VIENNA INSURANCE GROUP

BTA Baltic Insurance Company AAS

Annual report

For the year ended
31 december 2017

Contents

Information about the Company

Name of the company	BTA Baltic Insurance Company
Legal status of the company	Joint Stock Insurance Company
Number, place and date of registration	40103840140, registered in Riga, Latvia on 28 October 2014
Address	Sporta 11, Riga, Latvia, LV-1013
Board members and their positions	Jānis Lucaus – Chairman of the Board Oskars Hartmanis – Member of the Board Evija Matveja – Member of the Board Wolfgang Kurt Wilhelm Stockmeyer – Member of the Board
Council members and their positions	Franz Fuchs – Chairman of the Council Elisabeth Stadler – Deputy of the Chairman of the Council Jan Bogutyn – Member of the Council Artur Borowinski – Member of the Council Gints Dandzbergs – Member of the Council until 13.01.2017
Reporting period	01.01.2017 – 31.12.2017
Auditors	KPMG Baltics SIA Vesetas iela 7, Riga, Latvia, LV-1013 Licence No 55

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VIENNA INSURANCE GROUP

Letter of the Chairman of the Supervisory Board

For BTA the year 2017 was a very successful one and the first whole year in Vienna Insurance Group.

During 2017 BTA changed its visual appearance. By maintaining the elements of its maritime history BTA has changed its face to a modern and straight logo, which nowadays one can spot across all the Baltic countries. This new logo is not only a commitment to the VIG family, but it also maintains the strong brand awareness of BTA.

The new spirit can also be experienced in the new head office of BTA which was opened in Riga in June last year. This office is designed according to the most modern office standards, it reflects the corporate design and values of the company, but – most important – it is designed as an efficient office with paperless processes, convenient communication and quick workflows. This is what makes BTA an advanced and modern insurance company in the Baltic States.

The Annual Report proves that 2017 was an excellent year for BTA. The Company has managed to grow substantially, above the market in all main business lines and to return to healthier price levels in motor business lines. The financial result for the year 2017 of 8.7 million EUR (before tax) reflects the company's risk-conscious policy in a competitive market as well as its financial health. The volume of gross written premiums in the Baltics rose to 163.0 million EUR in 2017 (GWP after obligat. fees). This thriving growth of 24% has strengthened BTA's position as one of the leading insurance companies in Latvia, Lithuania, and Estonia with an overall market share of 13% in non-life and health insurance segments.

In the year 2017 BTA also strengthened its market and financial positions by merging with InterRisk Vienna Insurance Group. This reorganisation process was successfully accomplished in the 4th quarter of 2017, making BTA the market leader with the broadest network of partners and customer service centres, and around 1.000 employees in the Baltic markets.

The Supervisory Board followed with high contentment BTA's development during 2017. Therefore, towards the end of the year, the Supervisory Board and the Shareholders took a clear stance and decided to invest 10 million EUR of new share capital into the future development of BTA. I am firmly convinced that BTA will use these additional funds for further improving and digitalizing their processes and communication tools for an excellent customer service and will be further pursuing its growth strategy.

I would like to thank the Company's management, all employees and business partners for their hard work and their trust in what we do. I would like to thank all customers for their trust in BTA.

You are welcome to study the detailed information regarding BTA and its achievements in 2017 which are presented in the enclosed Annual Report.

Franz Fuchs
Chairman of the Supervisory Board of
BTA Baltic Insurance Company AAS
23 March 2018

Management Report

BTA Baltic Insurance Company AAS (hereinafter – the Company) was established in 2014 as a result of reorganization of BTA Insurance Company SE (Balcia Insurance SE as of 1 November 2016). The Company is the leading insurance company in the Baltics offering the widest range of non-life insurance services in Latvia, Lithuania and Estonia. The Company's largest shareholder is Vienna Insurance Group AG (hereinafter – VIG), with more than 190 years of experience in the insurance industry.

About BTA

Upon the reorganization of the Company and the successful change of the shareholding structure, the Company continued its sustainable development in the Baltic markets, maintaining the high value and good reputation of the Company brand, firmly holding on to the existing Company values and the basic operating principles – offering high-quality insurance services that meet customer requirements, by means of the cutting-edge technologies employed to promote the Company development, thereby ensuring stability and safe compliance with the Company's commitments. The Company's Management Board represented by the Chairman of the Management Board Jānis Lucaus, Members of the Management Board Oskars Hartmanis, Evija Matveja and Wolfgang Kurt Wilhelm Stockmeyer, set forward development and reinforcement of the Company positions in the Baltic markets as the Company's main tasks for the year 2017. The main initiative that was strongly pushed forward, was the promotion of business development in Estonia and competitiveness in corporate customer segment. According to the set priorities – priorities encompassing improvement of customer service and business processes, the Company continued to focus on the development of information technology project, which contributed to reduction of the Company's administrative costs and affected positively the Company financials.

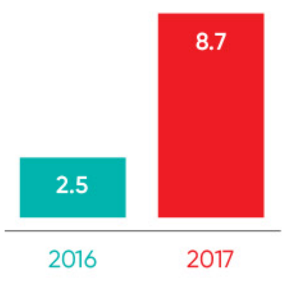
Financials

With high determination to enlarge the costumer segment and build a long-lasting product portfolio, the Company continues to show successful results in 2017. The Company has gross written insurance premiums of 163 million euros for the Baltic States together in 2017. The volume of gross written insurance premiums increased by 24% in year 2017, as compared to the results of year 2016.

The VIG shareholder engagement and the selected business strategy allowed the Company to considerably increase the overall business volume in Estonia (+17 %), Lithuania (+29 %) and Latvia (+21 %) as well as to successfully reinforce its positions in the corporate customer segment, where the volume of gross written insurance premiums increased by 26 %.

By types of insurance, the steepest growth of gross written insurance premiums in 2017 was in property insurance

Financial result (PBT), mEUR



(+31 %), travel accident insurance (+29 %), MTPL (+27 %), CASCO (+23 %) and health insurance (+21 %). Throughout the year the Company could observe the volume of gross written insurance premiums in voluntary insurance types grow. The demand for voluntary insurance coverage continued to grow in all the Baltic States. The total volume of the Company's gross written insurance premiums in voluntary insurance types reached 101.5 million euros in 2017, which is by 23% more than in 2016.

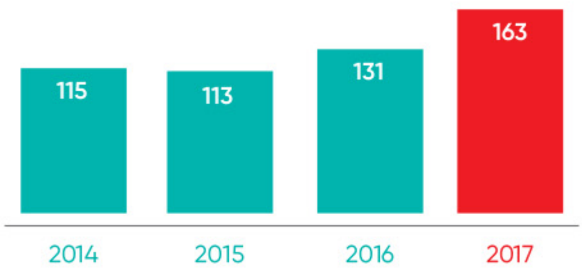
Following the growth of the volume of insurance premiums the volume of insurance claims, disbursed by the Company, increased by 3% in 2017 and reached 79.4 million euros. The Company disbursed about 315 thousand euros on average every business day in 2017, which makes it approximately 39 thousand euros every business hour. Insurance claims in 2017 decreased by 14% in GTPL insurance, by 4% in MTPL and Personal accident insurance, at the same time increased by 45% in Travel accident insurance, by 22% in Health insurance and by 16% in Property insurance.

Decrease of insurance claims in MTPL are explained by a decrease in the number of MTPL policies due to average premium increase, reviewed layout of the cooperation with garages, redirection of clients to ordinary garages more often when the vehicle's warranty repair period has expired, and changes in legislation regarding cash claim payments after deduction of the VAT. The increase of insurance claims in Health and Property insurance is explained by portfolio growth.

At the end of 2017, the sum of the Company's gross technical reserves reached 181.0 million euros, while the net technical reserves made 134.2 million euros. The total value of equity, reserves and liabilities made 289.2 million euros, which is the highest indicator among Latvian insurance companies and one of the highest indicators among the Baltic insurers.

In the reporting year, the Company exercised conservative approach towards the investment policy based on low risk assets. The Company mostly invested in government debt securities having high investment rating

Gross written premiums, mEUR



(between A and AAA according to international rating agency Standard & Poor's classification). The ratio of such investments constituted 74% of the total volume of the Company's investments on 31 December 2017.

Insurance market profile

The competition in the Baltic insurance market, particularly in vehicle insurance types, remains very high and intense. The negative trend in MTPL insurance type proceeded in 2017 in Latvia and Estonia – the losses within the type continued to increase. In 2017, MTPL market hit 12.4 million euros loss in Latvia. The increase of traffic accidents, especially abroad, and car service costs affects the increase of MTPL insurance indemnity disbursement. The losses of MTPL type of insurance affect considerably the overall financial indicators of insurance companies. The year 2017 was marked by an increase in the average MTPL premium in Latvia, Estonia and in Lithuania. Altogether, in 2017, the Company has written 63.1 million euros in MTPL gross written insurance premiums in the Baltics, which is 27 % more than in the year 2016. The overall increase of MTPL gross insurance premiums written by the Company was driven by the promotion of business development in Estonia as well as increase of business volume in Lithuania and average premium increase in all three countries.

A positive trend to be noted is the overall growth throughout the Baltic States in voluntary insurance type segment. In 2017 the volume of gross written insurance premiums continued to increase rapidly. The Company has written 101.5 million euros in gross written insurance premiums in voluntary insurance segment in the Baltics, which is 23 % more than in 2016. Voluntary insurance has become more popular not only among private individuals (+23 %), but also among corporate entities (+23 %).

Continuing the positive trend of voluntary insurance, Property insurance in 2017 was marked by the largest increase in gross written insurance premiums. The Company has written 20.9 million euros in Property insurance gross insurance premiums in the Baltics, which is 31 % more than in the year 2016. As we compare the number of private individuals in the Baltic States, who choose to purchase all risk property insurance, we can see an increase in the number of policies in 2017. Intense competition intrinsic to the insurance market induces offering conditions that are ever more advantageous to private individuals within property insurance services; thereby the year 2017 was marked by an increase in long-term property insurance policies sold. All around the Baltic States, corporate entities purchase commercial property insurance with a more extensive insurance scope, including equipment breakdown risk, business interruption risk and other risks.

The year 2017 in the Baltic market also was favourable for the growth of the total volume of travel accident gross written insurance premiums – in 2017 the Company has written by 29 % more travel accident gross written insurance premiums in the Baltics than in 2016. The Company reached a significant 31 % increase of Personal accident gross written insurance premiums in the year 2017. It proves that both private individuals, corporate entities and employers consider travel accident insurance to be ever more relevant.

Following 2016, the year 2017 was marked positively by an increase of the volume of CASCO gross written insurance premiums. The Company has written 39.0 million euros, which is by 23 % more of CASCO gross written insurance premiums in the Baltics in 2017 than in 2016. The volume of gross written insurance premiums increased in all three Baltic States. The increase of the total volume of gross written insurance premiums in all three Baltic States was affected by the purchasing power of residents, an increase in insurance significance awareness and by the increase in the number of new cars registered in the Baltic States.

The volume of health insurance gross written insurance premiums in Latvia and Lithuania in the year 2017 has increased by 21 %, showing that employers more frequently complement motivation and social guarantee programme packages for their employees. Employers purchase health insurance policies as well as expand the scope of paid services included in these policies.

Major events and development

Merger with InterRisk

At the end of 2017, the Company merged with and added the business and infrastructure of InterRisk Vienna Insurance Group in Latvia and Lithuania. As a result, the Company became a leader in the Baltic market with the largest network of partners and customer service centres across the Baltics, employing nearly 1000 employees. The transaction strengthened Company's position in the Baltic insurance market and opened up opportunities for offering wider services for its clients.

Compliance with solvency requirements and increase of share capital

After the merger (reorganisation) the Company increased its ordinary share capital by additional 10 million euros, increasing BTA's solvency ratio at the year-end well above 125%.

Change of brand identity

In late May, the Company changed the brand identity in Latvia, Lithuania and Estonia. The new image of the Company signals to clients and partners that responsibility can be easy if a trusted friend is nearby. A friend, who encourages and supports in achieving life's most important goals.

Stylistics of the new brand highlights the main values – credibility, accessibility and humanity. At the same time it maintains the inherent reliability and stability of BTA, which is underlined by the company's largest shareholder Vienna Insurance Group AG.

Accessibility - the company's services are available on any channel throughout the Baltics 24 hours a day.

Humanity - employees speak to their clients in a human, understandable language. The products of the company are tailor-made for each client personally and each client can expect an individual attitude.

Credibility - the Company, with the support of VIG, is a trusted partner for responsible decisions.

The Company believes in the development of technology, which prevails in speed, efficiency and convenience. Technology, customer base and industry knowledge provide the opportunity to be dynamic and creative. The Company's success is based on an enthusiastic and professional team.

Business development in Estonia and Lithuania

Through the purposeful development of business in the Baltics, last year the most rapid growth was achieved in Lithuania. The volume of gross written insurance premiums increased by 29% over the year and managed to gain the highest turnover in the Baltics. Significantly good progress has been made in property insurance, where the increase in total gross written insurance premiums exceeded 40%.

Stable gain in property insurance is also observed in Estonia, where the volume of gross written insurance premiums increased by 17% in 2017.

Business portfolio enforcement

In an effort to improve the portfolio efficiency and to choose sustainable development scenario in 2017 the Company has gradually increased MTPL service prices in Latvia, framing a well-balanced insurance portfolio and price policy matching the actual costs. Thus, the volume of gross written insurance premiums grew by 21% over a year and was one third higher than the compensation paid.

In an effort to ensure the opportunity to choose a broader insurance coverage based on market trends, customer requirements and demands in 2017 the Company improved its insurance terms and conditions. In response to the growing public interest in personal accident insurance, the Company complemented its personal accident insurance terms and conditions by including new risks in the cover.

Information technology development

In autumn of 2017 the Company completed the transition to an electronic management system, becoming a full-fledged paperless office. It contributed to optimization of administrative processes and, at the same time, ensured business development, reduction of administrative costs and improvement of operations efficiency. Now, more than 95 % of the Company documents, including the Company orders, decisions, contracts, invoices and other documents are transferred by electronic means.

