BTA Baltic Insurance Company AAS

Annual report

For the year ended
31 december 2018

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
Management Board members and their positions	**Wolfgang Stockmeyer** – Chairman of the Management Board from 28.12.2018; until then Member of the Management Board **Oskars Hartmanis** – Deputy Chairman of the Management Board from 28.12.2018; until then Member of the Management Board **Evija Matveja** – Member of the Management Board **Tadeuš Podvorski** – Member of the Management Board from 26.06.2018 **Jānis Lucaus** – Chairman of the Management Board until 27.04.2018
Supervisory Board members and their positions	**Franz Fuchs** – Chairman of the Supervisory Board **Elisabeth Stadler** – Deputy Chairlady of the Supervisory Board **Jan Bogutyn** – Member of the Supervisory Board **Artur Borowinski** – Member of the Supervisory Board
Reporting period	01.01.2018 – 31.12.2018
Auditors	KPMG Baltics SIA Vesetas iela 7, Riga, Latvia, LV-1013 Licence No 55

Letter of the Chairman of the Supervisory Board

In the year 2018 the Baltic insurance markets showed a very dynamic development. Overall, the markets grew by about 14% in the non-life and health insurance segments. This development was driven on the one hand by inevitable price corrections in motor business which compensate for the adverse development of claim increase with respect to inflation, increase of pensions and foreign claims. On the other hand, the dynamics were driven by a favourable growth of the Baltic economies.

I am very glad to observe that BTA Baltic Insurance Company AAS (BTA or the Company) managed to take advantage of this situation and to strengthen its position as one of the leading insurance companies in Latvia, Lithuania, and Estonia. The Company has managed to grow substantially above the market and at the same time to improve technical results in all main business lines by combining risk adequate pricing with good claims and cost management. In total the volume of gross written premiums of BTA in the Baltics rose to EUR 207.2 million in 2018 (GWP after obligatory fees). This thriving growth of more than 27% has strengthened BTA's position with an overall market share of 15% in non-life and health insurance segments. The financial result for the year 2018 of EUR 10.3 million (before tax) reflects the Company's competitiveness and effectiveness in this dynamic market environment.

During 2018 the Company continued to change its visual appearance by renovating Customer Service Centres in Latvia and Lithuania and by introducing BTA's new brand identity to its head offices in Lithuania and Estonia. Refurbishing will continue in 2019. This is a major project that gives a strong positive impact on our customers, business partners and employees and at the same time shows our clear commitment to investing into the sales networks and into the future development of BTA.

Related to this, BTA also launched its "BTA Art" collection. At this moment, the collection consists of 48 contemporary art works. BTA Art is an evolving collection of carefully selected artworks that represents contemporary art in the Baltic States. BTA Art was inspired by VIG Art projects and it aims to reveal diversity in the artistic approaches and underline qualities making art from this region unique.

In the course of 2018 the Company experienced a change of its Management Board. After several years as Chairman of the Management Board Jānis Lucaus resigned from his position. The Supervisory Board decided to appoint the new Management Board from the existing management team: Wolfgang Stockmeyer (Chairman), Oskars Hartmanis (Deputy Chairman), Evija Matveja and Tadeuš Podvorski. The Supervisory Board is convinced that this team is most qualified in continuing BTA's development to a modern and innovative market leader.

In this respect I am happy to mention as well the VIG Xelerate programme. In order to cope with the challenge of digital transformation VIG has initiated this programme in its strategy 2020. It aims at triggering digital innovation projects in VIG companies. I am glad that in the second round of VIG Xelerate BTA won the first prize with a project to enhance its claims handling processes by artificial intelligence. This is one example among many projects that BTA pursues in order to consolidate its position as the innovation leader in insurance in the Baltic States.

I would like to thank the Company's Management Board and encourage them to successfully guide BTA through new challenges, I would like to thank all employees and business partners for their hard work and their confidence 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 2018 which are presented in the enclosed Annual Report.

Franz Fuchs
Chairman of the Supervisory Board
8 March 2019

Management Report

BTA Baltic Insurance Company AAS (BTA or 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 major shareholder is Vienna Insurance Group AG Wiener Versicherung Gruppe (VIG), with close to 200 years of experience in the insurance industry. The Company was established in 2014 as a result of reorganisation of BTA Insurance Company SE (since 1 November 2016 – Balcia Insurance SE).

About BTA

The Company continued its sustainable development in the Baltic markets, maintaining the high value and good reputation of the Company's brand, firmly holding on to the existing Company values – accessibility, humanity and credibility – while 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.

BTA strives to be the preferred insurer on the market. The Company is characterized by enthusiastic and professional team that believes in technologic development, giving BTA the competitive edge in terms of speed, productivity and comfort. The mission of BTA is the Company's growth sustained by fair cooperation with our customers and business partners. Responsibility made simple!

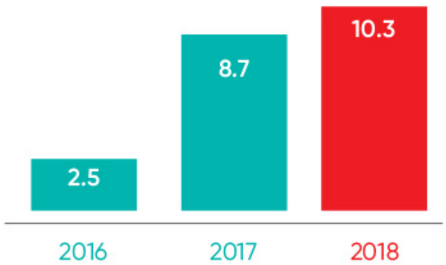
The Company's Management Board represented by the Chairman Wolfgang Stockmeyer, Deputy Chairman Oskars Hartmanis, and Members Evija Matveja and Tadeuš Podvorski, set forward development and reinforcement of the Company positions in the Baltic markets as the Company's main tasks for 2018.

The Company's main focus in year 2018 remained on increasing its business volume while maintaining profitability in all insurance segments in the Baltic States. The Company pursued these goals by strengthening and further diversifying its insurance portfolio, improving business processes in all operational areas, and increasing customer and partner satisfaction, by strengthening customer service and further development of online communication channels. The Company also continued to focus on the development of information technology solutions, which contributed to reduction of the Company's administrative costs and had a positive effect on the Company's finances.

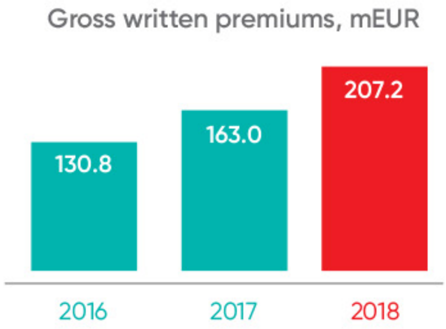
Financial information

In year 2018 the Company succeeded in achieving its financial goals by demonstrating both impressive growth of business volumes and solid financial results.

Financial result (PBT), mEUR

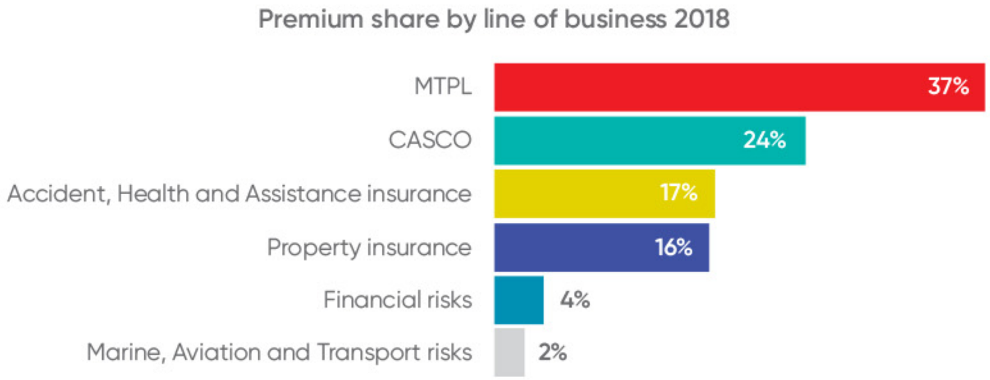


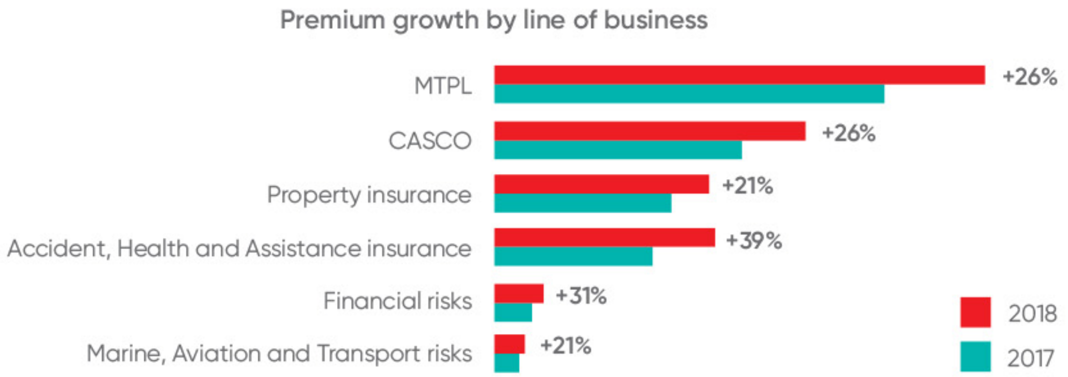
Thanks to the excellent business growth, improvements in pricing of insurance products, further development of internal processes and information technology solutions, the Company succeeded in achieving strong positive financial results in all Baltic countries. The total profit before tax was EUR 10.3 million while net profit in the year 2018 was EUR 9.2 million, an increase by 17% compared to 2017.



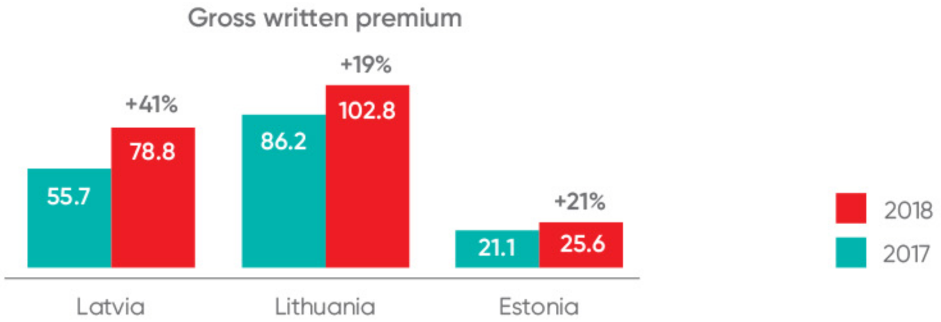
The Company's gross written insurance premiums (after mandatory fees) amounted to EUR 207.2 million in the Baltic States, showing a significant increase by 27% compared to the results of year 2017.

The Company achieved this excellent premium growth thanks to increase in business volume in all main lines of business, particularly in Motor insurance lines (CASCO and MTPL) (+26%), Property insurance (+21%), Accident, Health and Assistance insurance (+39%), Financial risks (+31%), Marine, Aviation and Transport risks (+21%).





The Company considerably increased its premium volume in year 2018 in all Baltic countries – in Estonia to EUR 25.6 million (+21% compared to year 2017 volume), in Lithuania to EUR 102.8 million (+19%) and in Latvia to EUR 78.8 million (+41%).



This business growth was almost double the market average growth rate during year 2018, which allowed the Company to strengthen its market position and increase its market share in all three Baltic countries. The Company was firmly the second biggest insurance company in Latvia and Lithuania with market shares of 20% and 17%, respectively. On the highly segmented Estonian insurance market the Company was steadily gaining on the market leader group and was seventh with the market share of 7%.

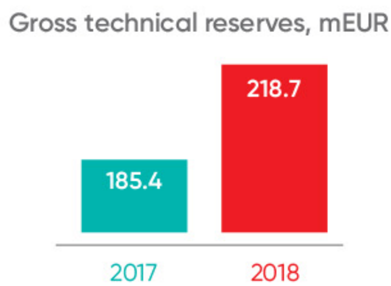
In year 2018 the Company strengthened its position as a leading insurance company on the Baltic insurance market and proved that it is a key market player in the main market segments – Motor insurance lines in Lithuania and Latvia, Health and other Personal risk insurance in Latvia, Financial risk insurance in Latvia and Lithuania, General third party liability insurance in Lithuania.

One of the major keys for these achievements was the increase of number of customers in the Baltics in the year 2018 compared to the previous year by 7%, to 443 thousand private and corporate customers. This achievement was possible thanks to both, the continuous development of online communication channels and strengthening of its regional customer service networks in Latvia and Lithuania, which allows the Company to service its customers in the way that most suits them and builds a firm foundation for the future growth.

