BTA Baltic Insurance Company AAS

FINANCIAL STATEMENTS

FOR THE PERIOD FROM 28 OCTOBER 2014 (INCEPTION DATE)
TO
31 DECEMBER 2015

Contents

	Page
Information about the Company	3
Management Report	4
Statement of management responsibility	10
Financial statements:	
Statement of Comprehensive Income	11
Statement of Financial Position	13
Statement of Cash Flows	15
Statement of Changes in the Shareholders’ Equity	16
Notes to the Financial Statements	17
Auditors’ Report	66

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*
Board members and their positions	*Jānis Lucaus – Chairman of the Board* *Oskars Hartmanis - Member of the Board* *Evija Matveja – Member of the Board*
Council members and their positions	*Gints Dandzbergs – Chairman of the Council* *Pauls Dandzbergs – Deputy Chairman of the Council* *Marts Dandzbergs – Deputy Chairman of the Council* *Andrejs Galanders – Member of the Council* *Agris Dambenieks – Member of the Council*
Reporting period	*28.10.2014 – 31.12.2015*
Auditors	*KPMG Baltics SIA* *Vesetas iela 7* *Riga, Latvia, LV-1013* *Licence No 55*

Management Report

BTA Baltic Insurance Company, a joint-stock company (hereinafter – the Company) was established in 2014 by way of reorganization of BTA Insurance Company SE, by splitting the company according to the geographic boundaries of business: the Baltic States and the rest of Europe. The sole shareholder of the Company in 2015 was BTA Insurance Company SE. In line with the requirements of the Commercial Law, BTA Insurance Company SE and the Company had developed a reorganization agreement, which was annexed to the registration files of both companies by decisions No. 6-12/178040 and No. 6-12/178044 of the Register of Enterprises of the Republic of Latvia of 19 November 2014. On 1 July 2015, the Company took over the Baltic States business portfolio from its parent company BTA Insurance Company SE and started autonomous operation. The Board of the Company, composed of its Board Chairman Jānis Lucaus, and Board Members Oskars Hartmanis and Evija Matveja, had set developing and reinforcing the positions of the Company on the Baltic market as the primary goals for 2015 by carrying out the reorganization project and successfully completing the reorganization process. In order to achieve the set priorities – improvement of insurance products and services, claims handling and various internal business processes, the Company focused on reduction of administrative expenses, developed information technologies and customer service, and improved the current and developed new insurance products, which had a positive impact on the financial results of the Company.

Financials

By focused restructuring of its business portfolio, the Company achieved good results in 2015. Between 1 July 2015 and 31 December 2015 the Company had written gross insurance premiums of 55.7 million euros. Despite 35.6 million euros disbursed by the Company as total gross insurance claims paid, its profit before tax for the period from 1 July 2015 to 31 December 2015 was 4.2 million euros.

Looking at the financial results for the insurance portfolio taken over form the parent company on 1 July 2015, the volume of gross insurance premiums written during the full year 2015 had reached the level of 2014. The volume of gross written premiums in the Baltic States reached 114 million euros in 2015. Analysing gross written premiums by insurance types, the previously observed positive tendencies continued during 2015, namely – the volume of gross written premiums in voluntary insurance types had grown in each of the Baltic States separately, as well as in the Baltic portfolio as a whole. The volume of gross written premiums in voluntary insurance types in the Baltic States together reached 74.4 million euros, which is 4.4% more than in 2014. A significant growth of gross written premiums in the Baltic States has been achieved in personal accident insurance (+18.9%), in CASCO insurance (+7.6%) and property insurance (+6.9%).

Evaluating the Baltic business portfolio taken over on 1 July, a total of 70.5 million euros were disbursed in gross insurance claims payments in the Baltic States in 2015, which is by 15.3% more than it was in 2014. The growth in payments for insurance claims in 2015 was driven by the growing number of road traffic accidents, and a rise in car repair costs in all three Baltic States, as well as the increase in medical treatment fees in Latvia and Lithuania.

The priorities for the Company in 2015 were of the insurance portfolio, optimization of administrative processes and operating costs. As a result, the Company has achieved one of the best combined ratios in the Baltic States has been achieved (93.1%) among the leading Baltic insurance market players.

The amount of gross technical reserves of the Company at the end of 2015 reached 101.6 million euros, and net technical reserves were 92.3 million euros.

The total value of equity, reserves and liabilities of the Company at 31 December 2015 was 149.1 million euros, which is the largest among insurance companies in Latvia and also one of the largest among insurers on the Baltic market.
The Company consistently complies with the statutory solvency margin requirements. At 31 December 2015, the solvency capital ratio of the Company versus the statutory solvency capital requirements effective at the end of the year (Solvency I) was 150 %. Along with that, the Company calculated the solvency capital ratio also according to the new regulatory requirements (Solvency II) effective as of 1 January 2016, and it was 108 %.

The Company followed a conservative approach to investment policy in the reporting year, primarily selecting low-risk assets. The Company mostly invested into government securities of high investment rating (A to AAA according to the international rating agency Standard & Poor’s classification). The share of such investments in the Company’s overall financial investments portfolio was 97% at 31 December 2015.

Insurance market overview

The level of competition on the Baltic insurance market remained very high, which was further ignited by changes in the shareholding structures of other insurance market players.

The tightest competition is observed in motor insurance. For a number of years, the MTPL insurance segment makes losses in Latvia as well as Estonia. The competition on the market is fierce and keeping the prices of MTPL policies down, below the levels that would be objectively adequate for this insurance type. The rise in claims costs was brought by the growing number of road traffic accidents and increase of car repair costs in all three Baltic States.

The volume of gross written premiums in voluntary insurance types in all three Baltic States had grown during 2015 – a positive tendency, which indicates an increasing awareness of need for insurance and the financial safety it provides. For the business portfolio taken over as a result of reorganization, the volume of gross written premiums in voluntary insurance types together for the Baltic States reached 74.4 million euros, an increase by 4.4% compared to 2014.

The demand for CASCO product has grown in 2015, indicated by growth in the volume of gross written premiums in this type in all three Baltic States. In the business portfolio taken over through reorganization, the volume of gross written premiums in CASCO segment in the Baltic States have increased by 7.6% compared to 2014. Nonetheless, the overall volume of gross claims paid in CASCO segment in the Baltic states during 2015 has grown faster than the volume of gross written premiums. The volume of gross claims paid during 2015 has increased due to the growing number of road traffic accidents and the increase in car repair costs in all the Baltic States, as well as a rise in the number of car thefts.

The volume of gross written premiums in property insurance has followed an upward trend in all three Baltic States in 2015. In property insurance, gross written premiums in 2015 have increased by 6.9% compared to 2014, that is for the entire Baltic region regarding the business portfolio taken over through reorganization. Private individuals in Lithuania and Estonia increasingly favour the all-risk property insurance product, while no significant rise in demand for this product has been observed in retail segment of Latvia, although the number of private individuals purchasing named risks property insurance product with a broader risk cover is climbing. Corporate entities in all three Baltic States purchased commercial property insurance product with expanded cover, including in it equipment breakdown, business interruption and other risks.

The volume of gross written premiums written during the full year 2015 in personal accident insurance in the Baltic States has also increased significantly. For the business portfolio taken over through reorganization, gross written premiums in personal accident insurance written in the Baltic region in 2015 were 18.9% higher than in 2014, which is an indication that there are increasingly more people that recognize the necessity of having a personal accidents insurance and appreciate the benefits and financial protection it provides in case of injuries and during recovery.

There also has been a rise in the volume of gross written premiums in health insurance in Latvia and Lithuania in 2015, an indication that employers tend to include health insurance policies for their staff in social guarantee and motivation packages more frequently.