Customer service improvement

An important breakthrough in customer service improvement was the development and implementation of customer self-service portal in Latvia and Estonia. The portal ensures a full-fledged customer service functionality, same as brick and mortar customer service centres. Through the intermediary of the portal, the customers may not only purchase insurance services quickly and conveniently, but also apply for insurance indemnities and follow the insurance claim case handling progress.

The Company continued to improve the insurance claims application and product purchase options by means of distant communication tools. In 2017 the Customer Support Service registered 99% of the total number of received insurance claim cases in Latvia. 37% of all the CASCO insurance claim cases and 42% of all the property insurance claim cases were fast-tracked and handled in the course of a single or several days.

In Estonia in 2017 the Customer Support Service registered 93% of the received insurance claim cases remotely, and 63% of all the registered CASCO insurance claim cases were fast-tracked and handled in the course of a single or several days. Whereas in Lithuania the Customer Support Service registered 98% of the received insurance claim cases remotely in 2017.

Alongside with the vigorous growth of distant channels in the Baltics, the Company is a leading company in customer face-to-face service – it has the broadest network of customer service centres in Latvia and one of the broadest networks in Lithuania. The Company has 53 customer service centres in Latvia, and 109 centres in Lithuania.

Customers highly appreciated the services rendered by the Company. It is evidenced by the results of the Praise Excellent Service campaign 2016. The Company was awarded as an excellent customer service company in financial and insurance industry and was awarded the titles – "The most recommended company" and "The most polite service".

Employees

In an effort to promote professional development of the employees the Company provided 2273 training days of internal and external training programmes in 2017, adding total number of 28 employees in 2017. The employees were also offered additional professional development options by means of e-learning system.

Staff loyalty to the Company is evidenced by the length of employment of employees – in 2017 it was on average 5,8 years. BTA also ranked as high as number 10 in the largest annual employee survey of the recruitment company CV-Online Latvia, which finds out the best and most attractive employers in Latvia, and BTA was the only one of the insurance field, who made it to this top chart. The high place in the top chart suggests that the Company and its selected strategy keep developing in the right direction in a long-term perspective, which is welcomed by the staff as well as the public in general.

Risk management

The Company's risk management system ensures efficient risk identification, measuring and assessment, as well supervision and control in accordance with the Company long-term strategic goals, volume of operations and operational peculiarities.
Risks related to the investments made by the Company are controlled in accordance with the Company's Investment and Risk Strategy, which sets limitations on transactions with a single business partner, as well as thresholds on credit ratings of debt securities obtained by the Company. The Company minimizes its liquidity risk by investing into highly liquid financial instruments.

Market risks include interest rate risk, price risk and currency risk. To minimize the impact of risks the Company constantly improves its risk policy, maintaining a conservative approach to risk management.
The Company's outwards reinsurance policy had been significantly improved in 2017, mostly due to new reinsurance opportunities within VIG. The main changes have been made to MTPL, Aviation, Property and related products reinsurance structure. New treaties had been arranged for the additional protection of the Company's portfolio. The risk share retained by the Company has been calculated taking into account the equity amount, business needs as well as internal and VIG guidelines.
Risks are transferred to (re)insurance companies with A group credit ratings, being in line with the requirements of the Company and its major shareholder VIG.

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

Proposal on distribution of profits

Taking into account the Company's planned development path, the Board recommends that 85% of the net profit for the financial year 2017 in the amount of EUR 6.624.216,48 is allocated to pay out dividends and 15% in the amount of EUR 1.167.887,52 to increase the Company's equity.

Subsequent events

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

Further development

Despite the fierce competition in the Baltic market, the Company discerns a high growth potential in several types of insurance, voluntary insurance in particular.

Proceeding with improvement of its insurance products and customer service, the Company plans to increase the volume of operations in 2018 in the Baltic States, achieving more than 15 % growth in gross written insurance premiums total for the Baltic region. The Company senses the greatest growth opportunities in Estonia and Latvia, where the increase in gross written insurance premiums is expected to be above 25 % respectively compared to the year 2017. Given the current insurance portfolio volume and market situation in Lithuania, the Company expects the growth in that country to slow down in comparison to 2017.

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

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

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

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

Janis Lucaus
Chairman of the Board

Oskars Hartmanis
Member of the Board

Evija Matveja
Member of the Board

Wolfgang Kurt Wilhelm Stockmeyer
Member of the Board

23 March 2018

PART OF VIENNA INSURANCE GROUP

COMPANY PROFILE

"We focus on providing our customers in Austria and CEE with custom products and services tailored to their needs. Our strategy is geared towards long-term profitability and steady earnings growth, making us a reliable partner in rapidly changing times."

Over 25,000 employees work for the Vienna Insurance Group (VIG), at around 50 companies in 25 countries. We develop insurance solutions in line with personal and local needs, which has made us one of the leaders in the insurance industry in Austria and Central and Eastern Europe (CEE).

EXPERTISE AND STABILITY

The Vienna Insurance Group is an international insurance group headquartered in the Austrian capital. After the fall of the Iron Curtain in 1989, VIG expanded rapidly from a purely Austrian business into an international group. VIG is synonymous with stability and expertise in providing financial protection against risks. The Group's origins date back to 1824. Almost two centuries of experience, coupled with a focus on our core competence of providing insurance coverage, forms a solid and secure basis for the Group's 20 million-plus customers.

FOCUS ON CENTRAL AND EASTERN EUROPE

Besides Austria, VIG places a clear emphasis on Central and Eastern Europe as its home market. The Group generates more than half of its premium income in CEE. VIG's operations are also focused on this region. This primarily reflects the forecasts for economic growth in CEE, which is predicted to be twice as high as in Western Europe, as well as the current level of insurance density, which is still well below the EU average.

LOCAL MARKET PRESENCE

For VIG, protecting customers financially against risk is a responsibility. The Group pursues a multi-brand strategy based on established local markets as well as local management.
Ultimately, the Group's success and closeness to its customers is down to the strengths of each individual brand and local know-how.

STRONG FINCANCES AND CREDIT RATING

VIG has an A+ rating with stable outlook from well-known rating agency Standard & Poor's, meaning that it remains the top-rated company on the Vienna Stock Exchange's index of leading shares, the ATX. The Vienna Insurance Group is listed in both Vienna and Prague. Wiener Städtische Versicherungsverein – a stable core shareholder with a long-term focus – owns around 70% of VIG's shares. The remaining shares are in free float.

VIG
VIENNA INSURANCE GROUP
Protecting what matters.

THE VIG MISSION STATEMENT

OUR VISION

We want to be the first choice for our customers. Our stakeholders see us as a stable and reliable partner. This enables us to consolidate our position as the leading insurance group in Austria, Central and Eastern Europe.

OUR MISSION

We stand for stability and competence in the field of risk protection. We use our experience, know-how and diversity to move closer to our customers. We see it as our responsibility to protect the values that matter to our customers.

OUR VALUES

Diversity
Customer proximity
Responsibility

OUR PROMISE

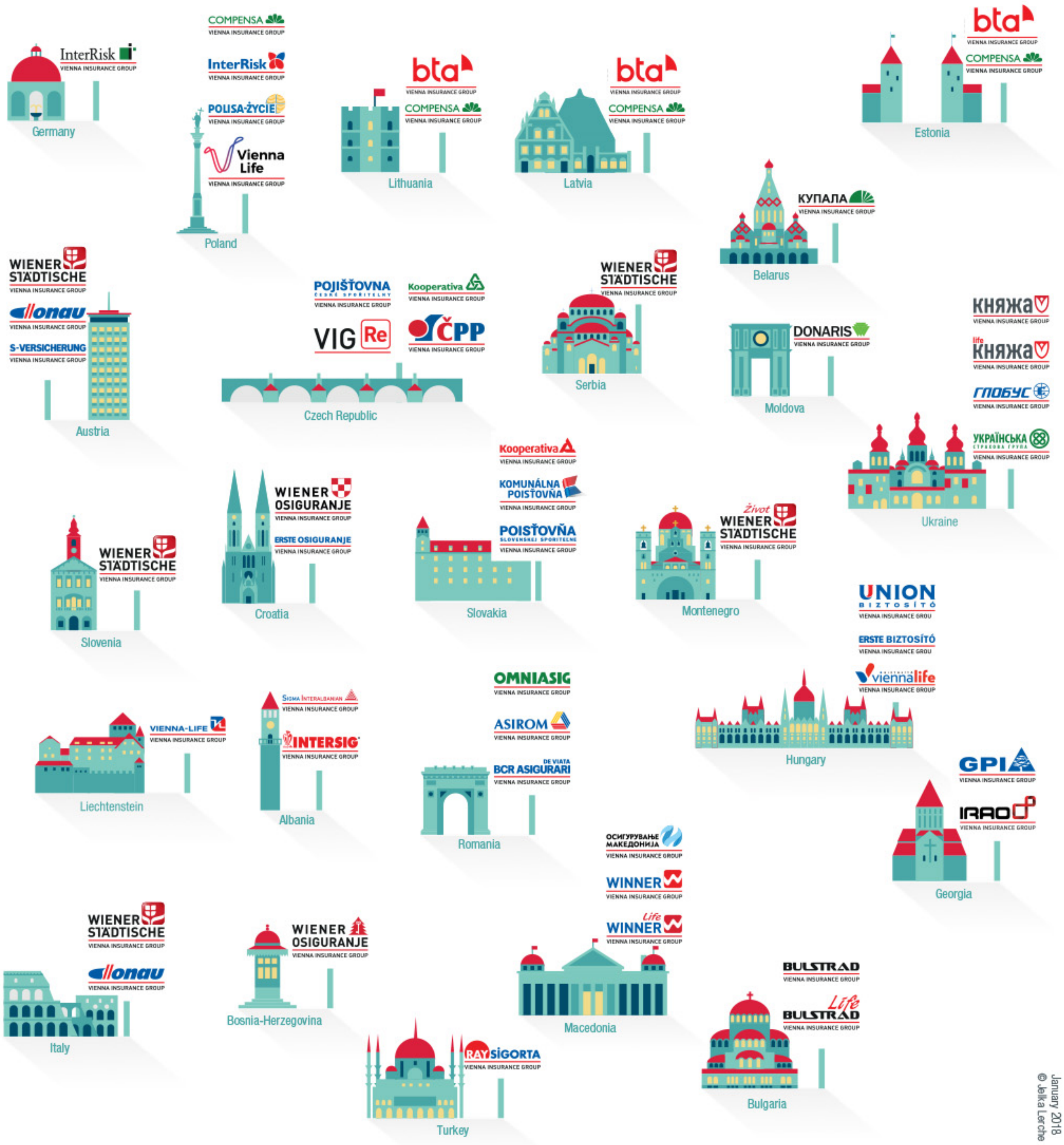
We enable customers to live a safer and better life: Protecting what matters.

CORPORATE STRATEGY

SUSTAINABILITY STRATEGY

EMPLOYER BRANDING

CORPORATE BEHAVIOUR



WE ARE THE **NUMBER ONE** IN AUSTRIA, CENTRAL AND EASTERN EUROPE

VIG
VIENNA INSURANCE GROUP
Protecting what matters.

Statement of management responsibility

In 2017 the Board of BTA Baltic Insurance Company AAS (hereinafter – the Company) was responsible for the management of the Company. The Management regularly informed the Council about key developments in the Company and provided necessary explanations.

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

The Company's Management assumes responsibility for the preparation of the Company's financial statements for the year ended 31 December 2017 prepared in accordance with IFRS as adopted by the European Union to reflect fairly the activities and cash flows of BTA Baltic Insurance Company AAS for the year ended 31 December 2017, as well as its financial position as at 31 December 2017.

The Company's Management confirms that the Company's financial statements for the year ended 31 December 2017 have been prepared in accordance with the effective requirements of legislation and the Financial and Capital Market Commission of the Republic of Latvia, and IFRS as adopted by the European Union.

The Company's financial statements for the year ended 31 December 2017 have been prepared on the basis of prudent decisions and assumptions of the Management.

The Company uses exemption rules from the obligation to prepare non-financial statements according to the Regulations of the Financial and Capital Market Commission No. 201 "Statutory provisions for the preparation of the annual report and the consolidated annual report of insurance and reinsurance companies and non-member country insurers' branches" (paragraph No 16 of the above Regulation) as "Vienna Insurance Group AG" is publishing a separate consolidated non-financial report for financial year 2017.

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

The 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.

Taking into account that the reorganization, where the Company acquired InterRisk Vienna Insurance Group AAS, came into force on 27 December 2017, special consideration shall be given to the fact that the Company's financial statements contain information related to the closing balance sheet of InterRisk Vienna Insurance Group AAS.

Janis Lucaus
Chairman of the Board

Oskars Hartmanis
Member of the Board

Evija Matveja
Member of the Board

Wolfgang Kurt Wilhelm Stockmeyer
Member of the Board

23 March 2018

Statement of Comprehensive Income

	Note	2017 EUR'000	2016 EUR'000
Earned premiums			
Written premiums			
Gross written premiums	5	162 979	130 808
Reinsurers' share in written premiums	5,18	(23 416)	(6 661)
Net written premiums	5	**139 563**	**124 147**
Change in unearned premium and unexpired risk technical reserves			
Gross change	7	(14 632)	(8 335)
Reinsurers' share	7,18	1 355	(151)
Change in net unearned premium and unexpired risk technical reserves	7	**(13 277)**	**(8 486)**
Net earned premiums	6	**126 286**	**115 661**
Other technical income, net	8	**296**	**284**
Paid claims, net			
Gross claims paid	9	(79 399)	(77 467)
Paid claims	9	(81 088)	(78 959)
Loss adjustment expenses	9	(4 720)	(4 293)
Recovered losses	9	6 409	5 785
Reinsurers' share of claims paid	9,18	4 485	1 599
Net paid claims	9	**(74 914)**	**(75 868)**
Change in outstanding claim technical reserve			
Change in gross outstanding claim technical reserve	10	(19 596)	(3 687)
Reinsurers' share	10	9 164	(139)
Change in net outstanding claim technical reserve	10	**(10 432)**	**(3 826)**
Net incurred claims	11	**(85 346)**	**(79 694)**
Operating (expenses)/ income			
Client acquisition costs	12	(17 013)	(13 740)
Change in deferred client acquisition costs	12	1 452	754
Administrative expenses	13	(24 008)	(21 123)
Depreciation and amortisation	19,20,21	(1 112)	(1 056)
Reinsurance commission income, net	14,18	7 459	1 457
Change in unearned reinsurance commission	14,18	(296)	2
Net operating expenses		**(33 518)**	**(33 706)**

Other technical expenses, net	15	**(147)**	**(603)**
Investment management charges		(300)	(42)
Interest income	16	904	1 144
Gain/(loss) from financial assets and liabilities at fair value through profit or loss, net		769	(92)
Gain/(loss) on foreign currency fluctuation		(174)	(267)
Other income		906	457
Other expenses		(975)	(592)
Profit before tax		**8 701**	**2 550**
Income tax expense	17	(909)	(618)
Net profit for the period		**7 792**	**1 932**
Items that are or may be reclassified to profit or loss			
Available-for-sale financial assets - net change in fair value		957	**(12)**
Other comprehensive income for the period		**957**	**(12)**
Total comprehensive income for the period		**8 749**	**1 920**

The accompanying notes on pages 22 to 74 form an integral part of these financial statements.