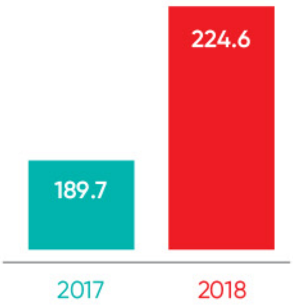
Following the growth of the insurance premiums volume, the volume of insurance claims paid out by the Company, increased by 46% in 2018 and reached EUR 117.5 million. The Company paid out about EUR 472 thousand on average during every business day in 2018, which is approximately EUR 59 thousand every business hour – an increase by EUR 20 thousand compared to 2017.
The increase in volume of insurance claims was significantly affected by market trends outside of the Company's control – such as increasing prices for car repair works and medical services, increased expectations of future price inflation, indexations of pensions, increased costs for claims outside of the Baltic states caused by increased mobility of the population.

These developments led the Company to review pricing of its insurance products in efforts to offer its customers the prices, which most adequately reflect the risks that the Company assumes. In several segments, particularly in Motor insurance lines, the Company was forced to increase pricing significantly to compensate the growth of costs of insurance claims.

At the end of 2018, the amount of the Company's insurance contract liabilities reached EUR 218.7 million, while the net result of insurance contract liabilities and reinsurers' share of insurance contract liabilities amounted to EUR 154.0 million.



Investment assets under management, mEUR



The total size of investment assets under management of the Company increased to EUR 224.6 million by the end of 2018. 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 with high investment rating (between A and AAA according to international rating agency Standard & Poor's classification). The ratio of such investments constituted 65% of the total volume of the Company's investments at 31 December 2018.

Insurance market profile

The competition on the Baltic insurance market in the year 2018 remained very intense.

With 58% share of the total market premium volume, Motor insurance lines remained the biggest lines of business of the Baltic non-life insurance market in the reporting year. Market premium volume in Motor lines grew in the Baltics by around 17% in year 2018, a significant increase caused by both increase in number of vehicle registrations and growth of average insurance premiums.

In year 2018 the price corrections in Motor insurance lines continued in multiple segments on the markets in Lithuania, Latvia and Estonia, although the extent of price movement was significantly smaller than in year 2017. However, the pressure on claims side remained from increase of car repair costs and indexation of pensions, as well as inflation of labor and other costs, larger foreign claims, and other factors. Due to these reasons the market premiums in MTPL insurance increased in year 2018 compared to 2017 by 20% – faster than in CASCO insurance where the total market premiums grew by 13%.

A positive trend to be noted is the overall growth throughout the Baltic States in voluntary insurance segment. In 2018 the market volume of gross written insurance premiums in this segment increased by 12% compared to the previous year. The volume of gross written insurance premiums increased in all three Baltic states due to increase in the purchasing power of residents, increase in awareness for significance of insurance, and due to increase in the number of new cars registered in the Baltic States.

Continuing the positive trend of voluntary insurance, in year 2018 Property insurance premiums on the Baltic market increased by 10% compared to year 2017. Intense competition in this market segment forces insurers to offer policy terms and conditions that are ever more advantageous to private individuals. In addition to that, year 2018 was marked by a further increase in long-term property insurance policies sold. All around the Baltic States, corporate entities purchase commercial property insurance with more extensive insurance coverage, including equipment breakdown risk, business interruption risk and other risks. Although the share of Property insurance in the total Baltic market premium volume in year 2018 was only 19%, its importance is likely to increase in the following years.

Market premium volume in Health insurance grew in the Baltics by 12% in year 2018 compared to last year, showing that employers more frequently complement motivation and social guarantee programme packages for their employees with health insurance coverage. Employers purchase health insurance policies as well as expand the scope of paid services included in these policies. In year 2018 due to changes in tax legislation BTA started to issue Health insurance in Estonia. In 2018 the Company became the market leader in Health insurance in Latvia.

Premium volume in Assistance and Accident insurance grew on the Baltic market by 11% in year 2018, proving that both private individuals and corporate entities consider Assistance and Accident insurance to be ever more relevant.

Major events and development

Change of brand identity in Customer Service Centres

In late May 2017, the Company changed its brand identity in Latvia, Lithuania and Estonia. In 2018 the Company continued to renovate its Customer Service Centres in order to increase the satisfaction of customers, business partners and employees. The new image of the Company signals to customers 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 Company's main values – accessibility, humanity and credibility. At the same time it maintains the inherent reliability and stability of BTA, which is further supported by the Company's major shareholder VIG.

The Company also continued to invest in education of its sales employees with aim to increase their professionalism in customer service and knowledge of Company's products.

Completion of merger with InterRisk Vienna Insurance Group AAS

In 2018, the Company continued to arrange several internal processes after merging with InterRisk Vienna Insurance Group AAS (InterRisk) in Latvia and Lithuania. The Company has successfully taken over the insurance portfolio of InterRisk demonstrating to its customers the quality of the customer service and firm commitment and ability to meet all obligations. By the end of 2018 the Company completed the operational integration of Interrisk.

General Data Protection Regulation (GDPR) and Insurance Distribution Directive (IDD)

In response to several new European Union's regulations, the Company made changes in its internal processes and implemented a Privacy Policy to ensure compliance with General Data Protection Regulation requirements, as well as Insurance Distribution Directive (IDD). This not only allows the Company to be fully compliant with strict regulatory requirements, but also serves to improve the competence of its employees and be able to better serve the needs of its customers.

Optimization of claim process

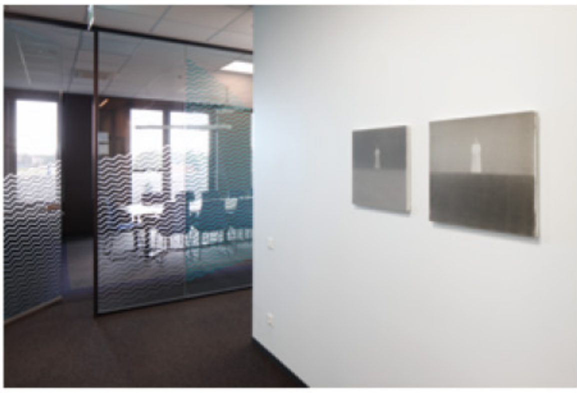
In 2018 the Company continued the project of claim process optimization. This process includes such actions as review of closed claim files, centralization of foreign claims management, as well as review and reduction of fraud cases. The aim of this process is to learn from previous claim cases and to improve and to optimize claim processes for the future.

"BTA Art" contemporary art collection

In 2018 the Company launched a major project for all Baltic States – BTA Art. This is an evolving collection of carefully selected artworks that best represents the characteristics of contemporary art in the Baltic States. It was developed based on the values of BTA – accessibility, humanity, and credibility, in order to create a more pleasant working environment for BTA employees and visitors.

The collection aims to reveal diversity in the artistic approaches and underline qualities making the art from this region unique. It is not tied to a specific medium, but rather seeks to gather the variety of artistic theme lines like poetic storytelling, appreciation of nature as well as investigations on the complexities of the urban, digitally driven world and societies, all of which are delivered with a diligent skill of the craft.

Part of BTA Art project was also implemented in the Company's Customer Service Centres. While the artworks of BTA Art collection are exhibited in the central offices of all three Baltic countries – with an aim to popularize contemporary art and this project, special artworks were ordered to one Latvian and one Lithuanian contemporary artist, and these artworks became the inspiration for design for the wallpapers in all Customer Service Centres in Latvia and Lithuania.



Employees

In 2018 the Company continued the Employer branding project and implemented several new processes to increase the satisfaction of its employees.

In an effort to promote professional development of the employees, the Company provided 7 045 training hours of internal and 1 255 hours of external training programmes in 2018, which altogether amounted to 893 employee training sessions in 2018. The Company continued to develop the e-learning system that offers additional professional development options for the employees. In 2018 the Company introduced updated and expanded internal process for better learning possibilities.

Staff loyalty to the Company is evidenced by the average length of employment of employees – in 2018 it was 6 years. In addition, BTA again ranked among the top 10 best and most attractive employers in Latvia, based on the results of the largest annual employee survey run by the recruitment company CV-Online Latvia. BTA was the only insurance company to make it to the top chart. The high place in the chart is a proof that the Company's employees, as well as the public in general, welcome the Company's selected strategy, and that it keeps developing in the right direction in a long term perspective.

Social responsibility projects

During 2018 the Company continued the corporate social responsibility activities with a focus on protecting and restoring natural resources. In collaboration with the World Wildlife Fund (WWF) associated partner in Latvia, Pasaules Dabas Fonds, and other WWF partners in Lithuania and Estonia, the Company's employees took part in 10 nature restoration events in all 3 Baltic States. With the Company's support, Pasaules Dabas Fonds made special project webpage that provides information about places and possibilities to help restore natural resources in the Baltics.

Changes to the Management Board

After holding the position of the Chairman of the Management Board of the Company for several years, Jānis Lucaus left the Company at the end of April 2018. At the end of November 2018 Management Board Member Wolfgang Stockmeyer was appointed as the Chairman of the Management Board, while the Management

Board Member Oskars Hartmanis assumed the post of Deputy Chairman of Management Board, with the terms of the current Management Bord Members Evija Matveja and Tadeuš Podvorski extended.

In 2018 Tadeuš Podvorski continued to work as Director and Chairman of the Executive Board of the Company`s Lithuanian Branch, with Gintaras Markevičius and Vaidas Labanauskas as the Members of the Executive Board of the Company`s Lithuanian Branch (Procura), while Hiljar Kõiv became the Director of the Estonian Branch of the Company in early 2019.

Tadeuš Podvorski, Evija Matveja, Wolfgang Stockmeyer, Oskars Hartmanis

<u>Online customer service improvement</u>

An important breakthrough in the improvement of customer service in 2018 was the continued development of customer self-service portal in Latvia and Estonia. In 2019 the Company is planning development and implementation of a customer portal in Lithuania. The portal ensures full-fledged customer service functionality, same as the customers expect to receive in the Company's Customer Service Centres. With the help of the customer portal, the customers are able not only to purchase insurance services quickly and conveniently, but also to apply for insurance indemnities and follow the progress of insurance claim case handling. Along with development of the customer portal, the Company carried out a substantial revision and improvement to a number of internal processes.

In September 2018 the Company added a new service for its customers – an ability to buy an Accident insurance remotely via the customer portal, which is an innovative opportunity in the insurance business in Latvia.

The Company continued to improve its tools for remote communication with its customers, including application for the insurance claims and purchasing insurance products. In 2018 the Customer Support Service registered 99% of the total number of received insurance claim cases in Latvia. 25% of all the CASCO insurance claim cases and 44% of all the Property insurance claim cases were fast-tracked and handled in the course of a single day. In Estonia in 2018 the Customer Support Service registered 97% of the received insurance claim cases remotely, and 66% of all the registered CASCO insurance claim cases were fast-tracked and handled in the course of a single day. Whereas in Lithuania the Customer Support Service registered 98% of the received insurance claim cases remotely in 2018.

Alongside with the vigorous growth of remote communication 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 60 Customer Service Centres in Latvia, and 119 centres in Lithuania.

Compliance with solvency requirements and increase of eligible own funds

In accordance with the Company's risk strategy the target solvency ratio level should range above 125%. At the end of 2018 the Company received a subordinated loan in amount of EUR 5.5 million from VIG, increasing its solvency ratio above 128% as at 31 December 2018 (unaudited).

Business development in Latvia, Estonia and Lithuania

Through the determined development of business in the Baltics, the most rapid growth was achieved in Latvia in 2018, with the volume of gross written insurance premiums increasing by 41% compared to the last year. Particularly strong growth was achieved in Health and MTPL insurance, with both lines of business increasing in volume by 55% compared to year 2017.

The business volumes in Estonia grew for 21% in 2018 compared to 2017. The increase in volume of gross written premiums in MTPL insurance contributed almost half of the business growth. As already mentioned above, in 2018 the Company began offering Health insurance to Estonia's corporate clients thanks to favourable developments in the tax legislation.

The growth of Lithuania's business volumes was slightly slower than Estonia's and amounted to 19% compared to the previuos year. In 2018 Lithuanian operations continued to generate almost half of all gross written premiums for the Company – 50% or EUR 102.8 million, while in 2017 it was 53% and EUR 86.2 million, respectively. CASCO insurance contributed the most to the growth of premium volume in Lithuania in 2018, with increase of 25% compared to year 2017, while MTPL insurance grew by 18%.

Strategy 2019-2021

During the last quarter of 2018 the Company has approved and published its strategy for years 2019-2021. The Company's main focus for the upcoming three years will be technological innovations and people, including the Company's employees.