The development of the Baltic insurance market and acquisition of new clients in 2015 was also affected by the conflict between Russia and Ukraine and the following sanctions introduced by the European Union. This was the reason that brought down the volume of gross written premiums in cargo insurance in all three Baltic States. The geopolitical environment also affected the volume of gross written premiums in MTPL and CASCO insurance, as forwarding companies insured fewer vehicles than before. Gross written premiums also decreased in travel insurance in 2015 compared to previous year in Latvia and Lithuania.

Major events and development

Solvency II guidelines compliance

In 2015, the Company proceeded with efforts started by its parent company in achieving compliance with guidelines defined in EC Solvency II directive. The directive is structured according to 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 followed the milestones and directions provided by the regulatory bodies in implementing these requirements to be able to proceed a normal course of its business in 2016 in line with the established requirements.

Business portfolio improvement

With improvement of portfolio efficiency in mind, the Company worked in 2015 to cut down the proportion of the compulsory insurance in the total volume of total gross written premiums. As a result, the volume of gross MTPL insurance gross premiums in the Baltic States written during 2015 decreased by 13%.

In 2015 the Company operated with a particular focus on revision of insurance terms and conditions, improving them to enable broader insurance cover options tailored to market trends, customer expectations and demand.

Also, aiming to increase the awareness of the necessity of insurance and enhance the insurance culture in Latvia, the Company launched a “Winter Policy” insurance product in 2015, offering to cover medical treatment costs to persons resulting from personal accidents, losses incurred to third parties, as well as losses arising from damaged or lost winter sports equipment.

Information technology systems development

In the business portfolio takeover process, the Company made significant investments in development and improvement of information technology systems. Administration of health insurance product got integrated into the Company’s common information technology system, which included processing of policies, financial administration, customer services and claims handling, by automating and centralizing previously separate functions.

With the integration of the health insurance product into the common information technology system, now the Company's insurance product base system features a full-scale common control and supervision mechanism for all insurance products. The efforts in improvement of the information technologies system have allowed cutting down on administrative costs, accelerating customer service speeds and disposing with resources more efficiently. Thus, the implementation of the new information technology base system in Latvia and in Estonia has been completed.

Completion of reorganization

In 2015, the Company successfully finalized the reorganization process according to the reorganization contract. On the course of reorganization, the Company successfully took over assets, infrastructure and administrative processes from its parent company BTA Insurance Company SE. As part of reorganization, on 1 July 2015, the Company took over from its parent company the asset portfolio pertaining to the Baltic States, established an autonomously functioning infrastructure, took over the insurance contracts and business partner contracts concerning the business of this region, for the company to successfully develop its business on the Baltic States' markets.

Improvement of sales channels

Having screened changes in habits of population and following the trends, the Company improved its website in 2015 by adjusting it for customer comfort purposes and expanding insurance product purchase opportunities via distance sales channels. The improvements made resulted in a considerable leap in the number of applications sent via website for purchasing insurance products in all three Baltic States in 2015.

In year 2015 the Company saw an increasing interest not only in using web services for sending applications for insurance policies, but also in purchasing insurance products online. The Company offers to purchase MTPL and travel insurance products in Lithuania and Latvia. In Lithuania, the volume of gross written premiums of insurance products purchased online has grown by 11 % in 2015. In Latvia, the levels of gross written premiums of insurance products purchased online have remained unchanged in 2015 compared to 2014.

Customer service quality improvement

In order to bring customer services in Latvia, Lithuania and Estonia to a new level and provide better customer service via distance communication channels, in 2015 the Company improved claims reporting and insurance sales options in various distance communication channels. In 2015, 98% of the overall number of claims in Latvia were registered with the Customer Support Service remotely. There were 39% of all CASCO claims cases and 27% of all property insurance claims cases registered in Latvia handled within 24 hours or in a couple of days. In Estonia in 2015, 90% of the reported claims were registered remotely with the Customer Support Service, and 23% of all CASCO claims cases registered in Estonia were handled within 24 hours or a couple of days. Of the reported claims in Lithuania in 2015, 71% were registered remotely with the Customer Support Service.

Giving the due credit to the rapid development distance service channels in the Baltics, at the same time the Company is the leader in person to person customer service – it has the broadest customer service centre network in Latvia and one of the broadest in Lithuania. The Company has 56 customer service centres in Latvia, and 106 customer service centres in Lithuania.

The improvement in customer service quality has been recognized by customers, a proof to that are the results of the "Praise good service" campaign, where the Company competed in "Business to consumer" category. In 2015, the Company outperformed its rival insurers in Latvia when it was recognized as the most praised excellent service provider in the category "Insurance industry".

Expansion of shareholder base

In December of 2015, the Company entered into agreement on expansion of its shareholder base by involving a leading insurer in Europe – Vienna Insurance Group AG. By expanding its shareholder base, the Company is going to further its business in the Baltic States by following the current key principles of operations – offer good quality insurance products tailored to customer needs, employ advanced technologies for developing the company to keep it ahead, maintaining guaranteed stable and sure performance of commitments. Bringing in an investor will boost the Company's competitiveness in the corporate customers segment, and enable to develop new insurance products by capitalizing on the international experience of a group having a 190-year track record in the insurance field. The change in the shareholding structure will not affect the autonomous development of the Company on the Baltic market, retaining quick decision making process, as well as provision of high quality service to customers. The Company is also going to retain the current corporate brand and the values demonstrated by now.

Employees

In 2015 the Company increased investments into educating its employees and cooperation partners – intermediaries, by providing training programmes in the training centre and e-learning. A particular focus was on training on issues regarding implementation of guidelines of EU Solvency II directive and related changes in the relevant legislative framework.

The Company's quality standard is guaranteed by systematic qualification of salespeople and agents, it entails better customer service and minimizes the risk of error allowed by the staff.

Proof to the staff loyalty was the length of employment of managing staff members with the Company, which was nine years on average as measured in 2015.

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. Insurance risks management and control functions were handled by the Company through insurance risk underwriting policies and guidelines, establishing risk underwriting limits and reinsurance policy.

Risks related to the investments made by the Company were controlled in accordance with the investment policy adopted by the Company. The Company's investment policy 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 minimized 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 ceded reinsurance policy of the Company has not changed much in 2015 and this includes maintaining the reinsurance contract structure, as well as the major cooperation partners. The Company has increased the share of its retained risk, taking into account the Company's balance, development of its shareholder's equity volume and trends in reinsurance markets. As in previous years, risks primarily have been assigned to reinsurance companies holding A-group credit ratings.

Proposal on distribution of profits

In light of the planned development, the Board recommends to strengthen the capital base and retain up to 75% of profit for the reporting period undistributed.

Subsequent events

Changes in the shareholders structure through involvement of Vienna Insurance Group AG as the majority shareholder will be carried out until the end of year 2016, upon receipt of the necessary permits from the financial supervisory institutions.

Future outlook

Regarding the Company's goals in 2016, the Company is going to be more active in the corporate customer segment by offering competitive services, and expand the business volumes in the Baltic States, especially in Estonia, where the market shows a growth potential. The Company will continue to maintain maximum efficiency in process management, quick and high quality decision making and enhance the professional development of its employees.

By attracting a new investor – the Austrian insurer Vienna Insurance Group AG, the Company is going to improve and expand the range of products offered. Retaining the brand of BTA, its traditions and values, the Company will capitalize on the international experience of a group, having industry know-how, accumulated over the course of 190 years.

