 of the accompanying Annual Report,
- letter from the Chairman of the Supervisory Board, as set out on page 4 of the accompanying Annual Report,
- the Management Report, as set out on pages 5 to 10 of the accompanying Annual Report,
- information about Vienna Insurance Group, as set out on page 11 to 12 of the accompanying Annual Report,

- the Statement on Management Responsibility, as set out on page 13 of the accompanying Annual Report.

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia* section of our report.

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

If, based on the work we have performed and in light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, 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.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia regulation No 201 "Regulations for the Preparation of Annual Accounts and Consolidated Annual Accounts of Insurance and Reinsurance Companies and Branch Offices of Non-Member State Insurers".

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia regulation No 201 "Regulations for the Preparation of Annual Accounts and Consolidated Annual Accounts of Insurance and Reinsurance Companies and Branch Offices of Non-Member State Insurers".

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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.

KPMG Baltics SIA
Licence No. 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
31 March 2017

Irēna Sarma
Latvian Certified Auditor
Certificate No. 151