The Company has always tried to be an innovator rather than a follower in the insurance market. The Company has defined innovative internal culture, innovative products and continual impovements in processes as the pillars of the new strategy – in order to make all interactions between the Company and its customers even more user friendly.

The Company strives to develop the knowledge, abilities and skills of all the members of its professional team. The Company continuously invests into development of the sales channels and the working environment and equipment of its sales and support employees. The Company is also planning to extend the training programms, know-how sharing platforms, to focus on development of the leadership skills of its key managers, and on adding experts and young talents to the team.

BTA BALTICS STRATEGY 2019 – 2021

To be the most preferred insurance company for customers and partners.

VALUES

Accessibility
We are accessible via any channel throughout the Baltic States 24/7, furnishing simple and fast customer service.

Humanity
We speak a simple – human language. BTA's products are tailor-made – individual attitude and solutions.

Credibility
Credibility is driven by the field experience and the ability to change. Sustained by VIG, BTA is a reliable partner in responsible decision-making.

STRATEGY DRIVERS

Innovations

Innovative culture
We have a culture of innovation. Our employees are capable and willing to generate new ideas as there is the needed know-how, necessary trainings, and simple and understandable system for creation and implementation of innovations.

Innovative processes
We are constantly reviewing, simplifying and automating our used tools and processes, so we could serve our customers with a higher speed than before.

Innovative products
We speak in the language of our customers; therefore, we update and create our products based on their needs.

People

Professional people
We have the most professional team within the industry, which is attracted, developed and appraised with the best tools accessible. They are our main asset!

Collaborative people
BTA Baltics is a united team, which can share the know-how and experience simply and openly in any direction.

Risk management

The nature of the insurance business is the deliberate assumption and management of diverse risks to achieve profit. The Company's risk management system ensures efficient risk identification, measurement and assessment, as well supervision and control in accordance with the Company long-term strategic goals, volume and specifics of operations.

One of the primary responsibilities of BTA risk management is to ensure that the obligations assumed under insurance policies can be satisfied at all times.
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.

In addition to the above mentioned risks, BTA is exposed to a number of other risks. A risk management process, supported by an effective risk organisation, is used to identify, analyse, evaluate, report, control and monitor these risks. The risk control measures used are avoidance, reduction, diversification, transfer and acceptance of risks and opportunities. BTA is managing the risks in line with risk management framework guidelines from VIG. Transparent and verifiable decisions and processes within the Company play an important role in the creation of an appropriate risk culture.

Proposal on distribution of profits

Taking into account the Company's planned development path, the Management Board recommends to pay out a dividend of EUR 14.30 per share, that is a total amount of EUR 5 950 144.20 equal to rounded 65% of the net profit for the financial year 2018. The remaining part of the net profit in the amount of EUR 3 201 959.80 is proposed to be accumulated for increase of 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 2019 in the Baltic States, achieving more than 10% growth in gross written insurance premiums total for the Baltic region. Given the current insurance portfolio volume and market situation in Latvia and Lithuania, the Company expects the growth in these countries to slow down in comparison to 2018. The Company sees the greatest opportunities for growth in 2019 in Latvia, followed by Lithuania and Estonia.

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, CASCO 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.

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

Wolfgang Stockmeyer
Chairman of the Management Board

Oskars Hartmanis
Deputy Chairman of the Management Board

Evija Matveja
Member of Management Board

Tadeuš Podvorski
Member of Management Board

8 March 2019

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.

THE VIG MISSION
STATEMENT

VIG
VIENNA INSURANCE GROUP
Protecting what matters.

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

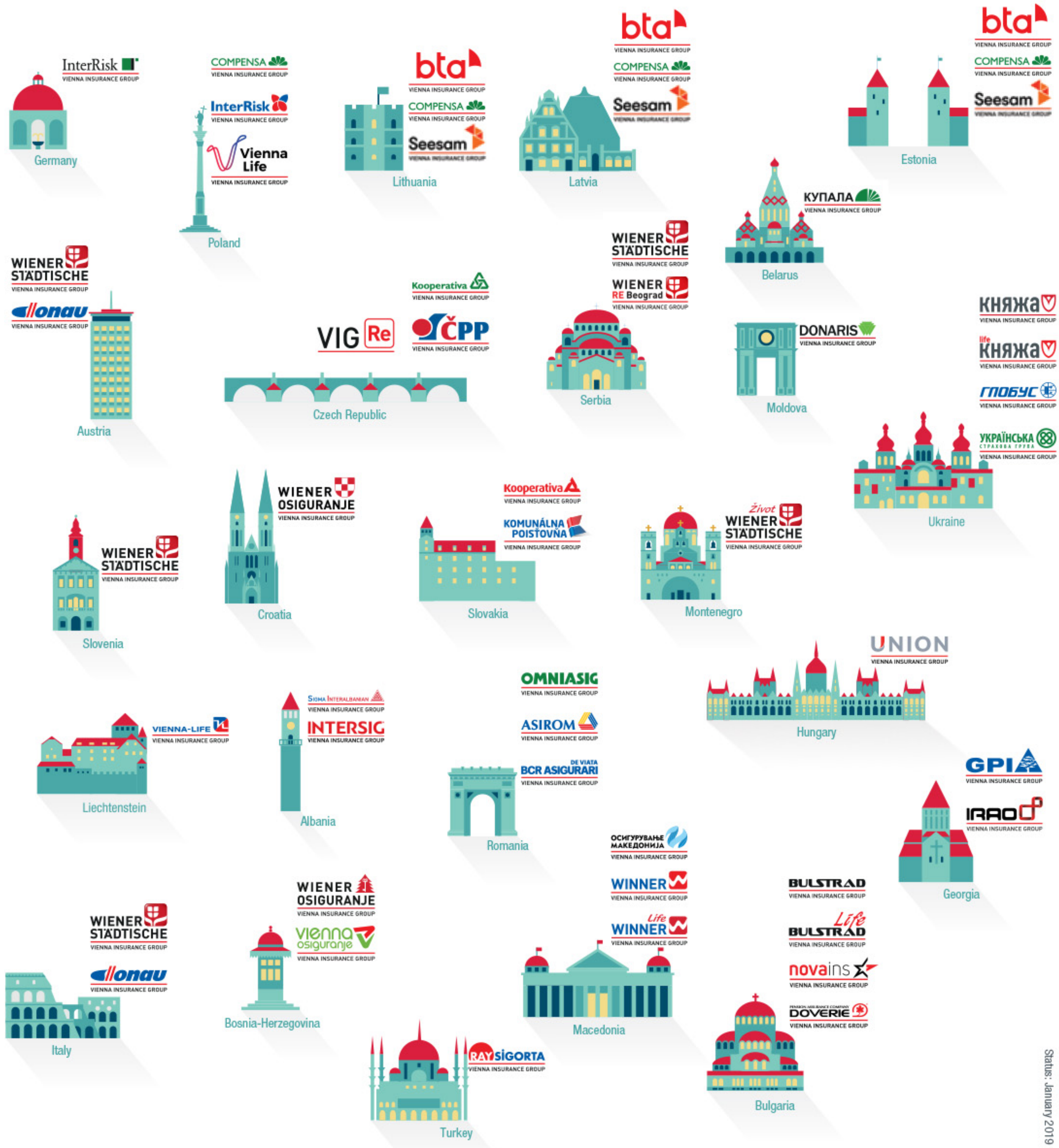
We enable customers to live a safer and better life: Protecting what matters.

CORPORATE STRATEGY

SUSTAINABILITY STRATEGY

EMPLOYER BRANDING

CORPORATE BEHAVIOUR



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Status: January 2019

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

VIG
VIENNA INSURANCE GROUP
Protecting what matters.

Statement of management responsibility

In 2018 the Management Board of BTA Baltic Insurance Company AAS (the Company) was responsible for the management of the Company. The Management regularly informed the Supervisory Board 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 2018 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 2018, as well as its financial position as at 31 December 2018.

The Company's Management confirms that the Company's financial statements for the year ended 31 December 2018 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 2018 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 2018.

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.

Wolfgang Stockmeyer Chairman of the Management Board	**Oskars Hartmanis** Deputy Chairman of the Management Board	**Evija Matveja** Member of Management Board	**Tadeuš Podvorski** Member of Management Board

8 March 2019

Statement of Comprehensive Income

	Note	2018 EUR'000	2017 EUR'000
Earned premiums			
Written premiums			
Gross written premiums	5	207 192	162 979
Reinsurers' share in written premiums	5,18	(50 387)	(23 416)
Net written premiums	5	**156 805**	**139 563**
Change in unearned premium and unexpired risk reserves			
Gross change	7	(5 124)	(14 632)
Reinsurers' share	7,18	257	1 355
Change in net unearned premium and unexpired risk reserves	7	**(4 867)**	**(13 277)**
Net earned premiums	6	**151 938**	**126 286**
Other technical income, net	8	**350**	**296**
Paid claims, net			
Gross claims paid	9	(117 463)	(80 536)
Paid claims	9	(118 505)	(81 087)
Loss adjustment expenses	9	(6 985)	(5 858)
Recovered losses	9	8 027	6 409
Reinsurers' share of claims paid	9,18	26 367	4 485
Net paid claims	9	**(91 096)**	**(76 051)**
Change in outstanding claim reserve			
Change in gross outstanding claim reserve	10	(28 177)	(19 596)
Reinsurers' share	10,18	14 511	9 164
Change in net outstanding claim reserve	10	**(13 666)**	**(10 432)**
Net incurred claims	11	**(104 762)**	**(86 483)**
Operating (expenses)/ income			
Client acquisition costs	12	(37 262)	(28 903)
Change in deferred client acquisition costs	12	211	1 452
Administrative expenses	13	(12 972)	(10 802)
Depreciation and amortisation	19,20a,21	(1 157)	(1 105)
Impairment	20	(369)	-
Reinsurance commission income, net	14,18	13 367	7 459
Change in unearned reinsurance commission	14,18	(670)	(296)
Net operating expenses		**(38 852)**	**(32 195)**

Continued table

	Note	2018 EUR'000	2017 EUR'000
Other technical expenses, net	15	**(324)**	**(147)**
Investment management charges		(285)	(479)
Depreciation of investment property	20b	(191)	(7)
Impairment of investment property	20b	(92)	-
Interest income	16	1 775	904
Interest expense	38	(79)	-
Gain from financial assets and liabilities measured at fair value, net	42	63	769
Loss on foreign currency fluctuation		(97)	(174)
Other income		1 536	906
Other expenses		(686)	(975)
Profit before tax		**10 294**	**8 701**
Income tax expense in Latvia and Lithuania	17	(1 142)	(909)
Net profit for the period		**9 152**	**7 792**
Items that are or may be reclassified to profit or loss			
Available-for-sale financial assets - net change in fair value	42	(1 421)	957
Other comprehensive income/(expense) for the period		**(1 421)**	**957**
Total comprehensive income for the period		**7 731**	**8 749**

The accompanying notes on pages 26 to 81 form an integral part of these financial statements.

Statement of Financial Position

	Note	31.12.2018 EUR'000	31.12.2017 EUR'000
Assets			
Property and equipment	19	**1 846**	**1 526**
Land and buildings			
Land and buildings for own use	20a	1 775	3 005
Investment property	20b	875	446
Total land and buildings		**2 650**	**3 451**
Intangible assets	21	**1 542**	**1 777**
Financial investments			
Financial instruments at fair value through profit or loss	42	1 796	1 825
Available-for-sale instruments	42	199 827	148 805
Held-to-maturity financial instruments	42	1 778	1 781
Deposits with banks	23	3 008	3 303
Total financial investments	22,23	**206 409**	**155 714**
Inventory		**137**	**133**
Loans and Receivables			
Loans	24,38	1 509	-
Receivables from direct insurance activities			
Due from policy holders		32 683	28 550
Due from intermediaries		954	1 691
Total receivables from direct insurance activities	25	**33 637**	**30 241**
Receivables from reinsurance activities		1 190	1 029
Other receivables	26	796	733
Total loans and receivables		**37 132**	**32 003**
Accrued income and deferred expenses			
Deferred client acquisition costs	12	8 613	8 402
Other accrued income and deferred expenses		582	1 020
Total accrued income and deferred expenses		**9 195**	**9 422**
Deferred tax asset	30	**207**	**181**
Prepaid corporate income tax in Latvia	31	**75**	**54**
Reinsurers' share of insurance contract liabilities			
Reinsurers' share in unearned premium reserves	7,39	18 081	19 164
Reinsurers' share in outstanding claim reserve	10,39	46 595	32 084
Total reinsurers' share of insurance contract liabilities	39	**64 676**	**51 248**
Cash and cash equivalents	27	**15 850**	**33 562**
Total assets		**339 719**	**289 071**

The accompanying notes on pages 26 to 81 form an integral part of these financial statements.