On behalf of the Board and Council of the Company, we say many thanks to our employees for their input and results achieved together, to our customers and cooperation partners – for their loyalty. Professional team, responsive and loyal customers are our greatest support, contributing to the development of the Company, goal achievement and constant improvement of the offered products.

We wish everyone success in further achievements!

On behalf of the Council and the Board:

Jānis Lucaus
Chairman of the Board

Gints Dandzbergs
Chairman of the Council

31 March 2016

Statement of management responsibility

In 2014 and 2015, the Board of Directors of BTA Baltic Insurance Company AAS (the Company), which consists of three members, 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 period from 28 October 2014 (inception date) till 31 December 2015 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 from 28 October 2014 (inception date) to 31 December 2015, as well as its financial position as at 31 December 2015.

The Company's Management confirms that the Company's financial statements for the period from 28 October 2014 (inception date) till 31 December 2015 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 period from 28 October 2014 (inception date) till 31 December 2015 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 EU 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.

Jānis Lucaus	*Gints Dandzbergs*
Chairman of the Board	*Chairman of the Council*

31 March 2016

Statement of Comprehensive Income

	Note	From 28 October 2014 (inception date) to 31 December 2015 EUR'000
Earned premiums		
Written premiums		
Gross written premiums	5	55 730
Reinsurers' share in written premiums	5, 18	(3 403)
Net written premiums	5	**52 327**
Change in unearned premium and unexpired risk technical reserves		
Gross change	7	2 111
Reinsurers' share	7, 18	27
Change in net unearned premium and unexpired risk technical reserves	7	**2 138**
Net earned premiums	6	**54 465**
Other technical income, net	8	**99**
Incurred claims, net		
Paid claims, net		
Gross claims paid	9	(35 589)
Paid claims	9	(35 773)
Loss adjustment expenses	9	(2 191)
Recovered losses	9	2 375
Reinsurers' share of claims paid	9, 18	330
Net paid claims	9	**(35 259)**
Change in outstanding claim technical reserve		
Change in gross outstanding claim technical reserve	10	1 650
Reinsurers' share	10	(1 045)
Change in net outstanding claim technical reserve	10,18	**605**
Net incurred claims	11	**(34 654)**
Operating (expenses)/ income		
Client acquisition costs	12	(5 984)
Change in deferred client acquisition costs	12	(31)
Administrative expenses	13	(10 016)
Depreciation and amortisation	19,20,21	(490)
Reinsurance commission income, net	14,18	664
Change in unearned reinsurance commission	14,18	(118)
Net operating expenses		**(15 975)**
Other technical expenses, net	15	**(368)**

The accompanying notes on pages 17 to 65 form an integral part of these financial statements.

Statement of Comprehensive Income

	Note	From 28 October 2014 (inception date) to 31 December 2015 EUR'000
Investment management charges		(26)
Interest income	16	618
Gain from financial assets and liabilities at fair value through profit or loss, net		22
Gain on foreign currency fluctuation		132
Impairment loss		(62)
Other income		104
Other expenses		(120)
Profit before tax		**4 235**
Income tax expense	17	(569)
Net profit for the period		**3 666**
Other comprehensive income		**-**
Total comprehensive income for the period		**3 666**

The accompanying notes on pages 17 to 65 form an integral part of these financial statements.

Jānis Lucaus
Chairman of the Board

Ģints Dandzbergs
Chairman of the Council

31 March 2016

Statement of Financial Position

Assets	Note	31.12.2015 EUR'000	28.10.2014 (inception date) EUR'000
Land and buildings	20	**449**	**-**
Property and equipment	19	**876**	**-**
Intangible assets	21	**1 283**	**-**
Investment property	20	**99**	**-**
Financial investments			
Investments at fair value through profit or loss			
Debt securities and other fixed income securities	22,41	93 306	-
Total investments at fair value through profit or loss		**93 306**	**-**
Deposits with banks	23	1 794	-
Total financial investments		**95 100**	**-**
Loans and receivables			
Loans		41	-
Receivables from direct insurance activities			
Due from policy holders		13 168	-
Due from intermediaries		1 427	-
Total receivables from direct insurance activities	24	**14 595**	**-**
Receivables from reinsurance activities		669	-
Other receivables	25	1 097	2 775
Prepaid income tax	30	209	-
Total receivables		**16 570**	**2 775**
Total loans and receivables		**16 611**	**2 775**
Accrued income and deferred expenses			
Deferred client acquisition costs	12	4 846	-
Other accrued income and deferred expenses		552	-
Total accrued income and deferred expenses		**5 398**	**-**
Reinsurance contract assets			
Reinsurers' share in unearned premiums technical reserves	7,38	2 373	-
Reinsurers' share in outstanding claim technical reserve	10,38	6 932	-
Total assets from reinsurance contracts	38	**9 305**	**-**
Cash and cash equivalents	26	**19 953**	**925**
Total assets		**149 074**	**3 700**

The accompanying notes on pages 17 to 65 form an integral part of these financial statements.

Statement of Financial Position

	Note	31.12.2015	28.10.2014 (inception date)
Equity and liabilities	**Note**	**EUR'000**	**EUR'000**
Equity			
Share capital	28	29 000	3 700
Revaluation reserves		383	-
Retained earnings		3 666	-
Total equity		**33 049**	**3 700**
Liabilities			
Technical reserves			
Technical reserves for unearned premiums and unexpired risks	7,38	48 372	-
Outstanding claim technical reserves	10,38	53 251	-
Total technical reserves		**101 623**	**-**
Creditors			
Direct insurance creditors			
Due to policy holders		5 141	-
Due to intermediaries		623	-
Total direct insurance creditors		**5 764**	**-**
Reinsurance creditors	31	2 498	-
Taxes and social contributions	30	527	-
Corporate income tax liabilities	30	256	-
Other creditors	32	3 615	-
Total creditors		**12 660**	**-**
Deferred tax liabilities	29	**94**	**-**
Provisions	33	**983**	**-**
Unearned reinsurance commission income	14	**665**	**-**
Total liabilities		**116 025**	**-**
Total equity and liabilities		**149 074**	**3 700**

The accompanying notes on pages 17 to 65 form an integral part of these financial statements.

Jānis Lucaus
Chairman of the Board

Gints Dandzbergs
Chairman of the Council

31 March 2016

Statement of Cash Flows

	Note	From 28 October 2014 (inception date) to 31 December 2015 EUR'000
Cash flows from operating activities		
Premiums received in direct insurance		61 096
Claims paid in direct insurance		(35 773)
Payments received from reinsurers		659
Payments made to reinsurers		(3 297)
Income tax paid	30	(377)
Obligatory payments	27	(580)
Payments to employees		(5 296)
Payments to intermediaries		(14 111)
Other payments made:		(8 448)
Other tax paid		*(3 328)*
Payments to other suppliers		*(4 082)*
Purchase of fixed assets		*(502)*
Other payment made		*(536)*
Other payment received		10 010
Acquisition of investments		(25 057)
Disposal of investments		17 308
Investment income received		773
Total cash flows from operating activities		**(3 093)**
Cash flows from financing activities		
Share capital increase		7 700
Net cash acquired as a result of reorganisation		15 346
Total cash flows from financing activities		**23 046**
Cash and cash equivalents net increase		**19 953**
Cash and cash equivalents at the beginning of the period		**-**
Cash and cash equivalents at the end of the period	26	**19 953**

The accompanying notes on pages 17 to 65 form an integral part of these financial statements.