Janis Lucaus
Chairman of the Board

Oskars Hartmanis
Member of the Board

Evija Matveja
Member of the Board

Wolfgang Kurt Wilhelm Stockmeyer
Member of the Board

23 March 2018

Statement of Financial Position

Assets	Note	31.12.2017 EUR'000	31.12.2016 EUR'000
Land and buildings	20	**3 005**	**418**
Property and equipment	19	**1 526**	**731**
Intangible assets	21	**1 777**	**1 642**
Investment property	20	**446**	**99**
Financial investments			
Financial instruments at fair value through profit or loss	22,41	1 825	76 210
Held-to-maturity financial instruments	22,41	1 781	-
Available-for-sale instruments	22,41	148 805	5 026
Deposits with banks	23	3 303	1 357
Total financial investments		**155 714**	**82 593**
Inventory		**133**	**31**
Receivables from direct insurance activities			
Due from policy holders		28 550	18 543
Due from intermediaries		1 691	1 451
Total receivables from direct insurance activities	24	**30 241**	**19 994**
Receivables from reinsurance activities		1029	407
Other receivables	25	733	419
Prepaid corporate income tax	30	54	502
Total receivables		**32 057**	**21 322**
Total loans and receivables		**32 057**	**21 322**
Deferred tax asset	29	**181**	**130**
Accrued income and deferred expenses			
Deferred client acquisition costs	12	8 402	5 600
Other accrued income and deferred expenses		1020	472
Total accrued income and deferred expenses		**9 422**	**6 072**
Reinsurance contract assets			
Reinsurers' share in unearned premiums technical reserves	7,38	19 164	2 222
Reinsurers' share in outstanding claim technical reserve	10,38	32 084	6 793
Total assets from reinsurance contracts	38	**51 248**	**9 015**
Cash and cash equivalents	26	**33 562**	**42 479**
Total assets		**289 071**	**164 532**

Equity and liabilities	Note	31.12.2017 EUR'000	31.12.2016 EUR'000
Equity			
Share capital	28	41 609	29 000
Revaluation reserves	28	1 475	371
Other reserves	1c	(1 605)	-
Retained earnings		3 716	2 750
Profit for the period		7 792	1 932
Total equity		**52 987**	**34 053**
Liabilities			
Subordinated loan		**1 500**	**-**
Technical reserves			
Technical reserves for unearned premiums and unexpired risks	7,38	84 029	56 707
Outstanding claim technical reserves	10,38	101 389	56 938
Total technical reserves		**185 418**	**113 645**
Creditors			
Direct insurance creditors			
Due to policy holders		7 040	4 136
Due to intermediaries		1 035	846
Total direct insurance creditors		**8 075**	**4 982**
Reinsurance creditors	31	4 195	1 574
Reinsurers deposits		23 748	-
Taxes and social insurance contributions	30	881	468
Other creditors	32	5 540	5 304
Total creditors		**42 439**	**12 328**
Deferred tax liabilities	29	-	**92**
Provisions	33	**1 420**	**871**
Accrued liabilities	33	**3 987**	**2 880**
Unearned reinsurance commission income	14	**1 160**	**663**
Deferred next period income		**160**	**-**
Total liabilities		**236 084**	**130 479**
Total equity and liabilities		**289 071**	**164 532**

The accompanying notes on pages 22 to 74 form an integral part of these financial statements.

Janis Lucaus
Chairman of the Board

Oskars Hartmanis
Member of the Board

Evija Matveja
Member of the Board

Wolfgang Kurt Wilhelm Stockmeyer
Member of the Board

23 March 2018

Statement of Cash Flows

	Note	2017 EUR'000	2016 EUR'000
Cash flows from operating activities			
Premiums received in direct insurance		160 921	125 180
Claims paid in direct insurance		(75 421)	(78 959)
Payments received from reinsurers		266	3 323
Payments made to reinsurers		(4 726)	(4 326)
Income tax paid	30	(679)	(1 170)
Obligatory payments	27	(1 764)	(1 976)
Payments to employees		(11 829)	(11 591)
Payments to intermediaries		(12 171)	(13 740)
Other payments made:		(18 107)	(17 612)
Other tax paid		*(9 791)*	*(7 712)*
Payments to other suppliers		*(7 789)*	*(7 760)*
Other payment made		*(527)*	*(2 140)*
Other payment received		-	12 628
Total cash flows from operating activities		**36 490**	**11 757**
Cash flows from investing activities			
Purchase of fixed assets		(1 949)	(1 281)
Acquisition of investments		(170 257)	(18 351)
Disposal of investments		111 553	30 173
Investment income received		2 230	1 144
Net cash acquired as a result of reorganisation	1c	3 982	-
Total cash flows from investing activities		**(54 441)**	**11 685**
Cash flows from financing activities			
Paid dividends		(966)	(916)
Share capital increase		10 000	-
Total cash flows from financing activities		**9 034**	**(916)**
Cash and cash equivalents net increase		**(8 917)**	**22 526**
Cash and cash equivalents at the beginning of the period		**42 479**	**19 953**
Cash and cash equivalents at the end of the period	26	**33 562**	**42 479**

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23 March 2018

Statement of Changes in Shareholders' Equity

	Note	Share capital EUR'000	Other reserves EUR'000	Revaluation reserve EUR'000	Retained earnings EUR'000	Total Equity EUR'000
31.12.2015		29 000		383	3 666	33 049
Total comprehensive income						
Profit for the period		-	-	-	1 932	**1 932**
Other comprehensive income		-	-	(12)	-	**(12)**
Transactions with shareholders recorded directly in equity						
Dividends paid		-	-	-	(916)	**(916)**
31.12.2016		29 000	-	371	4 682	34 053
Total comprehensive income						
Profit for the period		-	-	-	7 792	**7 792**
Other comprehensive income		-	-	957	-	**957**
Transactions with shareholders recorded directly in equity						
Share capital increase		10 000	-	-	-	**10 000**
Acquired as result of reorganization	1c	2 609	(1 605)	147	-	**1 151**
Dividends paid		-	-	-	(966)	**(966)**
31.12.2017		41 609	(1 605)	1 475	11 508	52 987

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23 March 2018

Notes to the Financial Statements

(1) General information

(a) Principal activities

BTA Baltic Insurance Company AAS (the "Company") is a company domiciled in the Republic of Latvia ("Latvia"). The Company was registered on 28 October 2014 in Riga, Latvia as a Joint Stock Insurance Company. The head office is located in Riga, Sporta Street 11, Republic of Latvia.

On 10 June 2015 the Company obtained the following insurance licenses in Latvia:
• land vehicle insurance (CASCO);
• liability for transport ownership insurance (CMTPL);
• health insurance;
• fire and natural elements insurance;
• other damage to property insurance;
• general liability insurance (TPL);
• miscellaneous financial losses insurance;
• goods in transit insurance;
• accident insurance;
• assistance (travel) insurance;
• railway rolling stock insurance;
• ships insurance;
• liability for ship ownership insurance;
• aircraft insurance;
• liability for aircraft ownership insurance;
• suretyship insurance;
• credit insurance;
• legal expenses insurance.

The Company operates in Estonia and Lithuania. Business is conducted through permanent establishments (branches) within the European Union, and it offers a wide range of non-life insurance products to legal entities and individuals in the abovementioned insurance lines.

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

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

(b) Shareholders

Information on the shareholders:

	31.12.2017	
	Number of shares	Shareholding
Vienna Insurance Group AG Wiener Versicherung Gruppe	377 920	90.83 %
Balcia Insurance SE	38 174	9.17 %
	416 094	**100 %**

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

(c) Reorganisation

On 19 September 2017, a decision was taken regarding reorganisation of AAS BTA Baltic Insurance Company. The reorganisation is performed as a merger by way of takeover, where AAS BTA Baltic Insurance Company is the acquiring company and InterRisk Vienna Insurance Group AAS, registration number: 40003387032, registered address: Ūdens iela 12 - 115, Riga, LV-1007, is the acquired company. The reorganisation was enacted effective on 27 December 2017.

As a result of the reorganisation, all property of InterRisk Vienna Insurance Group AAS (assets, liabilities, rights and obligations) was transferred to AAS BTA Baltic Insurance Company. The share capital of AAS BTA Baltic Insurance Company was increased by EUR 2,609,400. All newly issued shares were paid-up by way of non-monetary contribution of the net assets of InterRisk Vienna Insurance Group AAS. The table below sets out the main categories of assets and liabilities as at 27 December 2017 taken over as a result of the reorganisation.

	EUR'000
Land and buildings	2 993
Property and equipment	61
Intangible assets	47
Debt securities and other fixed income securities	19 433
Deposits with banks	-
Cash and cash equivalents	3 982
Receivables from policy holders	1 477
Receivables from intermediaries	764
Reinsurance receivables	145
Other receivables	551
Deferred client acquisition costs	1 537
Other next period expense and accrued income	19
Reinsurers' share in unearned premiums technical reserves	5 779
Reinsurers' share in outstanding claim technical reserve	16 127
Total Assets	**52 915**
Subordinated loan	1 500
Technical reserves for unearned premiums and unexpired risks	12 690
Equalisation provision	-
Outstanding claims technical reserves	24 855
Direct insurance creditors - policyholders	2 731
Direct insurance creditors - intermediaries	92
Reinsurers deposit	7 378
Reinsurance creditors	1 912
Taxes	1
Other creditors	157
Provisions	96
Deferred next period income	151
Unearned reinsurance commission income	201
Total Liabilities	**51 764**
Impact of reorganisation on equity positions of the Company:	
Share capital	2 609
Other reserves	(1 605)
Revaluation reserve	147
Net assets taken over as a result of reorganisation	**1 151**

(d) Capital increase

On 28 December 2017 the share capital of AAS BTA Baltic Insurance Company was increased by EUR 10,0 million to EUR 41,6 million. The purpose of increasing the share capital is to strengthen the Company's financial stability. Respectively all newly issued shares were paid up in cash and subscribed by the existing shareholders.

(2) Basis of preparation

(a) Statement of compliance

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

The financial statements were authorised for issue by the Board on 23 March 2018. The shareholders have the right to reject the financial statements and request that new financial statements are prepared and issued.

(b) Functional and Presentation Currency

These financial statements are presented in thousands of euro (EUR'000), unless stated otherwise.
The functional currency of the Company and its branches in Estonia and Lithuania is euro.

(c) Reporting period

The reporting period comprises the 12 months from 1 January 2017 to 31 December 2017. The comparative period is from 1 January 2016 to 31 December 2016.

(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.

(e) Changes in accounting policies

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

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

The following guidance with effective date of 1 January 2016 did not have significant impact on these financial statements:
(i) IFRS 11: Accounting for Acquisitions of Interests in Joint Operations;
(ii) IAS 1 – Presentation of Financial Statements;
(iii) IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets;
(iv) IAS 19 – Defined Benefit Plans: Employee Contributions;
(v) IAS 27 – Separate Financial Statements;
(vi) Annual Improvements to IFRSs.

(f) New Standards and Interpretations

1.1.1 Standards and interpretations effective in the reporting period

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with the date of initial application of 1 January 2017.

(i) Amendments to IAS 7: Statement of Cash Flows

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value). In line with these new amendments, the Company has no impact to Cash flow in 2017

The following guidance with effective date of 1 January 2017 did not have any impact on these financial statements:
(ii) Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
(iii) Annual Improvements to IFRSs

1.1.2 New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, 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.

(i) IFRS 9 Financial Instruments (2014) (effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted. The IASB implemented an amendment to IFRS 4 Insurance contracts that permits insurance companies to apply IAS 39 instead of IFRS 9 until IFRS 17 is implemented in 2021.)

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

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

A financial asset is measured at amortized cost if the following two conditions are met:
• the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
• its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

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

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

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

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

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

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

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

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

At this stage it is still unclear what portion of the Company's debt securities exactly will be measured at FVTPL, at FVOCI or amortized cost as this determination will depend on the outcome of the business model test and will be subject to an election to be made by the Company at the date of initial application. However, the Company has made a preliminary assessment of the potential impact from new standards and does not expect the new standards to have significant impact on the financial statements.

Following the decision of Vienna Insurance Group as a group to make use of the temporary exemption and postpone application of IFRS 9 until 1 January 2019, the Company does not plan to adopt this standard until 1 January 2019.

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

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

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

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

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

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

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

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

The new Standard introduces a number of limited scope exceptions for lessees which include:
• leases with a lease term of 12 months or less and containing no purchase options, and
• leases where the underlying asset has a low value ('small-ticket' leases).

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

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

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

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

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

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

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

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

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

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:
• a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
• a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

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

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

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

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

(viii) Amendments to IAS 40 Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018; to be applied prospectively)

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

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

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

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

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

(x) IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019, not yet adopted by the EU)

The Company does not plan to adopt above mentioned standards early. The Company has assessed the potential impact from new standards and does not expect the new standards to have material impact on the financial statements.

(xi) Annual Improvements to IFRSs

Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. Earlier application is permitted.

None of annual improvements and amendments to IFRRSs are expected to have a significant impact on the financial statements of the Company.

