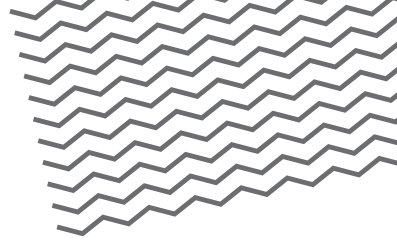




BTA Baltic Insurance Company AAS

RISK MANAGEMENT

December 2018



Risk management system

BTA Baltic Insurance Company AAS (the Company) pursuant to the Insurance and Reinsurance Law, which includes the requirements of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on starting and doing the business of Insurance and Reinsurance (Solvency II) requirements, and VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe (VIG Group) requirements, has established a risk management framework as a systematic set of measures that ensures risk identification, assessment, monitoring and control of the individual exposure level as well as at-risk transaction sets and on Company overall risk level, with a clearly defined rights and obligations of all involved structural units and individuals. The Company's risk management is an integral part of the governance and decision-making system.

As the business of insurance represents the transfer of risk from the insurance 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. The Company is also exposed to financial risks incurred during investment activities and operational risk arising in day-to-day operations.

The Company's risk management system covers the following areas: risk underwriting and reserving, asset and liability management, investment management, liquidity management, operational risk management and risk mitigation activities for each substantial risk.

Each of the above areas has clearly defined risk management principles and responsible departments and individuals.

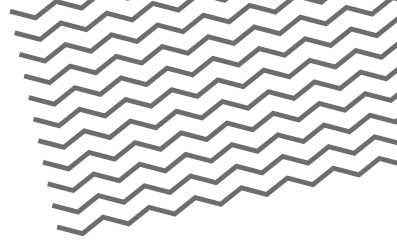
All risks are divided into three groups:

- insurance risks;
- financial risks;
- operational risks.

The risk management process starts with the identification of risks. Its purpose is to detect, identify and document all possible sources of risk that could affect the attainment of the Company's objectives. Risk identification is carried out regularly, at least once a year. It includes the existing risks that might have changed and the review of their sources as well as the detection and documentation of new risks. In order to avoid unacceptable risks, a risk analysis is carried out before the introduction of new products or processes.

For risk assessment of risk categories, where sufficient historical data are available for statistical analysis such as market risk, credit risk, insurance risks and others, the Company uses a quantitative risk assessment using the standard formula. The Company uses qualitative risk assessment, e.g. an expert assessment, when sufficient data are not available to perform statistical analysis, such as operational, strategic, reputational risks. The result of the expert assessment is the result of the possible occurrence and impact interactions.

After qualitative or quantitative risk assessment and materiality assessment of the risk, the Company chooses the control methods to mitigate the risk. In order to ensure the effectiveness of control



measures, the Company prefers preventive and automatic controls.

The Company regularly monitors its risk profile. The full calculation of the required solvency capital is carried out once a quarter, as well as regular stress tests, sensitivity tests if the actual indicators differ from estimates of the own risks and solvency assessment. The use of the standard formula corresponds to the Company's risk profile, which is assessed in the own risk and solvency assessment. The Company ensures annual own risk and solvency assessment by assessing the possible impact of various exceptional but possible adverse events or changes in market conditions on the Company's ability to meet its obligations under insurance contracts and to ensure the stability of its financial performance.

Based on the assessment prepared, the Management Board of the Company makes decisions on the actions to be taken in the event of changes in the assessment of events or market conditions subject to certain conditions, measures and follow-up. The results of the evaluation are used in strategic and operational planning, budgeting process, as well as in cases when significant changes in the Company's activities are planned.

The Company performs stress tests at least once a year, in which potential scenarios are assessed and documented. Stress tests use sensitivity and scenario analysis. The sensitivity test is performed to determine the effect of the adverse effects of a particular risk factor, but a scenario analysis is performed to determine the impact of multiple risk factors when assessing the occurrence of an extreme but a potentially adverse event or market situation. Also reversal stress tests are performed, that show what a set of events should take for the Company to have a solvency ratio of less than 100 percent.

In order to ensure the reliability of the risk management system, risk measurement, analysis and control functions are separated from business functions, e.g. the Company ensures that those who affect the risk profile are not simultaneously assigned risk monitoring and risk control, as well as the Company regularly and systematically educates its employees in order to raise their awareness of the risks.