Jānis Lucaus
Chairman of the Board

Gints Dandzbergs
Chairman of the Council

31 March 2016

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				
Acquired as a result of reorganisation	-	383	-	**383**
Increase of capital in the result of reorganisation	21 300	-	-	**21 300**
Profit for the period	-	-	3 666	**3 666**
Increase of share capital	4 000	-	-	**4 000**
31.12.2015	**29 000**	**383**	**3 666**	**33 049**

The accompanying notes on pages 17 to 65 form an integral part of these financial statements.

Jānis Lucaus
Chairman of the Board

Gints Dandzbergs
Chairman of the Council

31 March 2016

(1) General information

a) Principal activities

BTA Baltic Insurance Company AAS (hereinafter 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:

- motor own damage insurance (CASCO);
- compulsory motor third party liability (CMTPL);
- health;
- property (fire risks);
- property (other risks);
- travel accident;
- general third party liability;
- various financial risks;
- cargo;
- personal accident insurance;
- railway;
- marine;
- guarantees;
- credit insurance
- motor voluntarily third party liability;
- legal risks.

The Company operates in Estonia and Lithuania on the basis of freedom of services 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 foreign branches. The registered address of the branch in Estonia - Lõõtsa 2B, Tallinn 11415; in Lithuania - Viršuliškių skg. 34, Vilnius.

b) Shareholders

The sole shareholder of the Company is BTA Insurance Company SE. Information on the shareholders:

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

c) Reorganisation

In October 2014, 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 BTA Insurance Company 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 BTA Insurance Company 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, the parent entity, BTA Insurance Company 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 BTA Insurance Company 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**

Net assets represent contribution in kind to the share capital of the Company which was made by the parent Company 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.

The financial statements are also compliant with the regulations of the Financial and Capital Market Commission of the Republic of Latvia ("FCMC") in force as at the reporting date.

The financial statements (hereinafter „the financial statements") were approved by the Board of Directors on 31 March 2016. 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

These are the first financial statements of the Company. The reporting period is from 28 October 2014 (inception date) to 31 December 2015. According to the relevant legislation, the Company is allowed to prepare its first financial statements for a period of up to 18 months. On 28 October 2014 the Company's parent made EUR 925 thousand payment in the share capital and the respective cash balance is presented as opening balance in the statement of financial position. Unpaid share capital as of EUR 2 775 thousand as at 28 October 2014 is presented as Other receivable in the opening balance.

(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.

Consistent accounting principles have been applied throughout the financial period disclosed in these financial statements.

(e) Changes in accounting policies

The Company has consistently applied the accounting policies set out in Note 3.

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 2015.

The following guidance with effective date of 1 January 2015 did not have any impact on these financial statements:

(i) IFRIC 21 guidance on a levy imposed by government;

(ii) 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 2015, 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.

(iii) IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016)

These Amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured.

The Company is not a party to any joint arrangements.

(iv) IAS 1 – Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2016)

The Amendments to include the five, narrow-focus improvements to the disclosure requirements contained in the standard.

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.

(v) IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets (effective for annual periods beginning on or after 1 January 2016)

The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. In addition, the amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

It is expected that the amendments, when initially applied, will not have material impact on the Company's financial statements, as the Company does not apply revenue-based methods of amortisation/depreciation.

(vi) IAS 16 – Property, Plant and Equipment and IAS 41 – Agriculture (effective for annual periods beginning on or after 1 January 2016)

These amendments result in bearer plants being in the scope of IAS 16 *Property, Plant and Equipment*, instead of IAS 41 *Agriculture*, to reflect the fact that their operation is similar to that of manufacturing.

The Company does not expect that the amendments, when initially applied, will have material impact on the financial statements as the Company has no bearer plants.

(vii) IAS 19 – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2015)

The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The Company does not expect the amendment to have any impact on the financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

(viii) IAS 27 – Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016)

The amendments allow an entity to use the equity method in its separate financial statements to account for investments in subsidiaries, associates and joint ventures.

The Company does not expect that the amendments, when initially applied, will have a material impact on the financial statements as the Company does not have investments in subsidiaries, associates or joint ventures.

(ix) Annual Improvements to IFRSs

The improvements introduce ten amendments to ten standards and consequential amendments to other standards and interpretations. These amendments are applicable to annual periods beginning on or after either 1 February 2015 or 1 January 2016, with earlier adoption permitted.

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

(3) Significant accounting policies

3.1 Foreign currency

Foreign exchange transactions are translated to the functional currency of the respective entity 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 respective European Central Banks 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:

	31.12.2015
USD	1.0926
PLN	4.24
RUB	79.754
GBP	0.73799
NOK	9.616

Profit or loss relating to fluctuations in the exchange rate on assets and liabilities denominated in a foreign currency is recognised in the statement of 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 include amounts which are due for the insurance contracts signed during the reporting period, that have come into force in the reporting period irrespective whether these premiums have been received or not. Premiums written are decreased by premiums cancelled 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 insurance-technical reserves.

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

(c) Premium refunds

Premium refunds represent a proportion of premium that becomes contractually refundable to policy holders in the event that no claims are made under the respective insurance contract.

(d) 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.

(e) 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 recoverable 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.

(f) 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 for non-life claims 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.

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:

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

(g) Reinsurance

Ceded (outwards) reinsurance

The Company cedes reinsurance in the normal course of business for the purpose of limiting its potential net loss through the diversification of its 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 are 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.

(h) 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.

(i) 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.

(j) Liability adequacy test

Management assesses at each reporting date the adequacy of its recognised insurance liabilities using current estimates of future cash flows arising from its insurance contracts, and comparing those estimated future cash flows against the carrying amount of liabilities.

If the liability adequacy test shows a deficiency in the carrying amount of liabilities, the deficiency is recognised as a loss for the financial year by setting aside additional unexpired risk reserves.

The liability adequacy test is applied by lines of business and countries to the gross amounts of reserves, i.e. the effect of reinsurance is not taken into account.

Forecast inflation and discount rates are one of the key assumptions used in the estimates of the claims technical reserves for annuities. The Company evaluates its provisions as adequate as at 31 December 2015. Below are the results of sensitivity analysis as at 31 December 2015 for economic inflation:

EUR'000	**Projected annual inflation increased by 1%**	**Projected annual inflation decreased by 1%**
Increase/ (decrease) in insurance technical reserves	272	(266)

(k) 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.

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 statement of comprehensive income. 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 statement of comprehensive income. For financial assets and liabilities carried at amortised cost, a gain or loss is recognized in the statement of comprehensive income when the financial asset or liability is derecognized.

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 CFO.

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 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 statement of 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	35% 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 statement of 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 statement of 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 statement of comprehensive income 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.

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 statement of profit or loss on a straight-line basis over the lease term. Discounts received are recognised in the statement of comprehensive income 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 statement of comprehensive 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.

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 of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting 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 statement of 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 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 insurer is also exposed to investment risks incurred when the insurer has to cover technical reserves with assets invested in various financial instruments, market risk, credit risk, liquidity risk and operational risk.

The Company's management has identified risks and developed the management of these risks. Risk management is carried out in accordance with the Company's management decision.

All risks have been divided by the Company's management into the following major groups:

- Insurance risks
- Financial risks
- Operating risks

Each of these groups is divided into subgroups, which identify the risks that might impact any operating activities. Performance plans have been developed for each of the risks, which should be performed in order to minimise and avoid the risk occurrence possibility.

4.2 Insurance risks and risk management

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

(a) Underwriting strategy

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. The term of non-life contracts may be up to 3 years; however, contracts are usually annual in nature and the underwriters have the right to refuse prolongation or renewal or to change the terms and conditions of the contract at prolongation or renewal.

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 product features

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.

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 75 000. 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 and business interruption arising from this damage. The risks covered by property insurance include fire risk, pipe leakage explosion, burglary and robbery, and storm risk. When insuring real estate assets, liability insurance can also be purchased.