Equity and liabilities	Note	31.12.2018 EUR'000	31.12.2017 EUR'000
Equity			
Share capital	29	41 609	41 609
Revaluation reserves	29	54	1 475
Other reserves	1c	(1 605)	(1 605)
Retained earnings		4 884	3 716
Profit for the period		9 152	7 792
Total equity		**54 094**	**52 987**
Liabilities			
Insurance contract liabilities			
Gross unearned premium and unexpired risk reserves	7,39	89 153	84 029
Gross outstanding claim reserves	10,39	129 566	101 389
Total insurance contract liabilities		**218 719**	**185 418**
Reinsurers' deposit	38	31 277	23 748
Subordinated loan	38	7 000	1 500
Payables from direct insurance activities			
Due to policy holders		5 715	7 040
Due to intermediaries		989	1 035
Total direct insurance creditors		**6 704**	**8 075**
Payables from reinsurance activities	32	4 007	4 195
Other creditors	33	8 310	5 540
Provisions	34	1 802	1 420
Taxes and social insurance contributions	31	620	881
Accrued liabilities	34	5 342	3 987
Unearned reinsurance commission income	14	1 830	1 160
Deferred next period income		14	160
Total liabilities		**285 625**	**236 084**
Total equity and liabilities		**339 719**	**289 071**

The accompanying notes on pages 26 to 81 form an integral part of these financial statements.

Statement of Cash Flows

	Note	2018 EUR'000	2017 EUR'000
Cash flows from operating activities			
Premiums received in direct insurance		201 986	160 921
Claims paid in direct insurance		(111 286)	(75 421)
Payments received from reinsurers		5 097	266
Payments made to reinsurers		(6 414)	(4 726)
Income tax paid in Latvia and Lithuania	31	(1 131)	(679)
Obligatory payments	28	(2 336)	(1 764)
Payments to employees		(12 994)	(11 829)
Payments to intermediaries		(13 004)	(12 171)
Other payments made:		(23 072)	(18 107)
Other tax paid	31	*(10 290)*	*(9 791)*
Payments to other suppliers		*(12 346)*	*(7 789)*
Other payment made		*(436)*	*(527)*
Total cash flows from operating activities		**36 846**	**36 490**
Cash flows from/(used in) investing activities			
Purchase of property and equipment and intangible assets		(1 548)	(1 949)
Acquisition of investments		(70 757)	(170 257)
Disposal of investments		15 778	111 553
Investment income received		3 093	2 230
Net cash acquired as a result of reorganisation	1c	-	3 982
Total cash flows (used in) investing activities		**(53 434)**	**(54 441)**
Cash flows from/(used in) financing activities			
Paid dividends		(6 624)	(966)
Share capital increase		-	10 000
Received subordinated loan	38	5 500	-
Total cash flows from/(used in) financing activities		**(1 124)**	**9 034**
Cash and cash equivalents net (decrease)		**(17 712)**	**(8 917)**
Cash and cash equivalents at the beginning of the period		**33 562**	**42 479**
Cash and cash equivalents at the end of the period	27	**15 850**	**33 562**

The accompanying notes on pages 26 to 81 form an integral part of these financial statements.

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
31.12.2016		**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 reorganisation	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**
Total comprehensive income						
Profit for the period		–	–	–	9 152	**9 152**
Other comprehensive income		–	–	(1 421)	–	**(1 421)**
Transactions with shareholders recorded directly in equity						
Dividends paid		–	-	-	(6 624)	**(6 624)**
31.12.2018		**41 609**	**(1605)**	**54**	**14 036**	**54 094**

The accompanying notes on pages 26 to 81 form an integral part of these financial statements.

Notes to the Financial Statements

(1) General information

(a) Principal activities

BTA Baltic Insurance Company AAS (BTA or 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:
- accident insurance;
- health insurance (insurance against illnesses);
- motor transport (except railway transport) insurance (CASCO);
- railway rolling stock insurance;
- aircraft insurance;
- marine vessel insurance;
- freight insurance;
- property insurance against damage by fire and natural disasters (damages caused to property, except for motor transport, railway rolling stock, aircraft, marine vessel and freight, by fire, explosion, nuclear power, subsiding of land and other disasters);
- property insurance against other damage (damages caused to property, except for motor transport, railway rolling stock, aircraft, marine vessel and freight, by hail, frost, theft and other accidents, except fire, explosion, nuclear power, subsiding of land and other disasters);
- motor vehicle owner third party liability insurance (MTPL);
- aircraft owner third party liability insurance;
- ship owner liability third party insurance;
- general third party liability insurance (TPL);
- credit insurance;
- surety insurance;
- miscellaneous financial loss insurance;
- legal expenses insurance;
- assistance insurance.

The Company operates in Latvia, Lithuania and Estonia, 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, intermediaries and client customer centres in Latvia, Lithuania and Estonia.

The Company has 2 foreign branches – in Estonia and Lithuania. Business is conducted through permanent establishments (branches) within the European Union. 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:

	31.12.2018	
	Number of shares	Shareholding
Vienna Insurance Group AG Wiener Versicherung Gruppe	377 920	90.83 %
Balcia Insurance SE	38 174	9.17 %
	416 094	**100.00 %**

	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	**100.00 %**

(c) Reorganisation

On 19 September 2017, a decision was taken regarding reorganisation of BTA Baltic Insurance Company AAS. The reorganisation was performed as a merger by way of takeover, where BTA Baltic Insurance Company AAS was the acquirer and InterRisk Vienna Insurance Group AAS (InterRisk), registration number: 40003387032, registered address: Ūdens iela 12 - 115, Riga, LV-1007, was the acquiree. 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 BTA Baltic Insurance Company AAS. The share capital of 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	1 478
Receivables from intermediaries	764
Reinsurance receivables	145
Other receivables	551
Deferred client acquisition costs	1 537
Other next period expense and accrued income	18
Reinsurers' share in unearned premium reserves	5 779
Reinsurers' share in outstanding claim reserves	16 127
Total Assets	**52 915**
Subordinated loan	1 500
Gross unearned premiums and unexpired risk reserves	12 690
Equalisation provision	-
Gross outstanding claim 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**

(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 Management Board on 8 March 2019. 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 2018 to 31 December 2018. The comparative period is from 1 January 2017 to 31 December 2017.

(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.

(f) New Standards and Interpretations

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 2018.

(i) Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2022; to be applied prospectively)

The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard (IFRS 17) 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 IFRS 17.

The Company, as an insurance provider, has applied the temporary exemption from adopting IFRS 9, Note 2(f)(ii).

(ii) 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 2022.)

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 amortised 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 amortised 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.

Following the decision of Vienna Insurance Group as a group to make use of the temporary exemption, see Note 2(f)(i), and postpone application of IFRS 9, the Company does not plan to adopt this standard until adoption of IFRS 17. Therefore, the Company has provided additional disclosures which are obligatory, when exercising the temporary exemption, starting with 31 December 2018 until the date of initial application of IFRS 9:

<u>Fair Value Analysis of the financial assets:</u>

	31.12.2018			31.12.2017		
	SPPI*	Other**	Total	SPPI*	Other**	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Loans	1 635	-	**1 635**	-	-	-
Other investments	3 008	-	**3 008**	3 303	-	**3 303**
Other securities						
Bonds	188 031	1 796	**189 827**	144 700	1 825	**146 525**
Shares	-	697	**697**	-	-	-
Investment funds	-	12 945	**12 945**	-	5 974	**5 974**
Total other securities	**188 031**	**15 438**	**203 469**	**144 700**	**7 799**	**152 499**
Non-underwriting receivables	409	-	**409**	570		**570**
Cash and cash equivalents	15 850	-	**15 850**	33 562	-	**33 562**
	208 933	**15 438**	**224 371**	**182 135**	**7 799**	**189 934**

* Financial instruments with constractual cash flows that are solely payments of principal and interest on the principal amount outstanding except for those reported under "Other"
** Financial instruments that meet the SPPI criteria (SPPI pass) but are held for trading or managed on a fair value basis have to be reported under "Other" and not under SPPI.

SPPI financial assets rating categories – carrying amount:

	31.12.2018			31.12.2017		
	SPPI EUR'000	Other EUR'000	Total EUR'000	SPPI EUR'000	Other EUR'000	Total EUR'000
Loans and other investments						
AA	-	-	-	3 001	-	3 001
A	1 509	-	**1 509**	-	-	-
BBB	3 008	-	**3 008**	-	-	-
No rating	-	-	-	302	-	**302**
Total loans and other investments	**4 517**	**-**	**4 517**	**3 303**	**-**	**3 303**
Other securities						
AAA	14 009	-	**14 009**	10 275	-	**10 275**
AA	13 293	-	**13 293**	11 846	-	**11 846**
A	141 855	-	**141 855**	110 840	-	**110 840**
BBB	18 297	1 796	**20 093**	11 651	1 825	**13 476**
No rating	506	13 645	**14 151**	-	5 974	**5 974**
Total other securities	**187 960**	**15 441**	**203 401**	**144 612**	**7 799**	**152 411**
Non-underwriting receivables						
No rating	409	-	**409**	570	-	**570**
Total non-underwriting receivables	**409**	**-**	**409**	**570**	**-**	**570**
Cash and cash equivalents						
AA	1	-	**1**	1	-	**1**
A	5 526	-	**5 526**	63	-	**63**
BBB	3 519	-	**3 519**	4 999	-	**4 999**
BB and lower	743	-	**743**	2 198	-	**2 198**
No rating	6 061	-	**6 061**	26 301	-	**26 301**
Total cash and cash equivalents	**15 850**	**-**	**15 850**	**33 562**	**-**	**33 562**
	208 736	**15 441**	**224 177**	**182 047**	**7 799**	**189 846**

SPPI financial assets with significant* credit risk

	31.12.2018		31.12.2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	743	743	2 198	2 198
	743	**743**	**2 198**	**2 198**

* BB and lower

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

This 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.

The impact of adoption of IFRS 15 on the Company's financial statements is immaterial. The timing and measurement of the Company's revenues have not changed under IFRS 15 because of the nature of the

Company's operations and the types of revenues it earns. However, the Company has included additional disclosure in the its financial statements – breakdown of gross written premiums by country, see Note 5, as required by IFRS 15.

The following guidance with effective date of 1 January 2018 did not have any impact on these financial statements:
(iv) Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions;
(v) Amendments to IAS 40 Transfers of Investment Property;
(vi) IFRIC 22 Foreign Currency Transactions and Advance Consideration.
(vii) Annual Improvements to IFRSs 2014–2016 Cycle (Amendments to IFRS 1 and IAS 28).

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 2018, 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 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.

The Company has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below. The IFRS 16 implementation project is managed by the Company's parent company Vienna Insurance Group (VIG). The actual impacts of adopting the standard on 1 January 2019 may change because:
• VIG has not finalised the testing and assessment of controls over its new IT system; and
• the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

Leases in which the Company is a lessee

The Company will recognise new assets and liabilities for its operating leases. The nature of expenses related to those leases will now change because the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

Based on the information currently available, the Company estimates that it will recognise additional lease liabilities of EUR 7 206 thousand as at 1 January 2019.

Leases in which the Company is a lessor

No significant impact is expected for leases in which the Company is a lessor.

Transition

The Company plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.
The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

(ii) IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2022, 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 Company is planning to implement IFRS 17 for statutory statements and group consolidation starting from 1 January 2022 based on Vienna Insurance Group guidance. The Company expects that this new standard, when initially applied, will have a material impact on the financial statements of the Company as the Company concludes insurance contracts, however, the Company management has not yet started the assessment of the quantitive impact.

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements.

(iii) IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019);
(iv) Amendments to IFRS 9: Prepayment Features with Negative Compensation;
(v) Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures;
(vi) Amendments to IAS 19: Plan Amendment, Curtailment or Settlement;
(vii) Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards;
(viii) Amendments to References to Conceptual Framework in IFRS Standards.

(g) Reclassification of balances in the financial statements

In addition, certain balances – loss adjustment expenses, client acquisition costs, administrative expenses and investment management expenses – for 2018 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 2017 disclosed in these financial statements was classified in line with the principles used in 2018 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:

	31.12.2018	31.12.2017
USD	1.14500	1.19930
PLN	4.30140	4.17700
GBP	0.89453	0.88723
NOK	9.94830	9.84030
DKK	7.46730	7.44490

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 policyholder 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 policyholder, by agreeing to compensate losses to the policyholders if a certain unexpected future event (insured occurrence) has been previously agreed, which adversely impacts the policyholder. 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 service, 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:
• accident insurance;
• assistance insurance;
• insurance against property damage or thefts;
• motor vehicle insurance;
• general third party liability 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 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.