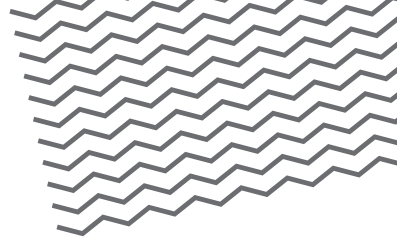
Insurance risk management

Risk underwriting

The signing of insurance risks includes all types of non-life insurance, as defined in the Insurance and Reinsurance Law. The peculiarities of insurance products, insured risks and their limitations are set out in the Company's internal regulatory documents and publicly available product terms and conditions.

The underwriting risk of the Company is comprised of three components:

- risks arising from non-life insurance underwriting liabilities;
- risks arising from health insurance underwriting liabilities;
- risks arising from life insurance obligations. As the Company is a non-life insurer, the risk of underwriting of life insurance arises from claim payments in motor vehicle owner third-party liability insurance (MTPL).



In order to mitigate the 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 Company carries out thorough product monitoring in order to prevent the emergence of adverse trends in a timely manner to improve the required performance and adjust the risk level in accordance with the strategy and the annual plan.

The main measure of risk level is the loss ratio, the combined ratio and the net earned premium for each insured risk, for each line of business and country. To generate revenues from insurance premiums that could cover expected insurance claims and costs, for the identification and measurement of risk, the Company:

- carries out market analysis;
- analysis the potential limitations of insurance premium reserves in relation to the investment environment;
- analyses market loss statistics;
- analyses individual customer historical loss statistics together with relevant insurance coverage information;
- constantly monitors the key risk events, risk factors, as well as new risks;
- assesses the level of prices in the insurance market.

In order to ensure that the risk underwriting process always meets the qualitative and quantitative standards set by the Company, internal regulatory documents have been developed that ensure a unified risk underwriting process in all the Baltic States.

The Company prepares reports for lines of business as well as for sales channels, assessing the impact of the internal and external environment on the particular service. In order to ensure the fulfilment of strategic goals based on the results of the analysis, the Company decides on changes in price policy, methodology, priority segments (customer, product, geographic), and ensuring diversification of risks. Tariff Committees have been established in Latvia, Lithuania and Estonia in order to check propositions of change in tariffs and approve changes of tariffs.

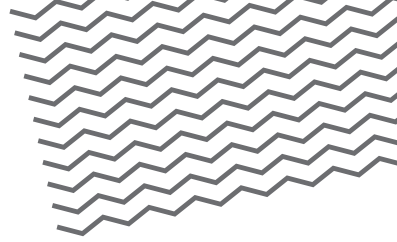
Reserving

The Company ensures that the technical reserves are set up to the extent that the Company can fully comply with its obligations under the insurance and reinsurance contracts concluded. Reserves are calculated on the basis of the insurance claim data and the necessary calculations are made in accordance with these data, cautiously, reliably and impartially.

Assumptions used in reserving are regularly reviewed and updated when new information becomes available.

Within the actuarial function, the Company ensures the accuracy and completeness of the data used, performing sufficiently extensive and detailed inspections.

The Company regularly performs technical reserve sufficiency controls and at least annually – liability adequacy test.



Insurance risk concentration

Within the insurance process, the concentration 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, and relate to circumstances where significant liabilities could arise.

Risk concentrations 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.

The Company is aware that 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 client'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.

To minimise losses that could occur because of the risk concentration, the Company:

- determines the total risk that it is prepared to take in relation to the risk concentration. The Company monitors these risks both at the time of signing the risk and regularly reviewing the reports showing the concentration of the main risks to which the Company is exposed;
- uses reinsurance – both proportional and non-proportional. When obtaining reinsurance, the Company's share in risk is determined per one object and per one event, when losses can happen simultaneously for several objects. The Company constantly evaluates the costs, benefits and the impact on capital with regards to the reinsurance programme.

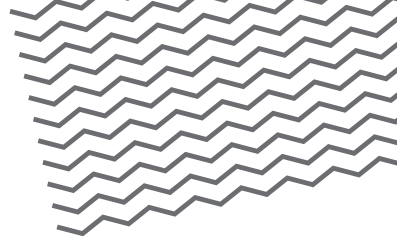
Concentration risk is tested and evaluated within different scenario tests. Stress test results are used for decision making to understand what concentration risk the Company may undertake.