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.

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.

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 environment in which it operates.

(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 might be incurred in case of a risk concentration, the Company uses reinsurance – by reinsuring both proportionally, as well as non-proportionally. When placing reinsurance, the Company's share in the risk is fixed both for one object, as well as for one event, in which losses may be caused simultaneously for several objects. Such risks are reinsured in practically all types of insurance. The reinsurance policy, to which the Company adheres, 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 classes of its liability and property 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 aggregation in order to measure the effectiveness of the reinsurance programmes and the net exposure to which the Company is exposed.

Geographic concentration of risks

Business concentration risk is a serious issue in 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, 39.8% of all business (by net earned premiums) was conducted in Latvia and 47.9% in Lithuania.

Exposure to various business lines and the key concentrations identified are:

31 December 2015 Insurance type	Total insured amount EUR'000	Reinsurance amount EUR'000	Net retention (after reinsurance) EUR'000	Number of contracts in force	Average amount insured EUR'000
Personal accident	2 508 206	2 508	2 505 698	75 112	33
Health insurance	240 746	-	240 746	852	283
CASCO	1 334 287	-	1 334 287	63 436	21
Railway insurance	522 497	376 198	146 299	78	6 699
Aircraft insurance	4 612	3 782	830	21	220
Marine insurance	71 763	50 952	20 811	279	257
Cargo insurance	140 500	37 935	102 565	113	1 243
Property insurance	25 856 496	7 712 290	18 144 206	147 493	175
CMTPL in Lithuania and Estonia	-	-	-	286 875	-
Aircraft third party liability insurance	1 678 260	772 000	906 260	116	14 468
Marine third party liability insurance	31 874	20 081	11 793	103	309
General third party liability	1 882 864	489 545	1 393 319	23 735	79
Credit insurance	3 505	876	2 629	22	159
Guarantee insurance	247 813	61 953	185 860	11 906	21
Financial risks	265 656	58 444	207 212	78	3 406
Legal costs insurance	20	-	20	5 903	-
Travel insurance	3 479 853	313 186	3 166 667	71 587	49
CMTPL Latvia	-	-	-	146 254	-
Total	**38 268 952**	**9 899 750**	**28 369 202**	**833 963**	**-**

* in one contract several objects/ persons can be covered

** gross insurance risk is unlimited. Losses in excess of EUR 800 thousand are covered by reinsurance

(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, ice, 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 fixing 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) Insurance risk management

In order to manage insurance risk, the Company has developed different control and management mechanisms. 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, in which there are employees who are responsible for development of a specific insurance type, 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 about risk underwriting.

When fixing limits, the hierarchy principle is observed; the higher the level of responsibility, the higher risk may be underwritten.

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 all processes and order that are carried out during 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. The measurements of these processes are the responsibility of the Quality Management Department, which regularly provides information to the Company's management about the process management in the Company. As a result of these measurements, the management can make an adequate decision to minimise the risk that is connected with the insurance processes.

(f) 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 statement of comprehensive income. 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 info 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. More details on LAT described in note 3.2.

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.

The following table is based on data of insurance portfolio assumed by the Company on 1 July 2015 as a result of reorganisation process described in Note 1.

Claims development analysis, EUR'000

	2015 and before	**Total**
Estimate of cumulative claims at end of accident year	35 589*	35 589
Cumulative payments to date	**35 589**	**35 589**
Outstanding claims reserves at 31.12.2015	53 251	53 251

***** 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 2015 84% 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 2015 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 31.12.2015**	**IBNR if projected annual inflation increased by 3%**	**IBNR without annual inflation**
Compulsory motor TPL	7 633	7 914	7 453
Property (fire and catastrophes)	209	214	207

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 years, 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 separate calculation is performed for pensions. Chain coefficients are calculated separately for claims excluding pensions incurred triangle for all 3 Baltic states.

For pensions' claims, chain coefficients are calculated on a combined triangle basis, and then are applied for each country's triangle separately. For possible moral claims in Latvia additional tail factor of 1.000 is used. The additional tail factor is used due to the changes of limits expected for moral damage due to the European Court of Justice Decision in the case C-277/12.

Furthermore, according to the law On the Compulsory Insurance against Civil Liability in Respect of Motor Vehicles applicable in the Republic of Latvia, moral or pain and suffering damage of a road accident victim includes physical pain, mental suffering, inconveniences, mental shock, emotional depression, humiliation, impairment of reputation, diminution of possibilities to associate with others and other moral or pain and suffer claims consequences arising from personal injury of health or loss of life in a road accident. Therefore, we have recognised additional reserve for such cases calculated to use actuarial assumptions and our own experience. Even with all the uncertainty, the management believes the respective reserves are adequate as at 31 December 2015.

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, which includes price, interest rate and currency risks, 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: changes to the market situation may adversely impact the insurer's assets and/or liabilities, investments may be impaired, and return on assets decreased. Market risk includes interest rate risk, fair value risk and currency risk;
- Credit risk: failure of a counterparty to fulfil a contractual obligation may cause financial losses to the Company,

Liquidity risk: under certain adverse conditions for the insurer, the insurer may be forced to sell assets at a lower price than their fair value in order to be able to settle liabilities.

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.

Currency risk

Currency risk: adverse changes to the currency exchange rate may cause financial loss to the Company.

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 positions existing as at 31 December 2015 and a simplified scenario of a 10% change in PLN, GBP, USD to EUR exchange rate is as follows:

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

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

31 December 2015

Financial assets	**EUR EUR'000**	**USD EUR'000**	**DKK EUR'000**	**NOK EUR'000**	**PLN EUR'000**	**GBP EUR'000**	**Other EUR'000**	**Total EUR'000**
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	14 595	-	-	-	-	-	-	**14 595**
Cash and cash equivalents	18 834	935	153	23	-	6	2	**19 953**
Total financial assets	**127 468**	**1 926**	**153**	**134**	**-**	**6**	**2**	**129 689**
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	11 173	-	-	-	-	-	-	**11 173**
Technical reserves, net and financial liabilities	**96 685**	**1 447**	**272**	**10**	**1 133**	**3 612**	**332**	**103 491**
Open currency position	**30 783**	**479**	**(119)**	**124**	**(1 133)**	**(3 606)**	**(330)**	**26 198**

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.

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 a simplified scenario of a 5% change in all securities prices is as follows:

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

i) 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.

	31.12.2015	
EUR'000	**Profit or loss**	**OCI**
10 bp parallel increase	96	96
10 bp parallel decrease	(96)	(96)

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 2015

	Within 6 months EUR'000	**6-12 months EUR'000**	**1-2 years EUR'000**	**3-5 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	-	40 153	27 028	521	-	93 306	**93 306**
Deposits with banks	922	-	612	260	-	-	1 794	**1 794**
Loans	-	41	-	-	-	-	41	**41**
Receivables	-	-	-	-	-	16 361	16 361	**-**
Cash and cash equivalents	19 946	-	-	-	-	7	19 953	**19 953**
Total financial assets	**46 472**	**41**	**40 765**	**27 288**	**521**	**16 368**	**131 455**	**115 094**

(a) Liquidity risks

In accordance with the approved investment establishment procedure methodology, 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 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	1 097	-	-	-	**1 097**
Cash and cash equivalents	19 953	-	-	-	**19 953**
Total financial assets taking into account maturity	**62 881**	**68 053**	**521**	**-**	**131 455**
Total financial assets taking into account liquidity	**130 583**	**872**	**-**	**-**	**131 455**
Technical reserves and financial liabilities					
Technical reserves, net	81 796	4 573	744	5 205	**92 318**
Financial liabilities	11 173	-	-	-	**11 173**
Total technical reserves and financial liabilities	**92 969**	**4 573**	**744**	**5 205**	**103 491**
Maturity gap	**(30 088)**	**63 480**	**(223)**	**(5 205)**	**27 964**
Maturity gap taking into account liquidity	**37 614**	**(3 701)**	**(744)**	**(5 205)**	**27 964**

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

(b) 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.