Claim 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 reserves

Outstanding claim 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 reserve is calculated and difference between them is considered as reinsurance part of IBNR reserves. Both, gross and net IBNR reserves are calculated separately for InterRisk Vienna Insurance Group AAS portfolio and the Company's portfolio and later counted together.

For the Company's portfolio gross IBNR reserves are calculated for all lines of business, while net IBNR reserves

are calculated for the following lines of business which are reinsurred:
• aircraft insurance;
• marine vessel insurance;
• freight insurance;
• property insurance against damage by fire and natural disasters;
• motor vehicle owner third party liability insurance (MTPL);
• aircraft owner third party liability insurance;
• ship owners' liability third party insurance;
• general third party liability insurance;
• credit insurance;
• surety insurance;
• miscellaneous financial loss insurance.

For the InterRisk Vienna Insurance Group AAS portfolio which was acquired in reorganisation gross IBNR is calculated for the following lines of business:
• accident insurance;
• motor transport (except railway transport) insurance (CASCO);
• property insurance against damage by fire and natural disasters;
• motor vehicle owner third party liability insurance (MTPL);
• general third party liability insurance;
• credit insurance;
• assistance insurance.

While net IBNR reserves are calculated for motor vehicle owner third party liability insurance (MTPL), the only business line for which reinsurance run-off cover continued in 2018.

The accuracy of such claims reserves is assessed by run-off testing or using different stochastic methods for IBNR reserve calculations performed by the actuary of the Company.

A triangulation method (Chain-ladder method) is used in the calculation of the IBNR reserve for Company's portfolio for following lines of business:
• accident insurance;
• motor transport (except railway transport) insurance (CASCO);
• general third party liability insurance;
• credit insurance;
• surety insurance;
• motor vehicle owner third party liability insurance (MTPL).

Where available statistics are considered to be insufficient, e.g. lack of historical data, both IBNR reserves are calculated as a maximum from a percentage of premiums (5%) written during the last 12 months in the respective line of business or at least initial reserve or from triangle in the following lines of business:
• health insurance;
• railway rolling stock insurance;
• aircraft insurance;
• marine vessel insurance;
• freight insurance;
• property insurance against damage by fire and natural disasters;
• property insurance against other risks;
• aircraft owner third party liability insurance;
• ship owners' third party liability insurance;
• miscellaneous financial losses insurance;
• legal expenses insurance;
• assistance insurance.

A triangulation method (Chain-ladder method) is used in the calculation of the IBNR reserve for InterRisk Vienna Insurance Group AAS portfolio which was acquired in reorganisation for the following lines of insurance:
• accident insurance;
• motor transport (except railway transport) insurance (CASCO);
• property insurance against damage by fire and natural disasters;
• general third party liability insurance;
• assistance insurance;
• motor vehicle owner third party liability insurance.

Due to insufficient statistical data available, IBNR reserve for InterRisk Vienna Insurance Group AAS portfolio's credit insurance line of business has been set at EUR 1 500 in accordance with the Company's methodology of calculation of technical provisions.

(f) Ceded reinsurance

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

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

Reinsurance commissions and profit participations include commissions received or receivable from reinsurers and profit participations based on the reinsurance contracts. Reinsurance commissions are deferred in a manner consistent with the deferred client acquisition costs.

(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 loss adjustment expenses, client acquisition costs and investment management expenses 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 mainly in proportion to the volume of the gross premiums written.

(i) Outstanding claim reserves

Forecast inflation and discount rates are one of the key assumptions used in the estimates of the outstanding claim 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 2018 for economic inflation:

EUR'000	Projected annual inflation increased by 1%	Projected annual inflation decreased by 1%
Increase/ (decrease) in outstanding claim reserves (including annuities)	2 102	(2 555)

(j) Insurance receivables and payables

Amounts due to and from policyholders, intermediaries and reinsurers are financial instruments and are included in receivables and payables from direct insurance activities and reinsurance activities, and not in insurance contract liabilities or reinsurers' share of insurance contract liabilities.

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 Director of Finance department.

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;

Further analysis of basis for fair value and fair value determination principles are disclosed in Notes 20 and 42.

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 carried out regularly, at least once in 3 years, 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 value is based on market value, 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) Payable tax

On 1 January 2018, the new Law on Corporate Income Tax of the Republic of Latvia that was adopted on 28 July 2017 came into effect, setting out a conceptually new regime for paying taxes. The tax rate is 20% (until 1 January 2018 - 15%), the taxation period is one month and the taxable base includes:
• 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 Management board and Supervisory Board 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 is possible to utilise these losses to decrease the amount of tax calculated on dividends in the reporting period by no more than 50%. It is possible to carry forward unused tax losses and utilise them in the previously described manner only until 2022.

(b) Deferred tax

Lithuania
Deferred tax is recognised providing for temporary differences between the carrying value of assets and liabilities in the financial statements (financial reporting purposes) and the amounts used for tax purposes.

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

The carrying amount of deferred tax asset was reviewed at 31 December 2018 and changes were charged to profit or loss in the reporting period.

Latvia
The Law on Corporate Income Tax of the Republic of Latvia that was adopted on 28 July 2017 and came into effect on 1 January 2018 applies 20% tax rate to distributed profit while the applicable tax rate for profit that is added to retained earnings is 0%. Consequently, the deferred tax asset and liabilities are to be recognized in zero amount.

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

The Company has tax losses brought forward from reorganisation in the amount of EUR 7.6 million as at 31 December 2018 and 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 2018-2021 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.

The potential benefits described above as at 31 December 2018 and 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.

(d) 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 8 and 12 of the Corporate Income Tax Law.

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:

Outstanding claim 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 reserves 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 (IBNR) reserves. The key assumptions in respect of sufficiency of outstanding claim reserves are monitored regularly through claims reserves run-off analyses and liability adequacy testing, performed for each line of business.

Valuation of investment property, land and buildings 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 land 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.

The risk management system ensures three levels of defence:
• the first level is daily risk management within the business unit (following "four eyes" principle; documentation of critical processes etc.);
• the second level 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 policyholder 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 per 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 and are binding both for the Company, as well as for the customers. Product methodologies have been developed for all insurance types and 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 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 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 insurance line, 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 transactions requiring special authorisation are subject to the special attention of the Company's Management Board.

(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.

Motor transport (except railway transport) insurance (CASCO)

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 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 rarely exceed EUR 70 000. Insurance premiums are set in line with applicable insurance methodology. Vehicles are divided into four risk groups with different insurance premiums. CASCO usually contains a retention element by the policyholder.

Motor vehicle owner third party liability insurance (MTPL)

Product features

This insurance is a compulsory insurance which policy conditions and indemnification rules are prescribed by the respective regulations on Motor Vehicle Owner 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 vehicle owner 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 according to previous statistics the claims have been notified promptly and can be settled without delay, the situation can change and claims arising from motor vehicle owner 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 vehicle owner 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 of property. The risks covered by property insurance include fire risk, pipe leakage, explosion, third party illegal activities, and natural disasters. The most frequently occurring risks for property include pipe leakages and fire. Most often larger losses result 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.

In order to charge appropriate premiums different specifics of 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.

Insurance risk is managed primarily through pricing, independent assessment of property under international standards, product design, risk selection and reinsurance. Therefore the Company 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, 40.9% of all business (by net earned premiums) was conducted in Latvia and 46.9% 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 considers that the risk concentration is at an 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 while the largest claims usually are because of a fire. 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 retention is specified and reviewed in accordance with business needs, involving the Management Board and Actuarial Department, and taking into account maximum allowed net Retention of 3% of the Company's equity. 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 that reserves are inadequate in the light of the estimated future cash flows, the deficiency is recognised in the profit or loss by setting additional unexpired risk reserve. Expected cash flows related 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 the Company's and InterRisk Vienna Insurance Group AAS portfolio. The test takes into account potential decrease of claims paid due to regress and it is performed after the deduction of any deferred acquisition and administration costs from unearned premium reserve. However, it does not take into account reinsurance.

Liability adequacy test as at 31 December 2018 did not identify any insufficiency.

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 claim 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 claim 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 table below illustrates how estimates of cumulative claims have developed over time, the reader of these financial statements should avoid extrapolation of past remains or deficits in respect to the balance of unpaid losses of this period.
The following table shows how the Company estimates total claims for each accident year have developed over time and reconciles the cumulative claims to the amount included in the Statement of the Financial position.

Claim development analysis, EUR'000

	Year of insured occurrence				
	2015 year and before	**2016 year**	**2017 year**	**2018 year**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Total claims for the year	91 289*	84 560	98 521	**135 471**	**135 471**
-one year later	87 818	87 720	**103 245**		**103 245**
-two years later	107 603	**88 228**			**88 228**
-three years later	**112 541**				**112 541**
Total payments	66 706**	78 347	85 553	79 313	**309 919**
Total claim reserves 31.12.2018	**45 835**	**9 881**	**17 692**	**56 158**	**129 566**

* Total claims include 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 2018.

(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 reserve 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 2018 78% of IBNR reserve consists of the following lines of business: MTPL and general third party liability insurance. 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 reserve as at 31 December 2018 in the case if the annual economic inflation used in the IBNR reserve estimation would change as a result of a 1 percentage point (p.p.) change in inflation.

EUR'000 Line of business	IBNR, as at 31.12.2018	IBNR if projected annual inflation increased by 1 p.p.	IBNR without using inflation
MTPL	16 169	16 784	14 546
General TPL	3 044	3 112	2 852

EUR'000 Line of business	IBNR, as at 31.12.2017*	IBNR if projected annual inflation increased by 1 p.p.	IBNR without using inflation
MTPL	13 884	14 282	13 153
General TPL	2 830	2 910	2 679

* In 2017 reserves acquired as a result of reorganisation with InterRisk Vienna Insurance Group AAS are added.

The main assumption used in the calculation of claim reserves is a stable claims statistics. The Management expects that the development of claims in the future will have a similar pattern as in the past. Reserves are not discounted except for RBNS for annuities stemming from non-life business, MTPL line of business using EIOPA (The European Insurance and Occupational Pensions Authority) risk-free interest rates by term structures.

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. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. Difficulties in assessing claim provisions also differ by class of business due to differences in the underlying insurance contract, the size of claims and the frequency of claims, determining duration between the occurrence date of a claim and reporting date (development 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 method. 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.

Starting from the 1 January 2018 the Company is calculating IBNER (incurred but not enough reported) reserve for large claims incurred but not enough reported for each country separately in MTPL line of business on a net basis. A net claim is considered to be large if it exceeds EUR 400 000. IBNER reserve cannot be negative.

Calculation assumptions among other include frequency, net premium amount and reinsurance retention for each country separately. If a large claim occurs in any given quarter the difference between the net claim and EUR 400 000 is subtracted from IBNER reserve. IBNER reserve is included under IBNR reserve position in the financial statements.

In addition IBNR reserve volume for MTPL and Property line of business is reviewed by using stochastic methods – Bootstrapping Chain Ladder, Mack Chain Ladder.

The actual method or mix 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 insurance claim reserves

IBNR reserve estimation for MTPL insurance claims is performed for the main part of claims incurred excluding pensions and another bodily injury claims for which a separate calculation is performed. Chain coefficients are calculated separately for material claims incurred triangle for each Baltic state.

RBNS reserves for pensions are calculated based on mathematical formulas of life insurance. The main assumptions in these calculations are mortality tables, inflation and discount rates. General Latvian mortality tables are used for RBNS reserve calculations. Special disabled person mortality tables are used for first or second group disabled persons. Cash flows are calculated until the end of life or until age of retirement. EIOPA given discount rates are used for discounting cash flows. In addition, RBNS reserve for cases involving government social insurance agencies and private persons are calculated using specific indexation inflation coefficients set by each country separately.

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 solvency capital requirements are observed.

When carrying out investing activities, the employees of Financial Department are guided according to the approved Investment and risk strategy, which regulates 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. On quarterly basis the Company performs mismatch analysis of asset and liabilities' currencies, duration and cash flows during solvency capital requirement calculations.