(xii) IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021, not yet adopted by the EU)

IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches.

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost. The management does not expect material impact on the financial result of the Company.

The Company is planning to implement IFRS 17 for statutory statements and group consolidation starting from 1 January 2019 based on Vienna Insurance Group guidance.

(g) Reclassification of balances in the financial statements

In addition, certain balances for 2017 were classified differently from the prior year, due to management's judgment. The reclassification has no impact on the financial result. The comparative information for 2016 disclosed in these financial statements was classified in line with the principles used in 2017 and is comparable. The opening balances before reclassification agree with the prior year closing balances.

(3) Significant accounting policies

3.1 Foreign currency
Foreign exchange transactions are translated to the functional currency of the Company in accordance with

the exchange rate set by the European Central Bank on the date of the respective transaction.

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

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

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

	31.12.2017	31.12.2016
USD	1,19930	1,05410
PLN	4,17700	4,41030
RUB	69,39200	64,30000
GBP	0,88723	0,85618
NOK	9,84030	9,08630

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

3.2 Insurance contracts

(a) Classification of insurance contracts

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

Non-life insurance contracts include the contracts:
- in which the insurer assumes substantial insurance risk on behalf of the other contracting party – the policy holder, by agreeing to compensate losses to the policy holders if a certain unexpected future event (insured occurrence) has been previously agreed, which adversely impacts the policy holder. An unexpected future event is considered to be a situation when at the time of signing the insurance contract is not known:
1. whether the insured occurrence will occur;
2. when it will occur;
3. how much the insurer will have to pay if it occurs.
- in which the insured event is the discovery of a loss during the term of the contract, even if the loss arises from an event that occurred before the inception of the contract;
- in which the insured event is an event that occurred during the term of the contract, even if the resulting loss is discovered after the end of the contract term;
- which comprise events, which have already occurred, but whose financial impact is not yet fixed. For example, reinsurance contracts that protect direct insurer from the adverse development of claims already reported by the policy holder;
- which require or permit payment in kind, e.g., the insurer directly replaces a stolen thing rather than compensates the claim to the policy holder in money;
- which stipulate a fixed charge services, in which the service level depends on an unexpected event. Fixed charge services are based on the number of expected equipment malfunctions, but it cannot be determined on whether some specific equipment will not function;
- in which one insurer (reinsurer) compensates the losses of one or several contracts closed with other insurers (assignor).

Recognition and evaluation of insurance contracts

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

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

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

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

(b) Insurance premium and premium income

Written premiums are insurance premiums for the insurance contracts signed during the reporting period, that have come into force in the reporting period irrespective whether these premiums have become due or not. Premiums written are decreased by premiums cancelled and terminated during the reporting period. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums. The earned portion of premiums received is recognised as revenue. Premiums are recognised as earned on a pro-rata basis over the term of the related policy coverage and are reported as earned premiums.

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

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

(c) Unearned premium and unexpired risk reserves

Unearned premium reserves (UPR)

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

Unexpired risk reserve (URR)

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

(d) Claims incurred

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

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

(e) Outstanding claim technical reserves

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

Reported but not settled claims reserve (RBNS)

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

Incurred but not reported claims reserve (IBNR)

Starting from 2017 gross and net IBNR is calculated and difference between them is considered as reinsurance part of IBNR reserves. Both, gross and net IBNR reserves are calculated separate for InterRisk portfolio and BTA portfolio and later counted together.

For BTA portfolio gross and net reserves for are calculated using statistical methods (triangulation, coefficient methods or modifications thereof) for the following lines of insurance:
• motor own damage insurance;
• property insurance (fire risks);
• health insurance;
• motor compulsory third party liability insurance.

The accuracy of such claims reserves is assessed by run-off testing performed by the actuary of the Company. A triangulation and loss rate method was used in the calculation of the IBNR reserve for motor compulsory third party liability.

Where available statistics are considered to be insufficient, e.g. lack of historical data, the both IBNR reserves are calculated as maximum from a percentage of premiums (5%) written in last 12 months for the following lines of business or at least 1 500 EUR or from triangle:
• marine insurance;
• voluntary motor third party liability insurance;
• marine third party liability insurance;
• legal expenses insurance;
• railway insurance;
• aircraft insurance;
• aircraft third party liability insurance;
• property insurance (other risks);
• personal accident insurance;
• travel accident insurance;
• guarantee insurance;
• general third party liability;
• cargo insurance;
• various financial risks;
• credit insurance.

The both IBNR reserves for InterRisk portfolio are calculated using statistical methods (triangulation, coefficient methods or modifications thereof) for the following lines of insurance:
• motor own damage insurance;
• travel insurance;
• motor compulsory third party liability insurance.

The accuracy of such claims reserves is assessed by run-off testing performed by the actuary of the Company. A triangulation and loss rate method was used in the calculation of the IBNR reserve for motor compulsory third party liability.

Where available statistics are considered to be insufficient, e.g. lack of historical data, the both IBNR reserves are calculated as maximum from a percentage of premiums (5%) written in last 12 months for the following lines of business or at least 1 500 EUR or from triangle:
• property insurance (fire risks);
• health insurance;
• voluntary motor third party liability insurance;
• personal accident insurance;
• guarantee insurance;
• general third party liability;
• cargo insurance;
• various financial risks;
• credit insurance.

(f) Reinsurance

Ceded (outwards) reinsurance

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

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

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

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

(g) Client acquisition costs

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

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

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

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

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

(i) Claims technical reserves

Forecast inflation and discount rates are one of the key assumptions used in the estimates of the claims technical reserves. Every year the Company evaluates the adequacy of its previous year provisions by preparing run-off tests. Additionally sensitivity of main assumptions is checked. Below are the results of sensitivity analysis as at 31 December 2017 for economic inflation:

EUR'000	**Projected annual inflation increased by 1%**	**Projected annual inflation decreased by 1%**
Increase/ (decrease) in insurance technical reserves (including annuities)	1 200	(1 968)

(j) Insurance receivables and payables

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

3.3 Financial instruments

(a) Classification

At inception, all financial instruments are classified into one of the following categories:
Financial instruments at fair value through profit or loss are financial assets or liabilities that are acquired or

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

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

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

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

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

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

(b) Recognition and derecognition

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

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

(c) Initial and subsequent measurement

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

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

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

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

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

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

3.4 Fair value measurement

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

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

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

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

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

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

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

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

reflect the characteristics of the instrument subject to measurement;

For further analysis of basis for fair value and fair value determination principles are disclosed in Note 20 (Land and buildings and Investment property) and Note 41 (Fair value of financial instruments).
When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).
If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

3.5 Impairment

(a) Financial assets

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

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

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

(b) Non-financial assets

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

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

3.6 Property and equipment

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

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

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

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

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

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

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

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

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

3.7 Intangible assets

Software licences

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

3.8 Investment property

Land and buildings held either to earn rental income or for capital appreciation or both are classified as investment property and are measured at cost less accumulated depreciation and impairment.

Land and buildings held either to earn rental income or for capital appreciation are initially stated at cost. Subsequently buildings recognised as investment property 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.

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

3.10 Corporate income tax

(A) Current tax

In the reporting year
Current tax for the reporting year is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date (15% as at 31 December 2017), and any adjustment to tax payable in respect of previous years.

Changes to the calculation of Corporate Income Tax as of 1 January 2018

As of 1 January 2018, the new Law on Corporate Income Tax of the Republic of Latvia comes into effect, setting out a conceptually new regime for paying taxes. As of the date, the tax rate will be 20% instead of the current 15%, the taxation period will be one month instead of a year and the taxable base will include:
- distributed profit (dividends calculated, payments equivalent to dividends, conditional dividends) and
- conditionally or theoretically distributed profit (non-operating expenses, doubtful debts, excessive interest payments, loans to related parties, decrease of income or excessive expenses which are incurred by entering into transactions at prices other than those on the market that should be calculated using the methodology determined by the Cabinet of Ministers, benefits bestowed by the non-resident upon its staff or board (council members) regardless of whether the receiving party is a resident or a non-resident, if they relate to the operation of a permanent establishment in Latvia, liquidation quota).

The use of tax losses carried forward from previous periods is limited: it will be possible to utilise these losses to decrease the amount of tax calculated on dividends in the reporting period by not more than 50%. It will be possible to carry forward unused tax losses and utilise them in the previously described manner only until 2022.

(B) Deferred tax

In accordance with the Annual Reports and Consolidated Annual Reports Law of the Republic of Latvia, companies are permitted to recognise deferred tax supported by justified reasons. In such cases, deferred tax should be recognised, assessed and disclosed in the financial statements in line with the International Financial Reporting Standards (IFRS) as adopted by the EU. Under IAS 12 Income taxes, whenever there is a difference to tax rates being applied to distributed and undistributed profits deferred tax assets and liabilities should be recognised by applying the rate applicable to undistributed profits.

The carrying amounts of deferred tax assets and liabilities were reversed and changes were charged to profit or loss in the reporting period.

(C) Contingent assets that derive from the calculation of the Company's Corporate Income Tax for periods prior to 31 December 2017.

The Company's for 2017 presents tax losses brought forward from reorganisation in the amount of EUR 7,6 millions as at 31 December 2017. In accordance with the new Corporate Income Tax Law referred to above, the Company will be able to utilise these losses to decrease up to 50% of corporate income tax calculated on dividends payable exclusively from profit for 2018-2020 and distributed as dividends by the end of 2022, as well as from profit for 2022 which will be distributed as extraordinary dividends in 2022.

Moreover, as at 31 December 2017 provisions of EUR 7,6 millions were recognised, for the amount of which the Company is eligible to decrease the base taxable with corporate income tax in future taxation periods if certain regulatory provisions are met.

The potential benefits described above as at 31 December 2017 that may arise from the potential possibility to decrease the amount of tax in the future are treated as contingent assets and are not recognised on the balance sheet.

Tax relief

A corporate income tax relief has been applied due to amounts donated to budget institutions, and public, cultural, science, sports, charity, health and environment protection organisations registered in Latvia, as well foundations and religious organisations which are permitted to accept donations in accordance with Article 20 of the law "On Corporate Income Tax".

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 to which the entity belongs provides management personnel services to the entity or to the parent of the entity.

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

3.16 Significant accounting estimates and judgement in applying accounting policies

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

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

Key sources of estimation uncertainty:

Insurance technical reserves

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

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

Valuation of investment property, buildings and land for own use

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

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

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

Impairment of loans and receivables

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

Loans and receivables for which no individual impairment loss is measured are assessed on collective level using statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred. These are then adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling.

Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate. They will, however, always include uncertainty and may change depending on financial position of customers or general economic environment.

Measurement of fair values

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

(4) Risk and risk management

4.1 Risk and risk management

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

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

As the business of insurance represents the transfer of risk from the policy holder to the insurer and management of this risk, the largest risks result from accepting insurance risk, choosing the reinsurance cover and fulfilling obligations with respect to signed insurance contracts. The Company is also exposed to financial risks incurred during investment activities and operational risk arising in day to day operations.

Risk management system covers risk underwriting and reserving, asset and liability management, investment management, liquidity management, operational risk management and risk mitigation activities for each substantial risk.

The Company regularly monitors its risk profile. The full calculation of the required solvency capital is carried out once a quarter, as well as regular stress tests, sensitivity tests if the actual indicators differ from estimates of the own risks and solvency assessment. The use of the standard formula corresponds to the Company's risk profile, which is assessed in the own risk and solvency assessment.

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

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

4.2 Insurance risks and risk management

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

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

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

(a) Underwriting strategy

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

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

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

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

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

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

(b) Basic products

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

Casco insurance

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

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

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

Motor third party liability insurance

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

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

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

Health insurance

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

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

Property insurance

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

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

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

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

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

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

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

(c) Insurance risk concentration

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

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

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

In order to minimise losses that could occur because of risk concentration, the Company uses reinsurance effectively – by protecting risks proportionally and non-proportionally. Placing reinsurance, the Company's net retention for one risk is defined per one object and per one event, when losses happen simultaneously for several objects. The Company follows the Reinsurance policy, which has been approved by the Management 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 accept the risks unless the expected profits are commensurating with the risks assumed. Secondly, the risk is managed through the use of reinsurance. The Company purchases reinsurance coverage for various insurance lines of business. The Company assesses the costs and benefits associated with the reinsurance programme on an ongoing basis.

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

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

Geographic concentration of risks

Business concentration risk is a serious aspect of the insurance business. In view of this and to reduce the concentration risk in one country, the Company continues to develop operations in all Baltic countries. As a result, in the reporting period, 34.9% of all business (by net earned premiums) was conducted in Latvia and 51.5% in Lithuania.

Concentration of risks by industry

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

(d) Catastrophes

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

(e) Liability adequacy test

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

A liability adequacy test is carried out by line of business 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. If the assessment indicates reserves are inadequate in the light of the established future cash flows, the deficiency is recognised in the profit or loss. Expected cash flows relating to claims and expenses are estimated by reference to the experience, adjusted for significant individual losses which are not expected to recur.

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

Liability adequacy tests as at 31.12.2017 and 31.12.2016 did not identify any impairment in respect to evaluation for the prior period.

Claims development

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

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

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

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

Claim development analysis, EUR'000

	Year of insured occurrence			
	2015 year and before EUR'000	2016 year EUR'000	2017 year EUR'000	Total EUR'000
Total claims for the year	91 289*	84 560	**98 521**	98 521
-one year later	87 818	**87 720**		87 720
-two years later	**107 603**			107 603
Total payments	61 986**	73 330	57 139	192 455
Total claim reserves 31.12.2017	**45 617*** **	**14 390**	**41 382**	**101 389**

* Total claims includes claims for insurance portfolio assumed by the Company on 1 July 2015 as a result of reorganisation process.
** In 2015 gross claim payments related only to period from 1 July 2015 to 31 December 2017.
*** In 2017 reserves acquired as a result of reorganisation with Interrisk are added.

(f) Sensitivity analysis assumption made for general business

Assumptions that are used in the calculations are based on the Company's own experience, information from 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 2017 82% 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 2017 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 31.12.2017****	**IBNR if projected annual inflation increased by 3%****	**IBNR without annual inflation****
Compulsory motor TPL	13 884	14 282	13 153
General TPL	2 830	2 910	2 679
CASCO	726	730	717

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

* Only BTA portfolio.
** In 2017 reserves acquired as a result of reorganisation with InterRisk are added.