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	**2015 EUR'000**	
	Gross	**Net**
Government bonds	92 665	92 665
Corporate bonds	641	641
Deposits with banks	1 794	1 794
Loans	41	41
Due from policy holders	13 301	13 168
Due from intermediaries	1 457	1 427
Receivables from reinsurance activities	733	669
Other debtors	1 492	1 097
Cash	19 953	19 953
Total	**132 077**	**131 455**

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:

2015	**Ratings**	**Listed debt securities**	**Government bonds**	**Total**
Agency		**EUR'000**	**EUR'000**	**EUR'000**
S&P	**A**	-	-	-
	A-	-	85 563	85 563
	A+	112	285	397
	AA	-	-	-
	AA-	-	1 020	1 020
	AA+	-	2 751	2 751
	AAA	-	3 046	3 046
	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 share of underwritten risks in order to control its exposures to losses and protect own capital. The Company buys facultative, proportional and non-proportional portfolio protection reinsurance 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 or occurrence.

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.

Reinsurance is carried out with reinsurance companies with a sound reputation.

When carrying out reinsurance, the ratings of a reinsurance company are generally not lower than the Standard & Poor's evaluation BBB- (or analogous assessment of another international rating agency). Almost all reinsurance is carried out in reinsurance companies whose rating is not lower than the Standard & Poor's assessment A-.

Reinsurance companies cover their liabilities in the time period of up to 30 days. Reinsurance agreements also provide cases when upon the insurance indemnity exceeding a certain amount, the reinsurance claim is paid immediately.

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

	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**

Due to reinsurance agreements the Company's maximum liability for each insurance risk for the main business lines is as follows:

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

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 pay 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 „Law on Insurance Companies and their Supervision" of Latvia, which were 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 (Solvency I). The solvency margin is defined as the larger of the amounts calculated based on written premiums or claims paid and the result cannot be smaller than the minimum amount of the guarantee fund announced by the Finance and Capital Market Commission of the Republic of Latvia and set at the level of EUR 3 700 thousand for the reporting period.

Equity and solvency compliance	**31 December 2015 EUR'000**
Capital for capital adequacy (own funds)	27 717
Solvency margin	18 471
Capital adequacy surplus	**9 246**

Own funds for solvency margin purposes are set without reference to results of the reporting period which amounts to EUR 3 666 thousand. The effect of including profit for reporting period:

	31 December 2015 EUR'000
Capital for capital adequacy including audited profit for the reporting period	31 383
Solvency margin	18 471
	12 912

	2015 EUR'000	**Coverage by own funds**
Own funds	27 717	-
Incurred claims, net	34 654	80%
Earned premiums, net	54 465	51%
Technical reserves total, net	92 318	30%
Investments	95 100	29%

Capital risk management

The Company is adapting to the upcoming Solvency II rules, which will both replace the current capital rules and specify requirements for robust risk management and reporting. One of the elements in the new rules is that it allows for the utilization of a standard model or the Company's internal model for calculating the capital requirements according to clearly defined criteria.

Risk management

Preparations for the Solvency II regulations have been prioritised 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 regulations enter into force on 1 January 2016. The Solvency II entail requirements for a higher capitalisation level than under previous capital adequacy regulations.

The requirements will ensure good risk management in general, and the reporting to the authorities and the market could make a positive contribution to highlighting the Company's value creation. The Company have made active use of the legislative changes to further strengthen overall risk management in the Company.

(5) Gross written premiums

	From 28 October 2014 (inception date) to 31 December 2015 EUR'000		
	Gross written premiums	**Reinsurer's share in premiums**	**Net written premiums**
Personal accident insurance	1 124	-	1 124
Health insurance	4 340	-	4 340
CASCO	13 685	-	13 685
Railway insurance	232	(10)	222
Aircraft insurance	5	(5)	-
Marine insurance	456	(412)	44
Cargo insurance	278	(16)	262
Property insurance	7 211	(1 100)	6 111
CMTPL in Lithuania and Estonia**	14 896	(485)	14 411
Aircraft third party liability insurance	239	(131)	108
Marine third party liability insurance	50	(45)	5
General third party liability	2 946	(360)	2 586
Credit insurance	80	(19)	61
Guarantee insurance	2 754	(733)	2 021
Various financial risks	73	(35)	38
Legal costs insurance	13	-	13
Travel accident insurance	2 401	-	2 401
CMTPL Latvia *	4 947	(52)	4 895
Total	**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 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 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

(6) Net earned premiums

	From 28 October 2014 (inception date) to 31 December 2015 EUR'000		
	Gross earned premiums	**Reinsurer's share in premiums**	**Net earned premiums**
Personal accident insurance	1 376	-	1 376
Health insurance	5 339	-	5 339
CASCO	13 509	-	13 509
Railway insurance	181	(10)	171
Aircraft insurance	66	(52)	14
Marine insurance	390	(348)	42
Cargo insurance	410	(118)	292
Property insurance	7 059	(917)	6 142
CMTPL in Lithuania and Estonia	16 119	(485)	15 634
Aircraft third party liability insurance	263	(250)	13
Marine third party liability insurance	38	(31)	7
General third party liability	3 380	(469)	2 911
Credit insurance	66	(32)	34
Guarantee insurance	2 415	(569)	1 846
Various financial risks	75	(41)	34
Legal costs insurance	14	-	14
Travel accident insurance	2 505	-	2 505
CMTPL Latvia	4 636	(54)	4 582
Total	**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**

	31.12.2015 EUR'000	
	Gross	**Net**
Unearned premium reserve	48 065	45 692
Unexpired risk reserve (note 3.2. d)	307	307
	48 372	**45 999**

(8) Other technical income

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

In Latvia and Lithuania 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.

(9) Gross claims paid

	From 28 October 2014 (inception date) to 31 December 2015 EUR'000		
	Gross claims paid	**Reinsurer's share in claim**	**Net claims paid**
Personal accident insurance	(657)	-	(657)
Health insurance	(4 075)	-	(4 075)
CASCO	(10 022)	-	(10 022)
Railway insurance	(1)	-	(1)
Aircraft insurance	(11)	8	(3)
Marine insurance	(81)	62	(19)
Cargo insurance	(106)	-	(106)
Property insurance	(3 398)	101	(3 297)
CMTPL in Lithuania and Estonia	(12 686)	47	(12 639)
Marine third party liability insurance	(1)	1	-
General third party liability	(350)	10	(340)
Credit insurance	(116)	34	(82)
Guarantee insurance	(131)	67	(64)
Various financial risks	(57)	-	(57)
Travel accident insurance	(634)	-	(634)
CMTPL Latvia	(3 263)	-	(3 263)
Total	**(35 589)**	**330**	**(35 259)**

Gross claims paid include:	**From 28 October 2014 (inception date) to 31 December 2015 EUR'000**
Paid claims	(35 773)
Loss adjustment expenses *	(2 191)
Recovered losses	2 375
	(35 589)

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

(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**

		31.12.2015 EUR'000	
	Gross	**Reinsurance**	**Net**
RBNS	41 145	(6 932)	34 213
IBNR	12 106	-	12 106
	53 251	**(6 932)**	**46 319**