(a) Currency risk

Currency risk is 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 EUR 14 018 thousand, 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 2018 and 2017 and a simplified scenario of a 10% change in PLN, GBP, USD to EUR exchange rate is as follows:

	2018	2017
EUR'000	**Net income**	**Net income**
10% depreciation of PLN against EUR	34	20
10% appreciation of PLN against EUR	(34)	(20)
10% depreciation of GBP against EUR	37	(6)
10% appreciation of GBP against EUR	(37)	6
10% depreciation of USD against EUR	41	(51)
10% appreciation of USD against EUR	(41)	51

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

31 December 2018	**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	173 627	456	14 009	-	1 664	-	-	**189 756**
Non-fixed income securities	13 645	-	-	-	-	-	-	**13 645**
Deposits with banks	3 008	-	-	-	-	-	-	**3 008**
Loans	1 509	-	-	-	-	-	-	**1 509**
Receivables	35 236	-	-	-	-	-	-	**35 236**
Cash and cash equivalents	13 190	407	81	3	5	2 107	57	**15 850**
Total financial assets	**240 215**	**863**	**14 090**	**3**	**1 669**	**2 107**	**57**	**259 004**

31 December 2018	EUR EUR'000	USD EUR'000	DKK EUR'000	NOK EUR'000	PLN EUR'000	GBP EUR'000	Other EUR'000	Total EUR'000
Insurance contract liabilities, net and financial liabilities								
Unearned premium and unexpired risk reserves, net	70 148	924	-	-	-	-	-	**71 072**
Outstanding claim reserves, net	77 819	346	72	23	2 010	2 481	220	**82 971**
Financial liabilities	25 409	-	-	-	-	-	-	**25 409**
Total insurance contract liabilities, net and financial liabilities	**173 376**	**1 270**	**72**	**23**	**2 010**	**2 481**	**220**	**179 452**
Open currency position	**66 839**	**(407)**	**14 018**	**(20)**	**(341)**	**(374)**	**(163)**	**79 552**

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	31 840	-	-	-	-	-	-	**31 840**
Cash and cash equivalents	29 661	895	108	22	250	2 531	95	**33 562**
Total financial assets	**205 176**	**1 354**	**10 383**	**22**	**1 555**	**2 531**	**95**	**221 116**
Insurance contract liabilities, net and financial liabilities								
Unearned premium and unexpired risk reserves, net	64 268	597	-	-	-	-	-	**64 865**
Outstanding claim reserves, net	64 833	52	67	-	1 646	2 472	235	**69 305**
Financial liabilities	18 317	-	-	-	-	-	-	**18 317**
Total insurance contract liabilities, net and financial liabilities	**147 418**	**649**	**67**	**-**	**1 646**	**2 472**	**235**	**152 487**
Open currency position	**57 758**	**705**	**10 316**	**22**	**(91)**	**59**	**(140)**	**68 629**

(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 other comprehensive income for the period. A simplified scenario of 5% change in all available-for-sale instruments prices would result in the following effect on the other comprehensive income:

	2018 EUR'000	2017 EUR'000
5% increase in securities prices	9 887	7 385
5% decrease in securities prices	(9 887)	(7 385)

An analysis of the sensitivity of the Company's profit or loss to changes in securities prices based on positions existing as at 31 December 2018 and 2017 and a simplified scenario of a 5% change in all fair value through profit and loss instruments prices is as follows:

	2018 EUR'000	2017 EUR'000
5% increase in securities prices	89	90
5% decrease in securities prices	(89)	(90)

(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).

The Company is exposed to a moderate interest rate risk. The duration matching of assets and liabilities is analysed quarterly.

	31.12.2018		31.12.2017	
EUR'000	Profit or loss	OCI	Profit or loss	OCI
10 bp parallel increase	(169)	(1 163)	441	(536)
10 bp parallel decrease	173	1 163	(456)	521

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 2018	Up to 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	21	1 775	-	-	**1 796**	1 796
Available-for-sale instruments	3 451	36 042	146 689	13 645	**199 827**	186 182
Held-to-maturity instruments	30	-	1 748	-	**1 778**	1 778
Deposits with banks	3 008	-	-	-	**3 008**	3 008
Loans	9	-	1 500	-	**1 509**	1 509
Receivables	-	-	-	35 236	**35 236**	-
Cash and cash equivalents	-	-	-	15 850	**15 850**	-
Total financial assets	**6 519**	**37 817**	**149 937**	**64 731**	**259 004**	194 273

31 December 2017	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	21	1 804	-	-	**1 825**	1 825
Available-for-sale instruments	595	29 086	113 150	5 974	**148 805**	142 831
Held-to-maturity instruments	30	-	1 751	-	**1 781**	1 781
Deposits with banks	3 303	-	-	-	**3 303**	3 303
Receivables	-	-	-	31 840	**31 840**	-
Cash and cash equivalents	-	-	-	33 562	**33 562**	-
Total financial assets	**3 949**	**30 890**	**114 901**	**71 376**	**221 116**	**149 740**

Liquidity risks

The Company understands liquidity as the ability to meet its current liabilities in timely and comprehensive manner.

In order to mitigate any short-term liquidity risks, the Company carries out regular cash flow planning and continuously maintains a minimal cash position. As a long-term liquidity risk mitigation, the Company invests primary into highly liquid investments.

Highly liquid 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 instruments at fair value through profit and loss and available for sale instruments, 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 2018	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	21	1 775	-	-	**1 796**
Available-for-sale instruments	3 451	36 042	146 689	13 645	**199 827**
Held-to-maturity instruments	30	-	1 748	-	**1 778**
Deposits with banks	3 008	-	-	-	**3 008**
Loans	9	-	1 500	-	**1 509**
Receivables from direct insurance activities	33 637	-	-	-	**33 637**
Receivables from reinsurance activities	1 190	-	-	-	**1 190**
Other receivables	409	-	-	-	**409**
Cash and cash equivalents	15 850	-	-	-	**15 850**
Total financial assets taking into account maturity	**57 605**	**37 817**	**149 937**	**13 645**	**259 004**
Total financial assets taking into account liquidity	**255 756**	**-**	**3 248**	**-**	**259 004**
Insurance contract liabilities, netand financial liabilities					
Insurance contract liabilities, net	110 495	10 648	32 900	-	**154 043**
Financial liabilities	18 409	-	7 000	-	**25 409**
Total Insurance contract liabilities, netand financial liabilities	**128 904**	**10 648**	**39 900**		**179 452**
Maturity gap	**(71 299)**	**27 169**	**110 037**	**13 645**	**79 552**
Maturity gap taking into account liquidity	**126 852**	**(10 648)**	**(36 652)**	**-**	**79 552**
Accumulated maturity gap taking into account liquidity	**126 852**	**116 204**	**79 552**	**79 552**	**79 552**

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	21	1 804	-	-	**1 825**
Available-for-sale instruments	595	29 086	113 150	5 974	**148 805**
Held-to-maturity instruments	30	-	1 751	-	**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	570	-	-	-	**570**
Cash and cash equivalents	33 562	-	-	-	**33 562**
Total financial assets taking into account maturity	**69 351**	**30 890**	**114 901**	**5 974**	**221 116**
Total financial assets taking into account liquidity	**219 365**	**-**	**1 751**	**-**	**221 116**
Insurance contract liabilities, net and financial liabilities					
Insurance contract liabilities, net	97 902	12 247	24 021	-	134 170
Financial liabilities	16 817	-	1 500	-	18 317
Total insurance contract liabilities, net and financial liabilities	**114 719**	**12 247**	**25 521**	**-**	**152 487**
Maturity gap	**(45 368)**	**18 643**	**89 380**	**5 974**	**68 629**
Maturity gap taking into account liquidity	**104 646**	**(12 247)**	**(23 770)**	**-**	**68 629**
Accumulated maturity gap taking into account liquidity	**104 646**	**92 399**	**68 629**	**68 629**	**68 629**

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, intermediaries and reinsurance debtors in case the counterparty fails to fulfil its payment obligations.

Maximum credit risk	2018 EUR'000		2017 EUR'000	
	Gross	Net	Gross	Net
Government bonds	142 836	142 836	120 050	120 050
Corporate bonds	32 911	32 911	16 112	16 112
Mortgage bonds	14 009	14 009	10 275	10 275
Deposits with banks	3 008	3 008	3 303	3 303
Loans	1 509	1 509	-	-
Due from policy holders	33 172	32 682	29 196	28 550
Due from intermediaries	1 113	955	1 827	1 691
Receivables from reinsurance activities	1 190	1 190	1 029	1 029
Other debtors	710	409	875	570
Cash	15 850	15 850	33 562	33 562
	246 308	**245 359**	**216 229**	**215 142**

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 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:

2018	Rating	Government bonds EUR'000	Listed debt securities EUR'000	Mortgage bonds EUR'000	Total EUR'000
Agency: S&P, Fitch, Moody's					
	AAA	-	-	14 009	**14 009**
	AA	9 915	3 378	-	**13 293**
	A	130 287	11 568	-	**141 855**
	BBB	2 634	17 459	-	**20 093**
	No rating	-	506	-	**506**
		142 836	**32 911**	**14 009**	**189 756**

2017	Rating	Government bonds EUR'000	Listed debt securities EUR'000	Mortgage bonds EUR'000	Total EUR'000
Agency: S&P, Fitch, Moody's					
	AAA	-	-	10 275	**10 275**
	AA	9 274	2 572	-	11 846
	A	103 332	7 508	-	110 840
	BBB	7 444	6 032	-	13 476
		120 050	**16 112**	**10 275**	**146 437**

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.

Rating	31 December 2018 Reinsurance debtors EUR'000	 Reinsurers' share of insurance contract liabilities EUR'000
AA	74	13 364
A	291	49 801
No rating	825	1 511
	1 190	**64 676**

Rating	31 December 2017 Reinsurance debtors EUR'000	 Reinsurers' share of insurance contract liabilities EUR'000
AA	253	5 493
A	587	43 819
No rating	189	1 936
	1 029	**51 248**

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

	31 December 2018 EUR'000	31 December 2017 EUR'000
Accident insurance	50	50
Health insurance	Retained on net	Retained on net
CASCO	Retained on net	Retained on net
Railway rolling stock insurance	100	1 000
Aircraft insurance	100	100
Marine vessel insurance	800	800
Freight insurance	100	1 000
Property insurance	1 000	1 000
MTPL	600	600
Aircraft owner third party liability insurance	100	100
Ship owner third party liability insurance	800	800
General third party liability insurance	400	400
Credit insurance	800	800
Surety insurance	1 000	1 000
Miscellaneous financial losses insurance	1 000	1 000
Legal expense insurance	Retained on net	Retained on net
Assistance 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. 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:
• compliance risk (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 more than sufficient.

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

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 eligible own funds, which should equal or be higher than a determined solvency capital requirement.

The Company has developed a capital management policy to be sure:
(a) that eligible 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 taken into account in the ORSA (own risk solvency assessment).

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 formula for calculating and reporting the capital requirements according to principles described by the regulation.

(5) Gross written premiums

	2018 EUR'000			2017 EUR'000		
	Gross written premiums	Reinsurers' share in premiums	Net written premiums	Gross written premiums	Reinsurers' share in premiums	Net written premiums
Accident insurance	4 497	(35)	4 462	3 775	(26)	3 749
Health insurance	22 935	–	22 935	15 337	–	15 337
CASCO	48 967	(3)	48 964	38 950	(7)	38 943
Railway rolling stock insurance	320	(42)	278	292	(12)	280
Aircraft insurance	114	(24)	90	82	(1)	81
Marine vessel insurance	2 772	(2 491)	281	1 915	(1 729)	186
Freight insurance	1 314	(226)	1 088	1 433	(141)	1 292
Property insurance	25 215	(4 447)	20 768	20 854	(2 251)	18 603
MTPL*	77 229	(39 131)	38 098	61 449	(16 510)	44 939
Aircraft owner third party liability insurance	148	(54)	94	106	(12)	94
Ship owner third party liability insurance	87	(78)	9	92	(83)	9
General third party liability insurance	8 083	(1 097)	6 986	6 772	(1 039)	5 733
Credit insurance	206	(124)	82	221	(78)	143
Surety insurance	7 500	(2 481)	5 019	5 676	(1 480)	4 196
Miscellaneous financial losses insurance	502	(152)	350	212	(45)	167
Legal expenses insurance	29	–	29	27	–	27
Assistance insurance	7 274	(2)	7 272	5 786	(2)	5 784
Total	**207 192**	**(50 387)**	**156 805**	**162 979**	**(23 416)**	**139 563**

* 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 624 thousand (2017: EUR 463 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 1 433 thousand (2017: EUR 1 181 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 Motor Insurers' Bureau of Latvia: EUR 0.50 per contract + EUR 2 828 per month;
• For the MTPL Guarantee Fund: payments are made in accordance to special calculation by taking into account the period of contract and the type of insured motor vehicle;
• For the Road Traffic Accidents Fund in Latvia: 2% from gross written premium.