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

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

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

The key methods, which are used and have remained unchanged from prior year, are:
• Chain Ladder methods, which use historical data to estimate potential claims incurred in future;
• other chain coefficient method to evaluate the frequency of insurance events;
• loss ratio methods is used, based on the Company's expectation of the loss ratio for a class of business.

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

To the extent that these methods use historical claims development information, they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:
• changes in processes that affect the development/ recording of claims paid and incurred (such as changes in claim reserving procedures);
• economic, legal, political and social trends (resulting in different than expected levels of inflation);
• changes in mix of business;
• random fluctuations, including the impact of large losses.

Assumptions used for estimation of MTPL claim reserves

IBNR estimation of MTPL claims is performed for the main part of claims incurred excluding pensions and another bodily injury claims and separate calculation is performed for pensions and bodily injury claims. Chain coefficients are calculated separately for material claims incurred triangle for all each Baltic states.
RBNS reserves for BTA and InterRisk portfolio for pensions are calculated based on life insurance formulas. The main assumptions in these calculations are mortality tables, inflation and discount rates. General Latvian mortality tables are used for RBNS calculations if people are second or third group disabled person and special disabled person mortality tables are used for first or second group disabled persons. Cash flows are calculated till end of life tables or till pensions. EIOPA given discount rates are used for discounting cash flows.

4.3 Financial risks and risk management

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

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

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

Market risks

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

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

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

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

(a) Currency risk

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

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

The Company held an open currency position in DKK in the equivalent of 10 316 thousand EUR, primarily invested into covered fixed income securities. Taking into account that DKK is pegged to EUR, the Company believes that the underlying currency risk is insignificant and acceptable, and does not require any risk mitigation measures.

An analysis of sensitivity of the Company's net income for the period and equity to changes in the foreign currency exchange rates based on currency positions from assets and liabilities denominated in foreign currency existing as at 31 December 2017 and 2016 and a simplified scenario of a 10% change in PLN, GBP, USD to EUR exchange rate is as follows:

	2017	2016
EUR'000	**Net income**	**Net income**
10% depreciation of PLN against EUR	20	2
10% appreciation of PLN against EUR	(20)	(2)
10% depreciation of GBP against EUR	(6)	(4)
10% appreciation of GBP against EUR	6	4
10% depreciation of USD against EUR	(51)	(24)
10% appreciation of USD against EUR	51	24

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

31 December 2017	EUR EUR'000	USD EUR'000	DKK EUR'000	NOK EUR'000	PLN EUR'000	GBP EUR'000	Other EUR'000	Total EUR'000
Financial assets								
Debt securities and other fixed income securities	134 398	459	10 275	-	1 305	-	-	**146 437**
Non-fixed income securities	5 974	-	-	-	-	-	-	**5 974**
Deposits with banks	3 303	-	-	-	-	-	-	**3 303**
Receivables	31 270	-	-	-	-	-	-	**31 270**
Cash and cash equivalents	29 661	895	108	22	250	2 531	95	**33 562**
Total financial assets	**204 606**	**1 354**	**10 383**	**22**	**1 555**	**2 531**	**95**	**220 546**
Technical reserves, net								
Technical reserves for unearned premiums and unexpired risks, net	64 268	597	-	-	-	-	-	**64 865**
Outstanding claim technical reserves, net	64 833	52	67	-	1 646	2472	235	**69 305**
Total technical reserves, net	**129 101**	**649**	**67**	**-**	**1 646**	**2 472**	**235**	**134 170**
Financial liabilities	18 691	-	-	-	-	-	-	**18 691**
Technical reserves, net and financial liabilities	**147 792**	**649**	**67**	**-**	**1 646**	**2 472**	**235**	**152 861**
Open currency position	**56 814**	**705**	**10 316**	**22**	**(91)**	**59**	**(140)**	**67 685**

31 December 2016	EUR EUR'000	USD EUR'000	DKK EUR'000	NOK EUR'000	PLN EUR'000	GBP EUR'000	Other EUR'000	Total EUR'000
Financial assets								
Debt securities and other fixed income securities	79 110	539	-	115	1 472	-	-	**81 236**
Deposits with banks	1 357	-	-	-	-	-	-	**1 357**
Receivables	20 401	-	-	-	-	-	-	**20 401**
Cash and cash equivalents	39 080	280	109	24	8	2 735	243	**42 479**
Total financial assets	**139 948**	**819**	**109**	**139**	**1 480**	**2 735**	**243**	**145 473**
Technical reserves, net								
Technical reserves for unearned premiums and unexpired risks, net	53 906	578	-	-	1	-	-	**54 485**
Outstanding claim technical reserves, net	45 478	4	237	6	1 494	2 696	230	**50 145**
Total technical reserves, net	**99 384**	**582**	**237**	**6**	**1 495**	**2 696**	**230**	**104 630**
Financial liabilities	12 328	-	-	-	-	-	-	**12 328**
Technical reserves, net and financial liabilities	**111 712**	**582**	**237**	**6**	**1 495**	**2 696**	**230**	**116 958**
Open currency position	**28 396**	**237**	**(128)**	**133**	**(15)**	**39**	**13**	**28 675**

(b) Price risk

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

A significant share of the Company's financial investments was accounted for as available-for-sale instruments. Changes in securities prices for available-for-sale instruments is reported through total comprehensive income for the period. A simplified scenario of a 5% change in all securities prices would result in the following effect on the total comprehensive income:

	2017 EUR'000	2016 EUR'000
5% increase in securities prices	7 385	250
5% decrease in securities prices	(7 385)	(250)

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 2017 and 2016 and a simplified scenario of a 5% change in all securities prices is as follows:

	2017 EUR'000	2016 EUR'000
5% increase in securities prices	90	4 036
5% decrease in securities prices	(90)	(4 036)

(c) Interest rate risk

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

Measures for management of the interest rate risk in the Company are based on the assessment of the impact of the interest rate risk on the Company's financial indices. The Company is using EIOPA given discount rates for long-term liabilities (annuities). Due to merger modified duration and annuities count is increased therefore also impact is changed.

Also share of interest bearing assets and modified duration is increased. Therefore the Company is exposed to a medium significant interest rate risk. Asset-liability mismatch is analized quarterly.

EUR'000	31.12.2017 Profit or loss	OCI	31.12.2016 Profit or loss	OCI
10 bp parallel increase	441	(536)	82	82
10 bp parallel decrease	(456)	521	(82)	(82)

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 2017	Within 6 months EUR'000	6-12 months EUR'000	1-5 years EUR'000	Over 5 years EUR'000	Non-interest bearing EUR'000	Total EUR'000	Of which subject to fixed rates EUR'000
Financial assets							
Investments at fair value through profit or loss	-	-	1 825	-	-	1 825	**1 825**
Available-for-sale instruments	238	357	29 086	113 150	5 974	148 805	**142 831**
Held-to-maturity instruments	-	-	-	1 781	-	1 781	**1 781**
Deposits with banks	3 211	92	-	-	-	3 303	**3 303**
Receivables	-	-	-	-	31 270	31 270	**-**
Cash and cash equivalents	-	-	-	-	33 562	33 562	**-**
Total financial assets	**3 449**	**449**	**30 911**	**114 931**	**70 806**	**220 546**	**149 740**

31 December 2016	Within 6 months EUR'000	6-12 months EUR'000	1-5 years EUR'000	Over 5 years EUR'000	Non-interest bearing EUR'000	Total EUR'000	Of which subject to fixed rates EUR'000
Financial assets							
Investments at fair value through profit or loss	12 892	5 333	56 569	1 416	-	76 210	**76 210**
Available-for-sale instruments	-	226	4 800	-	-	5 026	**5 026**
Deposits with banks	-	1 064	293	-	-	1 357	**1 357**
Receivables	-	-	-	-	20 401	20 401	**-**
Cash and cash equivalents	-	-	-	-	42 479	42 479	**-**
Total financial assets	**12 892**	**6 623**	**61 662**	**1 416**	**62 880**	**145 473**	**82 593**

Liquidity risks

In accordance with the approved investment policy, the Company needs to ensure that at least 90% of the assets required for the technical reserve cover would be placed in high liquidity investments.
High liquidity investments are deemed to be the following assets:
1) claims on demand to credit institutions;
2) other claims to solvent credit institutions (term deposits, etc.) whose remaining repayment term does not exceed 30 days, and deposits with another term if the agreement stipulates an option to withdraw money before the due date (less the amount of contractual penalty for preterm withdrawal of deposits if such is provided);
3) investments in securities if they have a constant, unrestricted market, i.e., they can be sold in a short time without considerable losses or can be used as a collateral for receipt of loan.

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

31 December 2017	Up to 12 months EUR'000	From 1 to 5 years EUR'000	Over 5 years EUR'000	No fixed maturity EUR'000	Total EUR'000
Financial assets					
Financial instruments at fair value through profit or loss	-	1 825	-	-	**1 825**
Available-for-sale instruments	595	29 086	113 150	5 974	**148 805**
Held-to-maturity instruments	-	-	1 781	-	**1 781**
Deposits with banks	3 303	-	-	-	**3 303**
Receivables from direct insurance activities	30 241	-	-	-	**30 241**
Receivables from reinsurance activities	1 029	-	-	-	**1 029**
Other receivables	787	-	-	-	**787**
Cash and cash equivalents	33 562	-	-	-	**33 562**
Total financial assets taking into account maturity	**69 517**	**30 911**	**114 931**	**5 974**	**221 333**
Total financial assets taking into account liquidity	**219 553**	**-**	**1 781**	**-**	**221 334**
Technical reserves and financial liabilities					
Technical reserves, net	97 902	12 247	24 021	-	**134 170**
Financial liabilities	18 691	-	-	-	**18 691**
Total technical reserves and financial liabilities	**116 593**	**12 247**	**24 021**	**-**	**152 861**
Maturity gap	**(47 076)**	**18 664**	**90 910**	**5 974**	**68 472**
Maturity gap taking into account liquidity	**102 959**	**(12 247)**	**(22 240)**	**-**	**68 472**
Accumulated maturity gap taking into account liquidity	**102 959**	**90 712**	**68 472**	**68 472**	**68 472**

31 December 2016	Up to 12 months EUR'000	From 1 to 5 years EUR'000	Over 5 years EUR'000	No fixed maturity EUR'000	Total EUR'000
Financial assets					
Financial instruments at fair value through profit or loss	18 225	56 569	1 416	-	**76 210**
Available-for-sale instruments	226	4 800	-	-	**5 026**
Deposits with banks	1 064	293	-	-	**1 357**
Receivables from direct insurance activities	19 994	-	-	-	**19 994**
Receivables from reinsurance activities	407	-	-	-	**407**
Other receivables	160	-	-	-	**160**
Cash and cash equivalents	42 479	-	-	-	**42 479**
Total financial assets taking into account maturity	**82 555**	**61 662**	**1 416**	**-**	**145 633**
Total financial assets taking into account liquidity	**145 340**	**293**	**-**	**-**	**145 633**
Technical reserves and financial liabilities					
Technical reserves, net	90 904	9 049	2 000	2 677	**104 630**
Financial liabilities	12 328	-	-	-	**12 328**
Total technical reserves and financial liabilities	**103 232**	**9 049**	**2 000**	**2 677**	**116 958**
Maturity gap	**(20 677)**	**52 613**	**(584)**	**(2 677)**	**28 675**
Maturity gap taking into account liquidity	**42 108**	**(8 756)**	**(2 000)**	**(2 677)**	**28 675**
Accumulated maturity gap taking into account liquidity	**42 108**	**33 352**	**31 352**	**28 675**	**28 675**

The Company carries out regular analysis of maturity structure of assets and liabilities, including evaluation of potential effect of mismatches in the maturity structure of such assets and liabilities on the Company's financial results and financial position. Effects of investments on maturity structure of assets are evaluated prior to investments.

Credit risk

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

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

Maximum credit risk	2017 EUR'000		2016 EUR'000	
	Gross	Net	Gross	Net
Government bonds	120 050	120 050	79 168	79 168
Corporate bonds	16 112	16 112	2 068	2 068
Mortgage bonds	10 275	10 275		
Deposits with banks	3 303	3 303	1 357	1 357
Due from policy holders	29 196	28 550	18 745	18 543
Due from intermediaries	1 827	1 691	1 556	1 451
Receivables from reinsurance activities	1 029	1 029	408	407
Other debtors	1 038	733	732	419
Cash	33 562	33 562	42 479	42 479
Total	**216 392**	**205 030**	**146 513**	**145 892**

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:

2017	Rating	Listed debt securities EUR'000	Government bonds EUR'000	Mortgage bonds EUR'000	Total EUR'000
Agency: S&P, Fitch, Moody's					
	AAA	-	-	10 275	10 275
	AA+	-	3 186	-	3 186
	AA	691	6 088	-	6 779
	AA-	1 881	-	-	1 881
	A+	4 964	8 194	-	13 158
	A	998	0	-	998
	A-	1 546	95 138	-	96 684
	BBB+	3 631	7 444	-	11 075
	BBB	2 401	-	-	2 401
Total		16 112	120 050	10 275	146 437

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

Insurance receivables

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

Reinsurance

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

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

Risks are ceded to the (re)insurance companies with a sound reputation taking into account internal and VIG guidelines. The decision of choosing a cooperation partner with a rating below A- level by Standard and Poor's, Moody, Reuters, A.M. Best and FITCH, upon evaluating all risks, is coordinated with the Management Board and VIG Security Committee.