(11) Outstanding claim technical reserve

	From 28 October 2014 (inception date) to 31 December 2015 EUR'000		
	Gross claims incurred	**Reinsurer's share in claims incurred**	**Net claims incurred**
Personal accident	(822)	-	(822)
Health insurance	(4 193)	-	(4 193)
CASCO	(9 932)	-	(9 932)
Aircraft insurance	42	(38)	4
Marine insurance	425	(154)	271
Cargo insurance	(349)	-	(349)
Property insurance	(3 254)	13	(3 241)
CMTPL in Lithuania and Estonia	(11 812)	(615)	(12 427)
Aircraft third party liability insurance	(10)	-	(10)
Marine third party liability insurance	(3)	1	(2)
General third party liability	(555)	13	(542)
Credit insurance	(108)	26	(82)
Guarantee insurance	(29)	5	(24)
Financial risks	(79)	-	(79)
Travel insurance	(532)	-	(532)
CMTPL Latvia	(2 728)	34	(2 694)
Total	**(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 statement of comprehensive income	(5 953)
Changes in period from 1 July 2015 till 31 December 2015	*31*
Balance at 31 December 2015	**4 846**

Client acquisition costs

	From 28 October 2014 (inception date) to 31 December 2015 EUR'000
Intermediaries commissions payable	5 812
Agents' commissions payable	123
Other payable to intermediaries	49
	5 984

(13) Administrative expenses

	From 28 October 2014 (inception date) to 31 December 2015 EUR'000
Salaries and social contribution expenses	6 983
Rent payments	558
Computer programs rent and maintenance	351
Obligatory payments*	295
Business related costs	279
Utility expenses (electricity, heating, water)	204
Car maintenance costs	185
Telecommunication costs	162
Advertising expenses	152
Other personal expenses	147
Presentation expenses	144
Legal expenses	141
Computer maintenance	94
Audit and consultant services	78
Cleaning expenses	55
Public relations expenses	45
Typographic costs	29
Other administrative expenses	114
	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.

Administrative expenses allocated by insurance types:

	From 28 October 2014 (inception date) to 31 December 2015 EUR'000
Personal accident	217
Health insurance	938
CASCO	1 764
Railway insurance	29
Aircraft insurance	1
Marine insurance	68
Cargo insurance	54
Property insurance	1 984
CMTPL in Lithuania and Estonia	2 727
Aircraft third party liability insurance	36
Marine third party liability insurance	7
General third party liability	525
Credit insurance	14
Guarantee insurance	461
Financial risks	12
Legal insurance	3
Travel insurance	448
CMTPL Latvia	728
	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 statement of comprehensive income	782
Changes in period from 1 July 2015 till 31 December 2015	*118*
Statement of financial position at 31 December 2015	**665**

(15) Other technical expenses

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

(16) Interest income

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

(17) Income tax expense

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

Effective tax rate reconciliation

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

Income declared by the Estonian branch is taxable in Latvia.

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 statement of comprehensive income 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 statement of comprehensive income of the Company. The taxable income were generated in the second half of 2015 when the Company started its operating activities acquiring the Baltic business portfolio as a result of the reorganisation.

(18) Reinsurance cession result

	From 28 October 2014 (inception date) to 31 December 2015 EUR'000
Reinsurance premiums	(3 403)
Changes in reinsurers' share in unearned premiums reserve	27
Reinsurers' share in claims paid	330
Changes in reinsurers' share in reserve for outstanding claims	1 045
Reinsurance commissions and profit participation	664
Change in unearned reinsurance commissions	(118)
Total reinsurance cession result	**(1 455)**

(19) Property and equipment

Cost	Vehicles EUR'000	Other property and equipment EUR'000	Total EUR'000
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**
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)**
Balance at 28.10.2014 (inception date)	**-**	**-**	**-**
Balance at 31.12.2015	**446**	**430**	**876**

Depreciation for the period is presented in the statement of Comprehensive Income under Depreciation and amortisation caption.

(20) Land and buildings and Investment property

(a) Land and buildings

	Land and buildings EUR'000
Deemed cost at 28.10.2014 (inception date)	**-**
Acquired as a result of reorganisation (note 1)	627
Deemed cost 31.12.2015	**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)**
Balance at 28.10.2014 (inception date)	**-**
Balance at 31.12.2015	**449**

Depreciation for the period is presented in the Statement of Comprehensive Income 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	46	Discounted cash flows technique*	Rental income of EUR 4.55 per m² Discount rate 10.70%	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 Tukums	81	Discounted cash flows technique*	Rental income of EUR 3.50 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)
Buildings and land located in Liepaja	60	Discounted cash flows technique*	Rental income of EUR 3.45 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)
Buildings and land located in Daugavpils	134	The income capitalization approach	Rental income per m² 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 m² was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Talsi	31	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)
Buildings and land located in Balvi	8	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	18	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	34	Discounted cash flows technique*	Rental income of EUR 3.31 per m2	The estimated fair value would increase/ (decrease) if rental income per m2 was higher/ (lower).

Type	Fair value, EUR'000	Valuation technique	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
			Discount rate 11.00%	The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Jūrmala	37	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 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 2015 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
All investment property in the amount of EUR 99 thousands was acquired a result of reorganisation process.

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 2015 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**
Accumulated amortisation 28.10.2014 (inception date)	-
Acquired in the reorganisation process (note 1)	(1 450)
Amortisation for the period	(217)
Accumulated amortisation 31.12.2015	**(1 667)**
Balance at 28.10.2014 (inception date)	**-**
Balance at 31.12.2015	**1 283**

Amortisation for the period is presented in the statement of Comprehensive Income under Depreciation and amortisation caption.

(22) Investments at fair value through profit or loss

Fixed income securities	**31.12.2015 EUR'000**	
	Purchase cost	**Fair value**
Debt securities issued or guaranteed by central governments or municipalities	90 711	92 665
Debt securities and other securities with fixed income, which are listed in a regulated market	603	641
	91 314	**93 306**

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

(23) Deposits with banks

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

Investment structure by geographical split:	**31.12.2015 EUR'000**
Latvia	1 022
Estonia	372
Lithuania	400
	1 794

(24) Receivables from direct insurance activities

	31.12.2015 EUR'000
Due from policy holders	13 301
Due from intermediaries	1 457
Impairment allowance for bad debtors	(163)
	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)**

	31.12.2015 EUR'000
Other intermediaries	1 457
Allowances for doubtful debts	(30)
Intermediaries	**1 427**
Overdue receivables	
More than 3 months	509
Less than 3 months	1 380
Outstanding receivables not yet due	11 412
Allowances for doubtful debts	(133)
Policyholders	**13 168**
Total direct insurance debtors	**14 595**

(25) Other receivables

	31.12.2015 EUR'000
Non-financial assets	
Advance payments	563
Tax prepayments	143
	706
Financial assets	
Receivables for claims handling services provided	122
Other debtors	664
Impairment allowance	(395)
	391
	1 097

	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)**

(26) Cash and cash equivalents

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

(27) Obligatory payments disclosed in statement of cash flows

Payments made to:	31.12.2015 EUR'000
Latvian Transport Insurance Bureau	124
Estonia and Lithuania Transport Insurance Bureaus	289
FCMC (Financial and Capital Market Commission) of the Republic of Latvia	122
Estonia and Lithuania insurance supervisory institutions	45
	580

(28) Capital and reserves

Share capital

The authorized and issued share capital of the Company at 31 December 2015 is EUR 29 000 000, comprised of 290 000 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. Holders of preference shares are entitled to receive dividends, but do not have voting rights. The holders of preference shares have preference over ordinary shareholders on the residual assets.