Breakdown of gross written premiums by country:

	2018 EUR'000	2017 EUR'000
Latvia	78 841	55 750
Lithuania	102 797	86 169
Estonia	25 554	21 060
	207 192	**162 979**

(6) Net earned premiums

	2018 EUR'000			2017 EUR'000		
	Gross earned premiums	Reinsurers' share in premiums	Net earned premiums	Gross earned premiums	Reinsurers' share in premiums	Net earned premiums
Accident insurance	4 279	(35)	4 244	3 525	(26)	3 499
Health insurance	22 212	-	22 212	14 553	-	14 553
CASCO	47 365	(3)	47 362	35 224	(7)	35 217
Railway rolling stock insurance	308	(42)	266	295	(12)	283
Aircraft insurance	96	(24)	72	100	(33)	67
Marine vessel insurance	2 131	(1 936)	195	1 579	(1 412)	167
Freight insurance	1 387	(224)	1 163	1 282	(151)	1 131
Property insurance	22 282	(3 100)	19 182	17 205	(1 903)	15 302
MTPL	78 583	(40 995)	37 588	56 577	(15 793)	40 784
Aircraft owner third party liability insurance	139	(55)	84	271	(164)	107
Ship owner third party liability insurance	92	(83)	9	105	(94)	11
General third party liability insurance	8 504	(1 059)	7 445	6 404	(971)	5 433
Credit insurance	199	(119)	80	253	(81)	172
Surety insurance	6 530	(2 185)	4 345	5 202	(1 365)	3 837
Miscellaneous financial losses insurance	680	(268)	412	192	(47)	145
Legal expenses insurance	28	-	28	27	-	27
Assistance insurance	7 253	(2)	7 251	5 553	(2)	5 551
Total	**202 068**	**(50 130)**	**151 938**	**148 347**	**(22 061)**	**126 286**

(7) Unearned premium and unexpired risk reserves

	Gross EUR'000	Reinsurers' share EUR'000	Net EUR'000
Balance at 31 December 2016	**56 707**	**(2 222)**	**54 485**
Acquired as result of reorganisation	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**
Written premiums	207 192	(50 387)	156 805
Premiums earned	(202 068)	50 130	(151 938)
Changes during period	*5 124*	*(257)*	*4 867*
Reinsurers deposit	-	1 340	1 340
Balance at 31 December 2018	**89 153**	**(18 081)**	**71 072**

	31.12.2018 EUR'000		31.12.2017 EUR'000	
	Gross	Net	Gross	Net
Unearned premium reserve	89 153	71 072	83 746	64 582
Unexpired risk reserve	-	-	283	283
	89 153	**71 072**	**84 029**	**64 865**

(8) Other technical income, net

	2018 EUR'000	2017 EUR'000
Fee for policy amendments and cancellation	209	183
Other technical income	141	113
	350	**296**

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

	2018 EUR'000			2017 EUR'000		
	Gross claims paid	Reinsurers' share in claim	Net claims paid	Gross claims paid	Reinsurers' share in claim	Net claims paid
Accident insurance	(1 787)	-	(1 787)	(1 617)	-	(1 617)
Health insurance	(16 245)	-	(16 245)	(11 393)	-	(11 393)
CASCO	(29 229)	392	(28 837)	(21 681)	-	(21 681)
Railway rolling stock insurance	(47)	-	(47)	(18)	-	(18)
Aircraft insurance	(2)	-	(2)	(4)	-	(4)
Marine vessel insurance	(1 436)	1 193	(243)	(370)	292	(78)
Freight insurance	(808)	-	(808)	(286)	-	(286)
Property insurance	(10 697)	878	(9 819)	(7 197)	201	(6 996)
MTPL	(45 429)	19 903	(25 526)	(33 622)	3 398	(30 224)
Aircraft owner third party liability insurance	(7)	3	(4)	(2)	-	(2)
Ship owner third party liability insurance	(2)	-	(2)	(17)	2	(15)
General third party liability insurance	(2 601)	54	(2 547)	(1 395)	82	(1 313)
Credit insurance	(376)	186	(190)	(388)	186	(202)
Surety insurance	(6 636)	3 758	(2 878)	(917)	324	(593)
Miscellaneous financial losses insurance	(1)	-	(1)	(2)	-	(2)
Assistance insurance	(2 160)	-	(2 160)	(1 627)	-	(1 627)
	(117 463)	**26 367**	**(91 096)**	**(80 536)**	**4 485**	**(76 051)**

Gross claims paid include:

	2018 EUR'000	2017 EUR'000
Paid claims	(118 505)	(81 087)
Loss adjustment expenses*	(6 985)	(5 858)
Recovered losses	8 027	6 409
	(117 463)	**(80 536)**

*Loss adjustment expenses in the reporting period include EUR 3 846 thousand (2017: EUR 3 162 thousand) salaries and social contributions for employees dealing with claims handling and allocation of salaries and social contributions for back office employees.

(10) Outstanding claim technical reserve

	Gross EUR'000	Reinsurers' share EUR'000	Net EUR'000
Balance at 31 December 2016	**56 938**	**(6 793)**	**50 145**
Acquired as result of reorganisation	24 855	(16 127)	8 728
Claims incurred during the period	100 132	(13 649)	86 483
Claims paid	(80 536)	4 485	(76 051)
Changes during period	*19 596*	*(9 164)*	*10 432*
Balance at 31 December 2017	**101 389**	**(32 084)**	**69 305**
Claims incurred during the period	145 640	(40 878)	104 762
Claims paid	(117 463)	26 367	(91 096)
Changes during period	*28 177*	*(14 511)*	*13 666*
Balance at 31 December 2018	**129 566**	**(46 595)**	**82 971**

	31.12.2018 EUR'000			31.12.2017 EUR'000		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
RBNS	103 592	(39 676)	63 916	80 010	(29 977)	50 033
IBNR	25 974	(6 919)	19 055	21 379	(2 107)	19 272
	129 566	**(46 595)**	**82 971**	**101 389**	**(32 084)**	**69 305**

(11) Net incurred claims

	2018 EUR'000			2017 EUR'000		
	Gross claims incurred	Reinsurers' share in claims incurred	Net claims incurred	Gross claims incurred	Reinsurers' share in claims incurred	Net claims incurred
Accident insurance	(1 816)	-	(1 816)	(1 615)	-	(1 615)
Health insurance	(17 100)	-	(17 100)	(11 499)	-	(11 499)
CASCO	(29 204)	25	(29 179)	(23 528)	-	(23 528)
Railway rolling stock insurance	(1 374)	225	(1 149)	(72)	-	(72)
Aircraft insurance	(44)	(6)	(50)	(19)	18	(1)
Marine vessel insurance	(3 598)	3 129	(469)	(517)	473	(44)
Freight insurance	(2 241)	60	(2 181)	(287)	6	(281)
Property insurance	(15 448)	4 409	(11 039)	(9 204)	264	(8 940)
MTPL	(62 742)	30 362	(32 380)	(43 960)	10 411	(33 549)
Aircraft owner third party liability insurance	-	(4)	(4)	2	12	14
Ship owner third party liability insurance	18	(18)	-	(62)	47	(15)
General third party liability insurance	(4 408)	411	(3 997)	(3 297)	775	(2 522)
Credit insurance	(82)	242	160	(678)	260	(418)
Surety insurance	(5 265)	2 053	(3 212)	(3 250)	1 383	(1 867)
Miscellaneous financial losses insurance	72	(10)	62	(2)	-	(2)
Legal expenses insurance	1	-	1	(2)	-	(2)
Assistance insurance	(2 409)	-	(2 409)	(2 142)	-	(2 142)
	(145 640)	**40 878**	**(104 762)**	**(100 132)**	**13 649**	**(86 483)**

(12) Deferred client acquisition costs

	EUR'000
Balance at 31 December 2016	**5 600**
Acquired as result of reorganisation	1 537
Reclassification	*(187)*
Direct 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**
Direct client acquisition costs	21 320
Deferred commissions allocated to the profit or loss	(21 109)
Changes during period	*211*
Balance at 31 December 2018	**8 613**

Client acquisition costs:

	2018 EUR'000	2017 EUR'000
Direct client acquisition costs		
Intermediaries' commissions payable	20 426	16 519
Agents' commissions payable	515	193
Other payable to intermediaries	379	301
Total direct client acquisition costs	**21 320**	**17 013**
Indirect client acquisition costs		
Salaries and social contributions of front office employees	11 647	8 947
Allocated salaries and social contributions of back office employees	157	196
Front office administrative expenses	4 138	2 747
Total indirect client acquisition costs	**15 942**	**11 890**
	37 262	**28 903**

(13) Administrative expenses

	2018 EUR'000	2017 EUR'000
Salaries and social contribution expenses	7 015	7 111
Rent payments	553	363
Computer programs rent and maintenance	1 563	835
Obligatory payments*	69	43
Business related costs	579	451
Utility expenses (electricity, heating, water)	216	169
Car maintenance costs	226	205
Telecommunication costs	202	197
Advertising expenses	444	508
Other personnel expenses	581	268
Presentation expenses	187	181
Legal expenses	19	12
Computer maintenance	79	33
Audit and consultant service expenses	240	68
Cleaning expenses	46	33
Public relations expenses	72	68
Typographic costs	48	54
Other administrative expenses	833	203
	12 972	**10 802**

* According to the Latvian legislation 0.20% of gross premiums in the MTLP line and 0.283% of gross premiums in other lines of insurance should be transferred to the FCMC. Payments to the Insured Interests Protection Fund are made in amount of 1% of premiums paid by private person policy holders for voluntary types of insurance.

Administrative expenses allocated by insurance types:

	2018 EUR'000	2017 EUR'000
Accident insurance	268	254
Health insurance	1 397	1 067
CASCO	3 180	2 594
Railway rolling stock insurance	21	23
Aircraft insurance	6	7
Marine vessel insurance	145	119
Freight insurance	92	93
Property insurance	1 425	1 273
MTPL	4 871	4 062
Aircraft owner third party liability insurance	10	19
Ship owner third party liability insurance	7	8
General third party liability insurance	571	461
Credit insurance	13	18
Surety insurance	471	377
Miscellaneous financial losses insurance	27	14
Legal expenses insurance	2	2
Assistance insurance	466	411
	12 972	**10 802**

(14) Unearned reinsurance commission income

	EUR'000
Balance at 31 December 2016	**663**
Acquired as result of reorganisation	201
Written commissions	(7 459)
Deferred commissions allocated to the profit or loss	7 755
Changes during period	*296*
Balance at 31 December 2017	**1 160**
Written commissions	(13 367)
Deferred commissions allocated to the profit or loss	14 037
Changes during period	*670*
Balance at 31 December 2018	**1 830**

(15) Other technical expenses

	2018 EUR'000	2017 EUR'000
Impairment allowance for receivables from direct insurance and reinsurance operations	109	37
Expenses related to distribution of policies	69	48
Other	146	62
	324	**147**

(16) Interest income

	2018 EUR'000	2017 EUR'000
Interest income from financial assets at fair value through profit or loss	23	23
Interest income from held to maturity financial investments	35	-
Interest and dividend income from available for sale investments	1 687	856
Interest income from deposits with credit institutions	21	25
Interest on loans	9	-
	1 775	**904**

(17) Income tax expense

	2018 EUR'000	2017 EUR'000
Current corporate income tax	(1 168)	(1 052)
Deferred tax	26	143
	(1 142)	**(909)**

Effective tax rate reconciliation

	2018 EUR'000				2017 EUR'000
	Latvia	Lithuania	Estonia	Total	Total
Profit before tax	**2 777**	**7 332**	**185**	**10 294**	**8 701**
Theoretical tax using the 15% or 20% rate*	555	1 100	37	1 692	1 305
Non-deductible expenses	6	53	-	59	264
Profit taxation on distribution	(555)	-	(37)	(592)	(647)
Donations	-	(17)	-	(17)	(13)
Tax expenses	**6**	**1 136**	**-**	**1 142**	**909**

* Theoretical tax rate in 2018 for Latvia is 20% (2017: 15%), for Lithuania – 15% (2017: 15%), for Estonia – 20% (2017: 15%).