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

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

	31 December 2017		
Rating	Reinsurance debtors EUR'000	Reinsurer's share on written premiums EUR'000	Reinsurer's share in claims paid EUR'000
AA-, AA, AA+	253	2 606	302
A-, A, A+	587	18 150	3 770
No rating	189	2 660	413
Total	1 029	23 416	4 485

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

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

	31 December 2017	31 December 2016
	EUR'000	EUR'000
Motor own damage insurance	Retained on net	Retained on net
CMTPL	600	800
Health insurance	Retained on net	Retained on net
Property insurance	1 000	1 000
Travel accident insurance	Retained on net	Retained on net
General third party liability	400	400
Various financial risks	1 000	1 000
Guarantee insurance	1 000	1 500
Credit insurance	800	800
Cargo insurance	1 000	1 000
Personal accident insurance	50	Retained on net
Aircraft third party liability insurance	100	5 000
Marine insurance	800	700
Aircraft insurance	100	300
Railway insurance	1 000	1 000
Marine third party liability insurance	800	700
Legal expense insurance	Retained on net	Retained on net

4.4 Operational 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.

In the definition of operational risk, the Company includes the risk of inadequate or incorrect internal procedures, mistakes of personnel or systems, or external events. To cover operational risk, the capital requirement is calculated using the standard formula. As a result of the annual assessment of risk profile and internal control system, three most material operational risk categories were defined:
- other legal and compliance risks (mainly related to the protection of personal data and competition law);
- the risk of human error;
- process and organizational risk.

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

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

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

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

4.5 Capital adequacy requirements and Capital management

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

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

Capital risk management

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

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

(5) Gross written premiums

	2017 EUR'000			2016 EUR'000		
	Gross written premiums	Reinsurer's share in premiums	Net written premiums	Gross written premiums	Reinsurer's share in premiums	Net written premiums
Personal accident insurance	3 775	(26)	3 749	3 412	-	3 412
Health insurance	15 337	-	15 337	12 633	-	12 633
CASCO	38 950	(7)	38 943	31 572	-	31 572
Railway insurance	292	(12)	280	281	(11)	270
Aircraft insurance	82	(1)	81	134	(108)	26
Marine insurance	1 915	(1 729)	186	1 164	(1 049)	115
Cargo insurance	1 433	(141)	1 292	869	(200)	669
Property insurance	20 854	(2 251)	18 603	15 900	(1 804)	14 096
Aircraft third party liability insurance	106	(12)	94	351	(348)	3
Marine third party liability insurance	92	(83)	9	121	(112)	9
General third party liability	6 772	(1 039)	5 733	6 529	(962)	5 567
Credit insurance	221	(78)	143	217	(75)	142
Guarantee insurance	5 676	(1 480)	4 196	4 839	(922)	3 917
Various financial risks	212	(45)	167	185	(69)	116
Legal costs insurance	27	-	27	31	-	31
Travel accident insurance	5 786	(2)	5 784	4 468	-	4 468
CMTPL*	61 449	(16 510)	44 939	48 102	(1 001)	47 101
Total	**162 979**	**(23 416)**	**139 563**	**130 808**	**(6 661)**	**124 147**

* 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 463 thousand (2016: EUR 369 thousand).
The Company makes obligatory deductions to the Motor Bureaus of Lithuania and Estonia in accordance with the statutory requirements. Gross written premiums on motor third party liabilities insurance are shown net of the obligatory deductions to the transport insurance offices of Lithuania and Estonia in the amount of EUR 1 181 thousand (2016: EUR 1 301 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 2 828 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

	2017 EUR'000			2016 EUR'000		
	Gross earned premiums	Reinsurer's share in premiums	Net earned premiums	Gross earned premiums	Reinsurer's share in premiums	Net earned premiums
Personal accident insurance	3 525	(26)	3 499	3 091	-	3 091
Health insurance	14 553	-	14 553	11 735	-	11 735
CASCO	35 224	(7)	35 217	29 117	-	29 117
Railway insurance	295	(12)	283	349	(11)	338
Aircraft insurance	100	(33)	67	112	(90)	22
Marine insurance	1 579	(1 412)	167	1 039	(938)	101
Cargo insurance	1 282	(151)	1 131	819	(191)	628
Property insurance	17 205	(1 903)	15 302	14 500	(2 037)	12 463
Aircraft third party liability insurance	271	(164)	107	426	(340)	86
Marine third party liability insurance	105	(94)	11	104	(97)	7
General third party liability	6 404	(971)	5 433	6 353	(923)	5 430
Credit insurance	253	(81)	172	215	(69)	146
Guarantee insurance	5 202	(1 365)	3 837	4 807	(1 043)	3 764
Various financial risks	192	(47)	145	182	(72)	110
Legal costs insurance	27	-	27	30	-	30
Travel accident insurance	5 553	(2)	5 551	4 568	-	4 568
CMTPL	56 577	(15 793)	40 784	45 026	(1 001)	44 025
Total	**148 347**	**(22 061)**	**126 286**	**122 473**	**(6 812)**	**115 661**

(7) Technical reserves for unearned premiums and unexpired risks

	Gross EUR'000	Reinsurer share EUR'000	Net EUR'000
Balance at 31 December 2015	**48 372**	**(2 373)**	**45 999**
Written premiums	130 808	(6 661)	124 147
Premiums earned	(122 473)	6 812	(115 661)
Changes during period	*8 335*	*151*	*8 486*
Balance at 31 December 2016	**56 707**	**(2 222)**	**54 485**
Acquired as result of reorganization	12 690	(5 779)	6 911
Written premiums	162 979	(23 416)	139 563
Premiums earned	(148 347)	22 061	(126 286)
Changes during period	*14 632*	*(1 355)*	*13 277*
Reinsurers deposit	-	(9 808)	(9 808)
Balance at 31 December 2017	**84 029**	**(19 164)**	**64 865**

	31.12.2017 EUR'000		31.12.2016 EUR'000	
	Gross	Net	Gross	Net
Unearned premium reserve	83 746	64 582	56 477	54 255
Unexpired risk reserve (note 3.2. c)	283	283	230	230
	84 029	64 865	56 707	54 485

(8) Other technical income, net

	2017 EUR'000	2016 EUR'000
Fee for policy amendments and cancellation	183	151
Other technical income	113	133
	296	284

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

	2017 EUR'000			2016 EUR'000		
	Gross claims paid	Reinsurer's share in claim	Net claims paid	Gross claims paid	Reinsurer's share in claim	Net claims paid
Personal accident insurance	(1 565)	-	(1 565)	(1 637)	-	(1 637)
Health insurance	(11 023)	-	(11 023)	(9 065)	-	(9 065)
CASCO	(21 303)	-	(21 303)	(21 509)	-	(21 509)
Railway insurance	(15)	-	(15)	(15)	-	(15)
Aircraft insurance	(4)	-	(4)	-	-	-
Marine insurance	(363)	292	(71)	(1 218)	1011	(207)
Cargo insurance	(283)	-	(283)	(90)	-	(90)
Property insurance	(7 202)	201	(7 001)	(6 210)	246	(5 964)
Aircraft third party liability insurance	(1)	-	(1)	-	-	-
Marine third party liability insurance	(16)	2	(14)	-	-	-
General third party liability	(1 359)	82	(1 277)	(1 575)	143	(1 432)
Credit insurance	(394)	186	(208)	(76)	31	(45)
Guarantee insurance	(884)	324	(560)	(128)	(10)	(138)
Various financial risks	(2)	-	(2)	(40)	-	(40)
Legal costs insurance	0	-	0	-	-	-
Travel accident insurance	(1 571)	-	(1 571)	(1 083)	-	(1 083)
CMTPL	(33 414)	3 398	(30 016)	(34 821)	178	(34 643)
Total	**(79 399)**	**4 485**	**(74 914)**	**(77 467)**	**1 599**	**(75 868)**

Gross claims paid include:

	2017 EUR'000	2016 EUR'000
Paid claims	(81 088)	(78 959)
Loss adjustment expenses*	(4 720)	(4 293)
Recovered losses	6 409	5 785
	(79 399)	**(77 467)**

*Loss adjustment expenses in the reporting period include EUR 2 568 thousand (2016: EUR 2 331 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 31 December 2015	**53 251**	**(6 932)**	**46 319**
Claims incurred during the period	81 154	(1 460)	79 694
Claims paid	(77 467)	1 599	(75 868)
Changes during period	*3 687*	*139*	*3 826*
Balance at 31 December 2016	**56 938**	**(6 793)**	**50 145**
Acquired as result of reorganization	24 855	(16 127)	8 728
Claims incurred during the period	98 994	(13 649)	85 345
Claims paid	(79 398)	4 485	(74 913)
Changes during period	*19 596*	*(9 164)*	*10 432*
Balance at 31 December 2017	**101 389**	**(32 084)**	**69 305**

	31.12.2017 EUR'000			31.12.2016 EUR'000		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
RBNS	80 010	(29 977)	50 033	43 763	(6 793)	36 970
IBNR	21 379	(2 107)	19 272	13 175	-	13 175
	101 389	**(32 084)**	**69 305**	**56 938**	**(6 793)**	**50 145**

(11) Net incurred claims

	2017 EUR'000			2016 EUR'000		
	Gross claims incurred	Reinsurer's share in claims incurred	Net claims incurred	Gross claims incurred	Reinsurer's share in claims incurred	Net claims incurred
Personal accident insurance	(1 563)	-	(1 563)	(1 647)	-	(1 647)
Health insurance	(11 129)	-	(11 129)	(8 829)	-	(8 829)
CASCO	(23 151)	-	(23 151)	(21 685)	-	(21 685)
Railway insurance	(68)	-	(68)	(6)	-	(6)
Aircraft insurance	(19)	18	(1)	(2)	-	(2)
Marine insurance	(510)	473	(37)	(526)	306	(220)
Cargo insurance	(284)	6	(278)	(188)	-	(188)
Property insurance	(9 210)	264	(8 946)	(6 686)	239	(6 447)
Aircraft third party liability insurance	2	12	14	11	-	11
Marine third party liability insurance	(62)	47	(15)	-	-	-
General third party liability	(3 260)	775	(2 485)	(2 074)	121	(1 953)
Credit insurance	(684)	260	(424)	(66)	23	(43)
Guarantee insurance	(3 217)	1 383	(1 834)	(246)	91	(155)
Various financial risks	(2)	-	(2)	22	-	22
Legal costs insurance	(2)	-	(2)	12	-	12
Travel accident insurance	(2 086)	-	(2 086)	(1 093)	-	(1 093)
CMTPL	(43 750)	10 411	(33 339)	(38 151)	680	(37 471)
Total	**(98 995)**	**13 649**	**(85 346)**	**(81 154)**	**1 460**	**(79 694)**

(12) Deferred client acquisition costs

	EUR'000
Balance at 31 December 2015	**4 846**
Client acquisition costs	13 740
Deferred commissions allocated to the profit or loss	(12 986)
Changes during period	*754*
Balance at 31 December 2016	**5 600**
Acquired as result of reorganization	1 537
Reclassification	*(187)*
Client acquisition costs	17 013
Deferred commissions allocated to the profit or loss	(15 561)
Changes during period	*1 452*
Balance at 31 December 2017	**8 402**

Client acquisition costs	2017 EUR'000	2016 EUR'000
Intermediaries commissions payable	16 519	13 491
Agents' commissions payable	193	79
Other payable to intermediaries	301	170
	17 013	**13 740**

(13) Administrative expenses

	2017 EUR'000	2016 EUR'000
Salaries and social contribution expenses	17 000	15 275
Rent payments	1 368	1 138
Computer programs rent and maintenance	965	887
Obligatory payments*	516	350
Business related costs	517	479
Utility expenses (electricity, heating, water)	432	414
Car maintenance costs	460	434
Telecommunication costs	455	461
Advertising expenses	666	415
Other personal expenses	603	367
Presentation expenses	263	232
Legal expenses	39	67
Computer maintenance	55	51
Audit and consultant services	68	132
Cleaning expenses	118	112
Public relations expenses	97	83
Typographic costs	68	60
Other administrative expenses	318	166
	24 008	21 123

* 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:

	2017 EUR'000	2016 EUR'000
Personal accident	656	556
Health insurance	2 228	2 179
CASCO	5 691	4 879
Railway insurance	35	35
Aircraft insurance	13	16
Marine insurance	248	147
Cargo insurance	263	136
Property insurance	3 310	2 523
Aircraft third party liability insurance	17	52
Marine third party liability insurance	9	14
General third party liability	1 037	1 047
Credit insurance	49	37
Guarantee insurance	843	769
Financial risks	38	27
Legal insurance	6	6
Travel insurance	875	705
CMTPL	8 690	7 995
	24 008	21 123

(14) Unearned reinsurance commission income

	EUR'000
Balance at 31 December 2015	**665**
Written commissions	(1 457)
Deferred commissions allocated to the profit or loss	1 455
Changes during period	*(2)*
Balance at 31 December 2016	**663**
Acquired as result of reorganization	201
Written commissions	(7 459)
Deferred commissions allocated to the profit or loss	7 755
Changes during period	296
Balance at 31 December 2017	**1160**

(15) Other technical expenses

	2017 EUR'000	2016 EUR'000
Impairment allowance for receivables from direct insurance and reinsurance operations	37	(44)
Expenses related to distribution of policies	48	587
Other	62	60
	147	**603**

(16) Interest income

	2017 EUR'000	2016 EUR'000
Interest income from fixed income securities	879	1 083
Interest income from deposits with credit institutions	25	60
Interest on loans	-	1
	904	**1 144**

(17) Income tax expense

	2017 EUR'000	2016 EUR'000
Current corporate income tax	(1 052)	(616)
Deferred tax	143	(2)
	(909)	**(618)**

Effective tax rate reconciliation

	2017 EUR'000	2016 EUR'000
Profit before tax	**8 701**	**2 550**
Theoretical tax using the 15% rate	1 305	383
Non-deductible expenses	264	416
Tax exempt income	(647)	(181)
Donations	(13)	-
Tax expenses	**909**	**618**

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

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

(18) Reinsurance cession result

	2017 EUR'000	2016 EUR'000
Reinsurance premiums	(23 416)	(6 661)
Changes in reinsurers' share in unearned premiums reserve	1 355	(151)
Reinsurers' share in claims paid	4 485	1 599
Changes in reinsurers' share in reserve for outstanding claims	9 164	(139)
Reinsurance commissions and profit participation	7 459	1 457
Change in unearned reinsurance commissions	(296)	2
Total reinsurance cession result	**(1 249)**	**(3 893)**