Revaluation reserve

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

	31.12.2015 EUR'000
Land and buildings revaluation reserves	451
Deferred tax liabilities at 15%	(67)
	383

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

(29) Deferred tax assets/ (liabilities)

	31.12.2015 EUR'000
Deferred tax net liabilities at 28 October 2014 (inception date)	**-**
Acquired as a result of reorganisation	(67)
Deferred tax during the reporting period attributable to profit or loss	(27)
Deferred tax net liabilities at 31 December 2015	**(94)**
including:	
Latvia	(94)
Deferred tax net liabilities at 31 December 2015	**(94)**

Deferred tax net liabilities include the following items:

	31.12.2015 EUR'000	
	Assets	**Liabilities**
Property and equipment	-	(232)
Provisions	138	-
Net deferred tax liabilities		**(94)**

(30) Taxes and social contributions

Tax type	Balance at 28.10.2014 (inception date) EUR'000	Acquired as a result of reorganisation EUR'000	Calculated in reporting period EUR'000	Paid in reporting period EUR'000	Balance at 31.12.2015 EUR'000
Social tax	-	110	2 299	(2 029)	380
Personal income tax	-	-	1 089	(975)	114
VAT	-	7	336	(314)	29
Property tax	-	-	3	-	3
Risk Duty	-	1	7	(7)	1
Other taxes	-	(133)	4	(9)	(138)
CIT in Latvia	-	-	256	-	256
CIT in Lithuania	-	(118)	286	(377)	(209)
Total	**-**	**(133)**	**4 280**	**(3 711)**	**436**

	Acquired as a result of reorganisation EUR'000	Balance at 31.12.2015 EUR'000
Including:		
CIT prepayment	(118)	(209)
Other tax prepayment	(133)	(138)
Other tax liabilities	118	783

	Tax payable 28.10.2014 (inception date) EUR'000	Tax receivable 28.10.2014 (inception date) EUR'000	Acquired as a result of reorganisation EUR'000	Calculated in reporting period EUR'000	Paid in reporting period EUR'000	Tax payable 31.12.2015 EUR'000	Tax receivable 31.12.2015 EUR'000
Latvia	-	-	-	2 170	(1 616)	555	(1)
Lithuania	-	-	(133)	1 847	(1 876)	184	(346)
Estonia	-	-	-	263	(219)	44	-
Total	-	-	**(133)**	**4 280**	**(3 711)**	**783**	**(347)**

(31) Reinsurance creditors

	31.12.2015 EUR'000
Reinsurance companies	1 691
Reinsurance brokers	807
	2 498

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

(32) Other creditors

	31.12.2015 EUR'000
Due to the Transport Insurance Bureau	63
Due to employees (remuneration)	436
Due to the Financial Capital and Market Commission, Latvia	122
Accrued liabilities	1 564
Other creditors	1 430
	3 615

(33) Provisions

	31.12.2015 EUR'000
Provision for staff bonuses	222
Accruals for unused employee vacations	740
Other provisions	21
	983

	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**

(34) Number of employees and information on branches

	At 31 December 2015
Employees	992
Insurance agents	152
	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 2015
Latvia	503
Branch in Lithuania	441
Branch in Estonia	48
	992

Number of branches and sales points:

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

(35) Personnel expenses

	From 28 October 2014 (inception date) to 31 December 2015 EUR'000
Remuneration	6 369
Social contribution expenses	1 750
	8 119

	From 28 October 2014 (inception date) to 31 December 2015 EUR'000
Personnel expenses (included in administrative expenses in note 13)	6 983
Personnel expenses (included in loss adjustment expenses in note 9)	1 136
	8 119

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

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

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

(37) Related parties

Control relationships

The Company's Parent is BTA Insurance Company SE. The ultimate beneficial owners with ultimate control over the Company are Gints Dandzbergs and Pauls Dandzbergs who together account for more than 50% ownership.

Transactions with related parties

Related parties are defined as shareholders of the Company, members of the Board and the Supervisory Council, their close relatives and companies in which they have significant influence or control.

A number of key management personnel, or their related parties hold ownership in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

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

Transactions with related parties	**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
BTA 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

Other receivables

	31.12.2015 EUR'000
BTA Īpašumi SIA	23
BTA Insurance Company SE	107
Interasista UAB	144
	274

Other payables, net

BTA Insurance Company SE	158
Interasista UAB	14
	172

(38) Remaining maturities of insurance liabilities

		2015 EUR'000	
	Gross liabilities	**Reinsurance**	**Net liabilities**
Unearned premium and unexpired risk technical reserves	48 372	(2 373)	45 999
Outstanding claim technical reserves	53 251	(6 932)	46 319
Total	**101 623**	**(9 305)**	**92 318**
Up to 1 year	90 894	(8 991)	81 903
1-5 years	4 887	(314)	4 573
Over 5 years	744	-	744
No fixed maturity	5 098	-	5 098

(39) Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31.12.2015
	EUR'000
Within one year	621
From 1 to 5 years	75
	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 2015 there were no material open legal claims against the Company.

Credit related commitments

As at 31 December 2015 the Company did not have off balance sheet credit related commitments.

Capital commitments

As at 31 December 2015 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.

	Level 1	**Level 2**	**Level 3**	**Total**
31 December 2015	**EUR'000**	**EUR'000**	**EUR'000**	**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:

	Financial assets at fair value through profit or loss EUR'000	**Total EUR'000**
Total gains and losses included in profit or loss:		
Net gain on financial instruments at fair value through profit or loss	(35)	(35)
Net realised gain on financial instruments at fair value through profit or loss	57	57
Interest income	618	618

(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 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[1]	-	-	1 794	-	1 794
Receivables from direct insurance activities[2]	-	-	-	14 595	14 595
Receivables from reinsurance activities[2]	-	-	-	669	669
Other receivables[3]	-	-	-	1 097	1 097
Financial liabilities					
Direct insurance creditors[4]	-	-	-	5 764	5 764
Reinsurance creditors[4]	-	-	-	2 498	2 498
Other creditors[5]	-	-	-	2 911	2 911

(42) Subsequent events

On 17 December 2015 Vienna Insurance Group (Austria) signed share purchase agreement with the parent company BTA Insurance Company SE on the sale of majority shareholding in BTA Baltic Insurance Company AAS (the 'sale'). As at 31 December 2015, and as at the date of approval of these financial statements BTA Insurance Company SE was the sole shareholder of the Company. The sale is subject to approval by the competition councils and regulators of Latvia, Estonia, and Lithuania.
As of the last day of the reporting period until the date of signing these financial statements there have been no other events requiring adjustment of or disclosure in the financial statements or notes thereto.

[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.

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Independent Auditors' Report

To the shareholder of BTA Baltic Insurance Company AAS

Report on the Financial Statements

We have audited the accompanying financial statements of BTA Baltic Insurance Company AAS ("the Company"), which comprise the statement of financial position as at 31 December 2015, the statements of comprehensive income, changes in equity and cash flows for the period from 28 October 2014 (inception date) to 31 December 2015, and notes, comprising a summary of significant accounting policies and other explanatory notes, as set out on pages 11 to 65.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

KPMG Baltics SIA, a Latvian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2015, and of its financial performance and its cash flows for the period from 28 October 2014 (inception date) to 31 December 2015 in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages 4 to 9, the preparation of which is the responsibility of management, is consistent with the financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the financial statements of the Company. In our opinion, the Management Report is consistent with the financial statements.

KPMG Baltics SIA
Licence No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
31 March 2016

Irēna Sarma
Latvian certified auditor
Certificate No 151