Catastrophe

The management of the Company is aware that catastrophe risks are possible. In the Company's geographical position these risks are most connected with meteorological phenomena. 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 – both proportionally and non-proportionally. The Retention is specified and reviewed in accordance with business needs, involving the Management Board and Actuarial Department, and taking into account maximum allowed net Retention of 3% of the Company's equity.

Financial 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.



Financial risks are managed in accordance with the VIG Group guidelines – Asset Management. For risk mitigation purposes, investments are made in different financial instruments – diversifying the investment portfolio, analysing assets before their acquisition, regularly monitoring financial instruments, obtaining and analysing available information.

The Company has developed an Investment and Risk Strategy that defines the security, quality, liquidity and profitability requirements that Company intends to achieve for the entire investment portfolio, activities aimed at achieving them, as well as the internal quantitative limits for assets and exposure to risk.

The Company, on the basis of its investment strategy, asset and liability strategy, regularly assesses the short-, medium- and long-term effects of financial and insurance risks on its assets and liabilities. The Company has established Investment Committee that approves investment decisions, reviews the results of investments and regularly reports to the Company's Management Board on investment results and execution of the investment strategy .

Market risk

With the market risk, the Company understands the risk of a 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.

Market risk is limited by diversifying the investment portfolio and analysing assets before they are acquired, as well as ensuring their regular monitoring. The management of assets and liabilities closely monitors the currency and maturity matching.

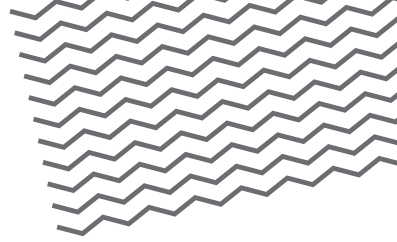
Credit risk

The credit risk or counterparty default risk reflects losses or 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.

For risk mitigation and control of investment and reinsurance activities, strict conditions are set at the Group level, such as certain limits for investments, for business partners, with regards to reinsurance: certain criteria for the selection of reinsurance partners (for example, ratings), cooperation limits and other security rules.

To regulate the risk concentration in financial instruments, the Company has set investment limits for one counterparty and a group of financial instruments as a whole, thus controlling the concentration risk and the required solvency capital.

In addition to the above, the Company ensures effective debtor monitoring, which allows to detect possible defaults timely and to mitigate potential consequences.



Liquidity risk

Liquidity risk is the risk that the Company is unable to realise investments and other assets in order to settle its financial obligations when they fall due. This risk includes the difference in maturity structure of assets and liabilities.

In accordance with the Company's investment strategy, the Company makes investments in high liquidity financial assets. The prevailing part of the Company's financial assets has an active market, which allows selling assets in a short time and with minimal or no expense. Taking into account the above, the liquidity risk is considered low. The Company controls this risk through continuous monitoring of financial markets, as well as maintaining a part of the available financial resources in credit institutions on current accounts.

Operational risk

In the definition of operational risk, the Company includes the risk of inadequate or incorrect internal procedures, mistakes of personnel or systems, or external events. To cover operational risk, the capital requirement is calculated using the standard formula. As a result of the annual assessment of risk profile and internal control system, three most material operational risk categories were defined:

- compliance risks (mainly related to the protection of personal data and competition law);
- the risk of human error;
- process and organizational risk.

In order to minimize operational risk, the Company chooses different control strategies – preventive, for example, by setting access/authorization levels, corrective (focused on early warning and mitigation of an operational risk event recurrence), and identifying ones that are targeted to detect operational risk events. The Company develops internal regulatory documents for essential processes and provides staff training.

The Company collects and register the data on operational risk events, their causes, consequences and measures taken to prevent their recurrence. One of the objectives of operational risk management is to ensure that the control efficiency indicator is not less than 95% (calculated in the process of evaluating the internal control system).

In order to ascertain the conformity of the standard formula with the operational risk assessment, the Company also uses the operational risk self-assessment (risk assessment probability and potential impact assessment) to identify and evaluate operational risk. The Risk Management Function, in co-operation with each risk holder, expresses qualitative and quantitative assessments and classifies possible operational risk events, thus identifying the Company's operational risk level and the necessary controlling activities to reduce it.

The Company considers the capital requirement for operational risk calculated with the standard formula, to be more than sufficient.