(19) Property and equipment

	Vehicles EUR'000	Other property and equipment EUR'000	Prepayments for fixed assets EUR'000	Total EUR'000
Cost				
31.12.2015	**1 498**	**2 412**	**-**	**3 910**
Purchased	157	199	-	356
Disposals	(100)	(188)	-	(288)
31.12.2016	**1 555**	**2 423**	**-**	**3 978**
Acquired as result of reorganization	133	692	-	825
Purchased	334	925	15	1 274
Disposals	(113)	(555)	-	(668)
31.12.2017	**1 909**	**3 485**	**15**	**5 409**
Accumulated depreciation				
31.12.2015	**(1 052)**	**(1 982)**	**-**	**(3 034)**
Depreciation for the period	(213)	(246)	-	(459)
Depreciation on disposed assets	74	172	-	246
31.12.2016	**(1 191)**	**(2 056)**	**-**	**(3 247)**
Acquired as result of reorganization	(118)	(646)	-	(764)
Depreciation for the period	(149)	(349)	-	(498)
Depreciation on disposed assets	105	521	-	626
31.12.2017	**(1 353)**	**(2 530)**	**-**	**(3 883)**
Balance at 31.12.2016	**364**	**367**	**-**	**731**
Balance at 31.12.2017	**556**	**955**	**15**	**1 526**

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

(20) Land and buildings and Investment property

	Land and buildings EUR'000
Cost	
Deemed cost 31.12.2015	**627**
Deemed cost 31.12.2016	**627**
Acquired as result of reorganization	3 654
Revaluation	(21)
Deemed cost 31.12.2017	**4 260**
Accumulated depreciation at	
Accumulated depreciation at 31.12.2015	**(178)**
Depreciation for the period	(31)
Accumulated depreciation at 31.12.2016	**(209)**
Acquired as result of reorganization	**(1 015)**
Depreciation for the period	(31)
Accumulated depreciation at 31.12.2017	**(1 255)**
Balance at 31.12.2016	**418**
Balance at 31.12.2017	**3 005**

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

The latest valuation of land and buildings and investment property presented in the statement of financial position as of 31.12.2017 was carried out in October 2017 by external experts, Ober Haus Vērtēšanas Serviss SIA. All real estate objects were subject to valuation, except for one, for which a sale agreement was signed in year 2017, and for which the sale transaction price was used as the fair value. The sale transaction for this object was closed in February 2018.

All real estate objects were revalued at fair value based on the results of the valuation.

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	95	Discounted cash flows technique*	Rental income of EUR 4.55 per m^2 Discount rate 10.70%	The estimated fair value would increase/ (decrease) if rental income per m^2 was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Tukums	84	Discounted cash flows technique*	Rental income of EUR 3.50 per m^2 Discount rate 10.30%	The estimated fair value would increase/ (decrease) if rental income per m^2 was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Liepaja	75	Discounted cash flows technique*	Rental income of EUR 3.45 per m^2 Discount rate 10.30%	The estimated fair value would increase/ (decrease) if rental income per m^2 was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Daugavpils	84	The income capitalization approach	Rental income per m^2 in the range between EUR 3.50 and EUR 5.00 Discount rate 10.90%	The estimated fair value would increase/ (decrease) if rental income per m^2 was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Talsi	23	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)
Buildings and land located in Balvi	3	The income capitalization approach	Rental income per m^2 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 m^2 was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Rēzekne	20	The income capitalization approach	Rental income per m^2 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 m^2 was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Saldus	42	Discounted cash flows technique*	Rental income of EUR 3.31 per m^2 Discount rate 11.00%	The estimated fair value would increase/ (decrease) if rental income per mv was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Jūrmala	32	Discounted cash flows technique*	Rental income of EUR 7.05 per m^2 Discount rate 11.00%	The estimated fair value would increase/ (decrease) if rental income per m^2 was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower (higher)

Building and land located in Riga	318	Discounted cash flows technique*	Rental income of EUR 8.62 per m^2 Discount rate 9%	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)
Building and land located in Riga	2 275	Discounted cash flows technique*	Rental income of EUR 9.16 per m^2 Discount rate 9%	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)
Building and land located in Daugavpils	115	Discounted cash flows technique*	Rental income of EUR 2.48 per m^2 Discount rate 11%	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)

*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 2017 in comparison to date when the land and buildings were acquired as a result of Reorganization process; therefore, no comparative analysis is made.

(b) Investment property

	Investment property EUR'000
Total as at 31.12.2015	99
Total as at 31.12.2016	99
Acquired as result of reorganization	354
Depreciation for the period	(7)
Total as at 31.12.2017	446

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

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

The fair value measurement for investment property of EUR 446 thousand has been categorised as a Level 3 in the fair value hierarchy. The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used:

Type	Fair value, EUR'000	Valuation technique	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Buildings and land located in Tukums	83	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	19	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)

Buildings and land located in Ventspils	109	Discounted cash flows technique	Rental income of EUR 4.30 per m^2 Discount rate 11%	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 located in Tallinn	269	The income capitalization and sales comparison approach	Rental income of EUR 10 per m^2 Discount rate 10%	The estimated fair value would increase/ (decrease) if rental income per m^2 was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower (higher)
Buildings and land located in Daugavpils	140	Acquired purchase/ selling agreement		
Land located in Mārciena parish	23	The sales comparison approach	Ability to have appropriate comparable property transactions	The estimated fair value would increase/ (decrease) if comparable property transaction prices increase/ (decrease).

(21) Intangible assets

	Software EUR'000
Cost	
Cost 31.12.2015	**2 950**
Purchased	925
Disposals	(7)
Cost 31.12.2016	**3 868**
Acquired as result of reorganization	310
Purchased	673
Disposals	(274)
Cost 31.12.2017	**4 577**
Accumulated amortisation	
Accumulated depreciation 31.12.2015	**(1 667)**
Amortisation for the period	(566)
Amortisation on disposed assets	7
Accumulated depreciation 31.12.2016	**(2 226)**
Acquired as result of reorganization	(263)
Amortisation for the period	(576)
Amortisation on disposed assets	265
Accumulated depreciation 31.12.2017	**(2 800)**
Balance at 31.12.2016	**1 642**
Balance at 31.12.2017	**1 777**

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

(22) Investments at fair value

	31.12.2017 EUR'000	31.12.2016 EUR'000
Financial instruments at fair value through profit or loss	1 825	76 210
Available-for-sale instruments	148 805	5 026
Held-to-maturity instruments	1 781	-
	152 411	81 236

Fixed income securities	31.12.2017 EUR'000		31.12.2016 EUR'000	
	Purchase cost	Fair value	Purchase cost	Fair value
Debt securities issued or guaranteed by central governments or municipalities	120 512	120 050	74 396	79 168
Debt securities and other securities with fixed income, which are listed in a regulated market	26 222	26 387	2 021	2 068
	146 734	**146 437**	**76 417**	**81 236**

Investment portfolio of fixed income securities by geographic split:	**31.12.2017 EUR'000**	**31.12.2016 EUR'000**
Latvia, Lithuania	76 686	75 325
Poland	10 401	1 453
Other European Union countries	59 350	4 458
	146 437	**81 236**

(23) Deposits with banks

Investment maturity structure:	**31.12.2017 EUR'000**	**31.12.2016 EUR'000**
With original maturity from 6 to 12 months	3 303	1 064
With original maturity from 1 to 5 years	-	293
	3 303	**1 357**

Investment structure by geographical split:	**31.12.2017 EUR'000**	**31.12.2016 EUR'000**
Latvia	303	950
Lithuania	3 000	407
	3303	**1 357**

(24) Receivables from direct insurance activities

	31.12.2017 EUR'000	**31.12.2016 EUR'000**
Acquired as result of reorganization (policy holders)	1 747	-
Acquired as result of reorganization (intermediaries)	764	-
Due from policy holders	27 449	18 745
Due from intermediaries	1 063	1 556
Impairment allowance for bad debtors	(513)	(307)
Acquired as result of reorganization (impairment allowance)	(269)	-
	30 241	**19 994**

	Allowance for policy holders EUR'000	Allowance for intermediaries EUR'000	Total allowance for insurance debtors EUR'000
Allowance as at 31.12.2015	**(133)**	**(30)**	**(163)**
Recovered debts	29	17	46
Impairment loss charge	(98)	(92)	(190)
Allowance as at 31.12.2016	**(202)**	**(105)**	**(307)**
Acquired as result of reorganization	(269)	-	(269)
Recovered debts	4	-	4
Impairment loss charge	(180)	(31)	(211)
Allowance as at 31.12.2017	**(647)**	**(136)**	**(783)**

	31.12.2017 EUR'000	31.12.2016 EUR'000
Acquired as result of reorganization	764	-
Other intermediaries	1 063	1 556
Allowances for doubtful debts	(136)	(105)
Intermediaries	**1 691**	**1 451**
Acquired as result of reorganization	1 747	-
Overdue receivables	3510	-
More than 3 months	326	153
Less than 3 months	3 184	1 682
Outstanding receivables not yet due	23 939	16 910
Allowances for doubtful debts	(646)	(202)
Policyholders	**28 550**	**18 543**
Total direct insurance debtors	**30 241**	**19 994**

(25) Other receivables

	31.12.2017 EUR'000	31.12.2016 EUR'000
Non-financial assets		
Advance payments	117	225
Tax prepayments	46	34
Total non-financial assets	**163**	**259**
Financial assets		
Acquired as result of reorganization	551	-
Receivables for claims handling services provided	148	72
Other debtors	176	401
Impairment allowance	(305)	(313)
Total financial assets	**570**	**160**
	733	**419**

	Gross EUR'000
Allowance as at 31 December 2015	**(395)**
Written off	82
Allowance as at 31 December 2016	**(313)**
Written off	8
Allowance as at 31 December 2017	**(305)**

(26) Cash and cash equivalents

	31.12.2017 EUR'000	31.12.2016 EUR'000
Cash on hand	5	4
Current accounts with credit institutions	33 557	42 475
Cash and cash equivalents	**33 562**	**42 479**
Cash and cash equivalents as disclosed in the statement of cash flows	**33 562**	**42 479**
Credit institutions:		
Latvian credit institutions	15 048	22 061
Lithuanian credit institutions	11 103	17 459
Estonian credit institutions	2 389	2 955
Austrian credit institutions	5 001	-
Other credit institutions	16	-
	33 557	**42 475**
Rated from Aa3/AA- to Aa1/AA+	1	40 965
Rated A3/A- to A1/A+	5 063	13
Rated from B3/B- to Ba1/BB+	2 383	1 486
Not rated	26 110	11
	33 557	**42 475**

(27) Obligatory payments disclosed in statement of cash flows

Payments made to:	31.12.2017 EUR'000	31.12.2016 EUR'000
Latvian Transport Insurance Bureau	442	357
Estonian and Lithuanian Transport Insurance Bureaus	873	1 221
FCMC commission	370	334
Estonian and Lithuanian insurance supervisory institutions	79	64
	1 764	**1 976**

(28) Capital and reserves

Share capital

The authorized and issued share capital of the Company at 31 December 2017 is EUR 41 609 400 (2016: 29 000 000) comprised of 416 094 ordinary shares and is fully paid. Nominal value of one share was EUR 100.

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

Dividends

	2017 EUR'000	2016 EUR'000
Dividends declared	966	916
Dividends paid	966	916
Dividends declared per share	0.00333	0.00316
Dividends paid per share	0.00333	0.00316

Revaluation reserve

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

	31.12.2017 EUR'000	31.12.2016 EUR'000
Acquired as result of reorganization	147	-
Land and buildings revaluation reserves	371	451
Deferred tax liabilities at 15%	-	(68)
Other investment revaluation reserves	957	(12)
	1 475	**371**

	EUR'000
Balance at 31 December 2015	**383**
Changes of revaluation reserves	(12)
Balance at 31 December 2016	**371**
Acquired as result of reorganization	147
Changes of revaluation reserves	957
Balance at 31 December 2017	**1 475**

(29) Deferred tax assets/ (liabilities)

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets and liabilities as of 31 December 2016 and 2017. These deferred tax assets have been recognised in these financial statements.

Deferred tax asset/(liabilities) attributable to:	2017 EUR'000	2016 EUR'000
Latvia	-	(92)
Lithuania	181	130

Movement in temporary differences during the year ended 31 December 2017

'000 EUR	Net balance 1 January 2017	Recognised in profit or loss	Net balance 31 December 2017	31 December 2017 Deferred tax asset	31 December 2017 Deferred tax liability
Property and equipment	(188)	188	-	-	-
Provisions	226	(45)	181	181	-
Deferred tax assets/(liabilities) before set-off	**38**	**143**	**181**	**181**	**-**
Set off of tax				-	-
Net deferred tax assets/(liabilities)				**181**	**-**

(30) Taxes and social contributions

Tax type	Balance at 31.12.2016 EUR'000	Acquired as result of reorganization EUR'000	Calculated in reporting period EUR'000	Paid in reporting period EUR'000	Reclassificated EUR'000	Balance at 31.12.2017 EUR'000
Social contributions	309	-	5 495	(5 114)	(274)	416
Personal income tax	156	-	2 370	(2 299)	-	227
Value added tax	(31)	1	531	(512)	-	(11)
Real estate tax	3	-	3	(2)	-	4
Risk Duty	-	-	30	(27)	-	3
Other taxes	(3)	-	28	(29)	-	(4)
CIT in Latvia	(253)	-	52	(126)	274	(53)
CIT in Lithuania	(249)	-	1 001	(553)	-	199
Total	(68)	1	9 510	(8 662)	-	781

	Balance at 31.12.2016 EUR'000	Balance at 31.12.2017 EUR'000
Including:		
Prepaid corporate income tax	(502)	(54)
Other tax prepayment, see note 25	(34)	(46)
Other tax liabilities	468	881

	Tax payable 31.12.2016 EUR'000	Tax receivable 31.12.2016 EUR'000	Calculated in reporting period EUR'000	Paid in reporting period EUR'000	Tax payable 31.12.2017 EUR'000	Tax receivable 31.12.2017 EUR'000
Latvia	386	(240)	4 197	(3 847)	553	(57)
Lithuania	34	(296)	4 879	(4 400)	260	(43)
Estonia	48	-	434	(415)	68	0
Total	**468**	**(536)**	**9 510**	**(8 662)**	**881**	**(100)**

(31) Reinsurance creditors

	31.12.2017 EUR'000	31.12.2016 EUR'000
Acquired as result of reorganization	1 912	-
Reinsurance companies	1 849	1 060
Reinsurance brokers	434	514
	4 195	**1 574**

Reinsurance creditors by geographic split:

	31.12.2017 EUR'000	31.12.2016 EUR'000
European Union member countries	4 166	1 477
North America	29	10
Commonwealth of Independent States, Central Asia	-	87
	4 195	1 574

(32) Other creditors

	31.12.2017 EUR'000	31.12.2016 EUR'000
Non-financial liabilities		
Acquired as result of reorganization	308	-
Due to the Transport Insurance Bureau	91	75
Due to employees (remuneration)	486	271
Due to the Financial Capital and Market Commission, Latvia	108	79
Total non-financial liabilities	**993**	**425**
Financial liabilities		
Financial pledge	3 622	3 625
Other creditors	925	1 254
Total financial liabilities	**4 547**	**4 879**
	5 540	**5 304**

(33) Provisions

	31.12.2017 EUR'000	31.12.2016 EUR'000
Acquired as result of reorganization	96	-
Provision for staff bonuses	1 274	871
Other provisions	50	-
	1 420	871

	Gross EUR'000
Provisions as at 31 December 2015	**983**
Paid	(453)
Increase of provisions	1 123
Reclassification	(782)
Provisions as at 31 December 2016	**871**
Acquired as result of reorganization	96
Paid	(807)
Increase of provisions	1 260
Provisions as at 31 December 2017	**1 420**

	31.12.2017 EUR'000	31.12.2016 EUR'000
Accruals for unused employee vacations	936	782
Accrued liabilities	3 051	2 098
	3 987	2 880

(34) Number of employees and information on branches

	At 31 December 2017	At 31 December 2016
Employees	989	961
Insurance agents	162	130
	1 151	**1 091**

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 2017	At 31 December 2016
Latvia	480	471
Branch in Lithuania	465	442
Branch in Estonia	44	48
	989	**961**

Number of branches and sales points:

	At 31 December 2017	At 31 December 2016
Customer service centres abroad	109	102
Customer service centres in Latvia	6	8
Customer business centres in Latvia	22	21
Customer regional centres in Latvia	2	2
Sales points	23	24

(35) Personnel expenses

	2017 EUR'000	2016 EUR'000
Remuneration	15 269	13 863
Social contribution expenses	4 299	3 743
	19 568	**17 606**

	2017 EUR'000	2016 EUR'000
Personnel expenses (included in administrative expenses in note 13)	17 000	15 275
Personnel expenses (included in loss adjustment expenses in note 9)	2 568	2 331
	19 568	**17 606**

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

	2017 EUR'000	2016 EUR'000
Supervisory Council	66	83
Board of Directors	808	481
Social contribution expenses	232	133
	1 106	**697**

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

(37) Related parties

Control relationships

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe (VIG) is the largest shareholder of the Company, representing 90.83% of the share capital of the Company. Balcia Insurance SE is minority shareholder of the Company representing 9.17% of the share capital of the Company with no control relationships in the Company.

Transactions with related parties

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

The Company has the following related party transactions and debtors/creditors balances as at 31 December 2017 and 2016:

Transactions with related parties:	**2017 EUR'000**	**2016 EUR'000**
Compensa Life insurance SE Lietuvos filiāle		
Contributions to Life Insurance	3	3
Contributions to Health Insurance	66	-
Compensa Vienna Insurance Group UADB (Lithuania)		
Received regress	-	23
Asigurarerea Romaneasca S.A. - Asirom		
Received regress	-	21
Janis Lucauss		
Income from insurance premiums	1	1
Evija Matveja		
Income from insurance premiums	1	1
Paid claims	-	1

	31.12.2017 EUR'000	**31.12.2016 EUR'000**
Other receivables		
Compensa Towarzystwo Ubezpieczeń S.A. Vienna Insurance Group 006216959	-	1
Compensa TU S.A. Vienna Insurance Group 012806455	-	1
Compensa Vienna Insurance Group, UADB EESTI filiaal 12970620	-	1
	-	**3**
Other payables		
VIENNA INSURANCE GROUP AG WIENER VERSICHERUNG GRUPPE	23 748	-
VIG RE zajišťovna a.s.	-	11
	23 748	**11**

(38) Remaining maturities of insurance liabilities

	2017 EUR'000			2016 EUR'000		
	Gross liabilities	Reinsu-rance	Net liabilities	Gross liabilities	Reinsu-rance	Net liabilities
Unearned premium and unexpired risk technical reserves	84 029	(19 164)	64 865	56 707	(2 222)	54 485
Outstanding claim technical reserves	101 389	(32 084)	69 305	56 938	(6 793)	50 145
Total	**185 418**	**(51 248)**	**134 170**	**113 645**	**(9 015)**	**104 630**
Up to 1 year	149 150	(51 248)	97 902	99 919	(9 015)	90 904
1-5 years	12 247	-	12 247	9 049	-	9 049
Over 5 years	24 021	-	24 021	2 000	-	2 000
No fixed maturity	-	-	-	2 677	-	2 677

(39) Operating leases

	31.12.2017 EUR'000	31.12.2016 EUR'000
Within one year	1 053	470
From 1 to 5 years	2 847	2 399
More than 5 years	533	533
	4 433	3 402

(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.

Within the scope of the reorganisation process the Company took over InterRisk Vienna Insurance Group AAS cases No. A420161517, Nr.A420251617, Nr.1A68026717, which are in the administrative court, where InterRisk Vienna Insurance Group AAS had the status of the applicant. There was a request made to the court to cancel decisions by the CEO of State Revenue Service on imposing obligations on InterRisk Vienna Insurance Group AAS to make payments to the state budget in accordance with customs suretyship insurance contracts within court cases No. A420161517, Nr.A420251617. Insurance indemnity has already been paid to the State Revenue Service. There is a request within administrative case No. 1A68026717 to cancel the decision by State Data Inspection regarding the penalty fee amounting to EUR 4 300.

(41) Fair value of financial instruments

(a) Financial instruments measured at fair value

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

31 December 2017	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets				
Financial instruments at fair value through profit or loss	1 825	-	-	1 825
Available-for-sale instruments	144 806	-	3 999	148 805
Held-to-maturity instruments	1 781	-	-	1 781
	148 412	-	3 999	152 411

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

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

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

31 December 2017	Financial instruments at fair value EUR'000	Total EUR'000
Total gains and losses included in profit or loss:		
Net unrealised gain/(loss) on financial instruments at fair value through profit or loss	55	55
Net realised gain/(loss) on financial instruments at fair value	714	714
Interest income	879	879
Total gains and losses included in other comprehensive income:		
Available-for-sale financial assets – net change in fair value	957	957

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

(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 2017	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	-	-	-	33 562	33 562
Deposits with banks[1]	-	-	-	3 303	3 303
Receivables from direct insurance activities[2]	-	-	-	30 241	30 241
Receivables from reinsurance activities[2]	-	-	-	1 029	1 029
Other receivables[3]	-	-	-	733	733
Financial liabilities					
Direct insurance creditors[4]	-	-	-	8 075	8 075
Reinsurance creditors[4]	-	-	-	4 195	4 195
Other creditors[5]	-	-	-	5 540	5 540

31 December 2016	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair values EUR'000	Total carrying amount EUR'000
Financial assets					
Cash	-	-	-	42 479	42 479
Deposits with banks[6]	-	-	1 357	-	1 357
Receivables from direct insurance activities[7]	-	-	-	19 994	19 994
Receivables from reinsurance activities[2]	-	-	-	407	407
Other receivables[8]	-	-	-	419	419
Financial liabilities					
Direct insurance creditors[9]	-	-	-	4 982	4 982
Reinsurance creditors[4]	-	-	-	1 574	1 574
Other creditors[10]	-	-	-	5 304	5 304

[1] Deposits with banks are highly liquid assets; thus their carrying amount approximates the fair value.
[2] Receivables from direct insurance and Reinsurance activities are short term financial assets whose carrying amount approximates the fair value.
[3] The item includes short term receivables whose carrying amount approximates the fair value.
[4] Direct insurance and Reinsurance creditors are short term financial liabilities whose carrying amount approximates the fair value.
[5] The item includes short term payables whose carrying amount approximates their fair value.
[6] Deposits with banks are highly liquid assets; thus their carrying amount approximates the fair value.
[7] Receivables from direct insurance and Reinsurance activities are short term financial assets whose carrying amount approximates the fair value.
[8] The item includes short term receivables whose carrying amount approximates the fair value.
[9] Direct insurance and Reinsurance creditors are short term financial liabilities whose carrying amount approximates the fair value.
[10] The item includes short term payables whose carrying amount approximates their fair value.

(42) Subsequent events

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

Independent Auditors' Report

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Independent Auditors' Report

To the shareholders of AAS "BTA Baltic Insurance Company"

Report on the Audit of the Financial Statements

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of AAS "BTA Baltic Insurance Company" ("the Company") set out on pages 16 to 74 of the accompanying Annual Report, which comprise:

- the statement of financial position as at 31 December 2017,
- the statement of comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of BTA Baltic Insurance Company AAS as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matter described below to be the key audit matter to be communicated in our report.

Measurement of claims reserves

The Company's gross outstanding claims reserves as at 31 December 2017 amounted to EUR 101 389 thousand (31 December 2016: EUR 56 938 thousand).

Reference to the financial statements: Note 10 "Outstanding claim technical reserve" on pages 57 to 58, Note 38 "Remaining maturities of insurance liabilities" on page 71 and Note 3 "Significant accounting policies" point 3.2 (e) "Outstanding claim technical reserves" on pages 30 to 31 and (i) "Claims technical reserves" on page 32.

Key audit matter

Gross outstanding claims reserves ("claim reserves") for the Company, as a non-life insurance provider, constitute the most significant element of insurance contract liabilities presented in the liabilities of the Company's statement of financial position. The most significant claims reserves are associated with the obligatory motor third party liability, motor own damage and general civil liability insurance.

Management Board uses a range of complex and subjective actuarial methods to determine the best-estimate amounts of those reserves as at the reporting date, whether in respect of reported claims (i.e. RBNS), or those not reported (i.e. IBNR). The complexity of the models applied may give rise to errors as a result of inaccurate and incomplete data inputs or the design or application of the models. Thus, the completeness and accuracy of the data underlying the actuarial projections was our area of audit focus.

The estimation of the amounts of claims reserves generally involves a significant degree of Management Board's judgment, mainly in respect of the assumptions about future events and developments. Relatively insignificant changes in those assumptions may have a significant effect on the estimated amounts of claim reserves. The assumptions most subject to estimation uncertainty are those in respect of loss rates, claim frequency, average claim amounts, court settlements, discount rates, changes in the amount of future annuity payments, and the expected payment period.

Our response

Our audit procedures, performed with the assistance of our actuarial and IT specialists, included, among others:

- Testing the design, implementation and operating effectiveness of key controls related to the process of establishing and adjusting outstanding claims reserves, including the relevant management review controls, accounting and actuarial controls, such as reconciliations of key data underlying the actuarial calculations (such as reports on claims paid and incurred) as well as testing of general controls in the IT environment regarding data extraction and validation.
- Assessing for reasonableness the actuarial methodologies and assumptions applied by the Company, including in particular the loss ratios, claim frequency and average size of claims, expected trends in court settlement, allowance for future claims inflation (including for annuities), discount rates, expected payment dates and payment period, by reference to the methodologies and assumptions applied by the Company in prior period and the prevailing industry practice, also considering the applicable legal and regulatory requirements and the requirements of the relevant financial reporting standards.
- For all insurance contract portfolios, performing a retrospective analysis of the accuracy and completeness of the Company's gross outstanding claims

Due to the above factors, we considered measurement of the non-life insurance outstanding claims reserves to be our key audit matter.

reserves recognized at the end of prior year, comparing this analysis to the Company's estimates, and seeking Management Board's explanations for any significant differences.

- For all significant insurance contract portfolios, such as, among others, obligatory motor third party liability, motor own damage and general civil liability, developing an independent estimate of the gross outstanding claims reserves, comparing our amount to the Company's estimates and seeking Management Board's explanations for any significant differences.

Reporting on Other Information

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

- Information about the Company, as set out on page 3 of the accompanying Annual Report,
- letter of the Chairman of the Supervisory Board, as set out on page 5 of the accompanying Annual Repot
- Management Report, as set out on pages 6 to 11 of the accompanying Annual Report,
- Group communications & marketing company profile, as set out on pages 12 to 14 of the accompanying Annual Report,
- Statement of management responsibility, as set out on page 15 of the accompanying Annual Report.

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

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

If, based on the work we have performed and in light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia Related to Other Information

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Report of the Supervisory Board and the Management Board, our responsibility is to consider whether the Report of the Supervisory Board and the Management Board is prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia regulations No. 201 – Regulations on the preparation of annual report and consolidated annual report of insurance and reinsurance undertakings and non-European Union insurance affiliates.

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

- the information given in the Report of the Supervisory Board and the Management Board for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Report of the Supervisory Board and the Management Board has been prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia regulations No. 201 – Regulations on the preparation of annual report and consolidated annual report of insurance and reinsurance undertakings and non-European Union insurance affiliates.

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

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

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

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

Auditors' Responsibility for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and objectivity, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on Other Legal and Regulatory Requirements

Other Reporting Responsibilities and Confirmations Required by the Legislation of the Republic of Latvia and the European Union when Providing Audit Services to Public Interest Entities

We were appointed by the extraordinary shareholders' meeting on 19 September 2017 to audit the financial statements of BTA Baltic Insurance Company AAS for the year ended 31 December 2017. Our total uninterrupted period of engagement is 3 years, covering the periods ending 31 December 2015 to 31 December 2017.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company;
- as referred to in the paragraph 37.6 of the 'Law on Audit Services' of the Republic of Latvia we have not provided to the Company the prohibited non-audit services (NASs) referred to of European Union Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

For the period to which our statutory audit relates, we have not provided any services to the Company in addition to the audit.

KPMG Baltics SIA
Licence No. 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
23 March 2018

Irēna Sarma
Latvian Certified Auditor
Certificate No. 151