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

	2018 EUR'000	2017 EUR'000
Reinsurance premiums	(50 387)	(23 416)
Changes in reinsurers' share in unearned premiums reserve	257	1 355
Reinsurers' share in claims paid	26 367	4 485
Changes in reinsurers' share in reserve for outstanding claims	14 511	9 164
Reinsurance commissions and profit participation	13 367	7 459
Change in unearned reinsurance commissions	(670)	(296)
	3 445	**(1 249)**

(19) Property and equipment

	Vehicles EUR'000	Art in BTA EUR'000	Other property and equipment EUR'000	Prepayments for fixed assets EUR'000	Total EUR'000
Cost					
31.12.2016	**1 555**	**-**	**2 423**	**-**	**3 978**
Acquired as result of reorganisation	133	-	692	-	825
Purchased	334	-	927	15	1 276
Disposals	(113)	-	(557)	-	(670)
31.12.2017	**1 909**	**-**	**3 485**	**15**	**5 409**
Purchased	257	161	675	-	1 093
Disposals	(381)	-	(548)	-	(929)
Transferred	-	-	15	(15)	-
Reclassification to low-value-inventory	-	-	(33)	-	(33)
31.12.2018	**1 785**	**161**	**3 594**	**-**	**5 540**
Accumulated depreciation					
31.12.2016	**(1 191)**	**-**	**(2 056)**	**-**	**(3 247)**
Acquired as result of reorganisation	(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)**
Depreciation for the period	(166)	-	(433)	-	(599)
Depreciation on disposed assets	314	-	432	-	746
Reclassification to low-value-inventory	-	-	42	-	42
31.12.2018	**(1 205)**	**-**	**(2 489)**	**-**	**(3 694)**
Balance at 31.12.2017	**556**	**-**	**955**	**15**	**1 526**
Balance at 31.12.2018	**580**	**161**	**1 105**	**-**	**1 846**

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

(20) Land and buildings and Investment property

(a) Land and buildings

	Land and buildings EUR'000
Cost	
31.12.2016	**627**
Acquired as result of reorganisation	3 654
Revaluation	(21)
31.12.2017	**4 260**
Reclassification to Investment Property	(1 192)
Impairment	(369)
31.12.2018	**2 699**
Accumulated depreciation	
31.12.2016	**(209)**
Acquired as result of reorganisation	(1 015)
Depreciation for the period	(31)
31.12.2017	**(1 255)**
Depreciation for the period	(31)
Reclassification to Investment Property	362
31.12.2018	**(924)**
Balance at 31.12.2017	**3 005**
Balance at 31.12.2018	**1 775**

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

Transfer to investment property

During 2018, buildings and land located in Riga, building and land located in Daugavpils as well as part of a building and land located in Riga were transferred to investment property (see Note 20(b)), because they were no longer used by the Company and it was decided that the respective buildings and land, as well as part of the building and land would be leased to third parties.

Valuation technique and significant unobservable inputs

The latest valuation of land and buildings and investment property presented in the statement of financial position as of 31 December 2018 was carried out in October 2017 by external experts, Ober Haus Vērtēšanas Serviss SIA. All real estate objects were revalued at fair value based on the results of the valuation.

The Company has assessed that there are no significant changes in significant unobservable inputs as at 31 December 2018 in comparison to October 2017 and consequently considers that the determined fair values continues to be appropriate.

The following table shows the valuation technique used in measuring the fair value of land and buildings, 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
Building 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)
Building 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)

Type	Fair value, EUR'000	Valuation technique	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Building 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)
Building and land located in Daugavpils	84	The income capitalization approach	Rental income in the range between EUR 3.50 and EUR 5.00 per m^2 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)
Building 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)
Building located in Balvi	3	The income capitalization approach	Rental income in the range between EUR 3.00 and EUR 4.00 per m^2 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)
Building located in Rēzekne	20	The income capitalization approach	Rental income in the range between EUR 4.00 and EUR 5.00 per m^2 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)
Building 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)
Building 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**	1 322	Discounted cash flows technique*	Rental income of EUR 6.33 per m^2 Discount rate 9%	The estimated fair value would increase/ (decrease) if rental income per m^2 was higher/ (lower).

*Discounted cash flows technique is a model based on discounted cash flows from rental income.
**Property was impaired in 2018, see below.

Impairment loss

During 2018, the Company encountered difficulty to lease out part of its property – 20% of building and land located in Riga that at the beginning of the year was transferred from own use to investment property (remaining part of 80% of property was still used by the Company in 2018). It was identified that the actual market rental price for such property is lower than the price used in the valuation of the property, as well as the actual occupancy rate is lower due to the lack of interest of the market in such property. Consequently, the Company performed the impairment test for this property and recognized an impairment loss of EUR 461 thousand which was then split between Land and buildings (80%) and Investment property (20%) in accordance with the split of the property between these positions.

(b) Investment property

	Investment property EUR'000
Balance at 31.12.2016	**99**
Acquired as result of reorganisation	354
Depreciation for the period	(7)
Balance at 31.12.2017	**446**
Reclassification from Land and Buildings	830
Disposals	118
Impairment	(92)
Depreciation for the period	(191)
Balance at 31.12.2018	**875**

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.

All investment properties represent Level 3 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
Building 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)
Building 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)
Building 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)
Building located in Tallinn	269	The income capitalizatio n 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)

Type	Fair value, EUR'000	Valuation technique	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
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).
Buildings 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 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)
Building and land located in Riga**	330	Discounted cash flows technique*	Rental income of EUR 6.33 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)

*Discounted cash flows technique is a model based on discounted cash flows from rental income.
** Property was impaired in 2018, see Note 20(a).

(21) Intangible assets

	Software EUR'000
Cost	
31.12.2016	**3 868**
Acquired as result of reorganisation	310
Purchased	673
Disposals	(274)
31.12.2017	**4 577**
Purchased	455
Disposals	(185)
31.12.2018	**4 847**
Accumulated amortisation	
31.12.2016	**(2 226)**
Acquired as result of reorganisation	(263)
Amortisation for the period	(576)
Amortisation on disposed assets	265
31.12.2017	**(2 800)**
Amortisation for the period	(527)
Amortisation on disposed assets	22
31.12.2018	**(3 305)**
Balance at 31.12.2017	**1 777**
Balance at 31.12.2018	**1 542**

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

(22) Financial instruments

	31.12.2018 EUR'000	31.12.2017 EUR'000
Fixed income securities	189 756	146 437
Investment funds	12 945	5 974
Investment in share capital of VIG Fund, a.s. (see Note 38)	700	-
	203 401	**152 411**

Fixed income securities:

	31.12.2018 EUR'000 Purchase cost	31.12.2018 EUR'000 Fair value	31.12.2017 EUR'000 Purchase cost	31.12.2017 EUR'000 Fair value
Debt securities issued or guaranteed by central governments or municipalities	144 003	142 836	120 512	120 050
Debt securities and other securities with fixed income, which are listed in a regulated market	47 195	46 920	26 222	26 387
		189 756		**146 437**

Investment portfolio of fixed income securities by geographic split:

	31.12.2018 EUR'000	31.12.2017 EUR'000
Latvia, Lithuania, Estonia	109 441	76 686
Poland	14 785	10 401
Other European Union countries	53 263	59 350
Other	12 267	-
	189 756	**146 437**

(23) Deposits with banks

Investment maturity structure:

	31.12.2018 EUR'000	31.12.2017 EUR'000
With original maturity from 6 to 12 months	3 008	3 303
	3 008	**3 303**

Investment structure by geographical split:

	31.12.2018 EUR'000	31.12.2017 EUR'000
Latvia	-	303
Lithuania	3 008	3 000
	3 008	**3 303**

(24) Loans

Loan maturity structure:

	31.12.2018 EUR'000	31.12.2017 EUR'000
With maturity in up to 12 months	9	-
With maturity in more than 5 years	1 500	-
	1 509	**-**

Loan structure by geographical split:

	31.12.2018 EUR'000	31.12.2017 EUR'000
Poland	1 358	-
Other European Union countries	151	-
	1 509	**-**

(25) Receivables from direct insurance activities

	31.12.2018 EUR'000	31.12.2017 EUR'000
Acquired as result of reorganisation (policy holders)	-	1 747
Acquired as result of reorganisation (intermediaries)	-	764
Acquired as result of reorganisation (impairment allowance)	-	(269)
Due from policy holders	33 172	27 449
Due from intermediaries	1 113	1 063
Impairment allowance for bad debtors	(648)	(513)
	33 637	**30 241**

	Allowance for policy holders EUR'000	Allowance for intermediaries EUR'000	Total allowance for insurance debtors EUR'000
Allowance at 31.12.2016	**(202)**	**(105)**	**(307)**
Acquired as result of reorganisation	(269)	-	(269)
Recovered debts	5	-	5
Impairment loss charge	(180)	(31)	(211)
Allowance at 31.12.2017	**(646)**	**(136)**	**(782)**
Recovered debts	156	-	156
Impairment loss charge	-	(22)	(22)
Allowance at 31.12.2018	**(490)**	**(158)**	**(648)**

	31.12.2018 EUR'000	31.12.2017 EUR'000
Acquired as result of reorganisation	-	764
Other intermediaries	1 113	1 063
Allowances for doubtful debts	(158)	(136)
Intermediaries	**955**	**1 691**
Acquired as result of reorganisation	-	1 747
Overdue receivables	4 905	3 510
More than 3 months	361	326
Less than 3 months	4 544	3 184
Outstanding receivables not yet due	28 267	23 939
Allowances for doubtful debts	(490)	(646)
Policyholders	**32 682**	**28 550**
Total direct insurance debtors	**33 637**	**30 241**

(26) Other receivables

	31.12.2018 EUR'000	31.12.2017 EUR'000
Financial assets		
Acquired as result of reorganisation	-	551
Receivables for claims handling services provided	151	148
Other debtors	559	176
Impairment allowance	(301)	(305)
Total financial assets	**409**	**570**
Non-financial assets		
Advance payments	384	117
Tax prepayments	3	46
Total non-financial assets	**387**	**163**
	796	**733**

	Gross
	EUR'000
Allowance at 31 December 2016	(313)
Written off	8
Allowance at 31 December 2017	(305)
Written off	4
Allowance at 31 December 2018	(301)

(27) Cash and cash equivalents

	31.12.2018	31.12.2017
	EUR'000	EUR'000
Cash on hand	18	5
Current accounts with credit institutions	15 832	33 557
Cash and cash equivalents	**15 850**	**33 562**
Cash and cash equivalents as disclosed in the statement of cash flows	**15 850**	**33 562**

Credit institutions:

	31.12.2018	31.12.2017
	EUR'000	EUR'000
Latvian credit institutions	5 589	15 048
Lithuanian credit institutions	2 569	11 103
Estonian credit institutions	2 156	2 389
Austrian credit institutions	5 499	5 001
Other credit institutions	19	16
	15 832	**33 557**

Current account analysis by ratings:

	31.12.2018	31.12.2017
	EUR'000	EUR'000
AA	1	1
A	5 526	5 063
BBB	3 519	2 383
BB and lower	743	-
Not rated	6 043	26 110
	15 832	**33 557**

(28) Obligatory payments disclosed in statement of cash flows

Payments made to:

	31.12.2018	31.12.2017
	EUR'000	EUR'000
Latvian Transport Insurance Bureau	712	442
Estonian and Lithuanian Transport Insurance Bureaus	1 071	873
FCMC commission	507	370
Estonian and Lithuanian insurance supervisory institutions	46	79
	2 336	**1 764**

(29) Capital and reserves

Share capital

The authorized and issued share capital of the Company at 31 December 2018 is EUR 41 609 400 (2017: EUR 41 609 400) comprised of 416 094 ordinary shares and is fully paid. Nominal value of one share is 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

	2018 EUR'000	2017 EUR'000
Dividends declared	6 624	966
Dividends paid	6 624	966

	2018 EUR	2017 EUR
Dividends declared per share	15.92	3.33
Dividends paid per share	15.92	3.33

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.

	31.12.2018 EUR'000	31.12.2017 EUR'000
Acquired as result of reorganisation	-	147
Land and buildings revaluation reserves	382	382
Other investment revaluation reserves	(328)	946
	54	**1 475**

	EUR'000
Balance at 31 December 2016	**371**
Acquired as result of reorganisation	147
Changes of revaluation reserves	957
Balance at 31 December 2017	**1 475**
Changes of revaluation reserves	(1 421)
Balance at 31 December 2018	**54**

(30) 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 2018 and 2017. These deferred tax assets have been recognised in these financial statements.

Deferred tax asset/(liabilities) attributable to:	2018 EUR'000	2017 EUR'000
Latvia	-	-
Lithuania	207	181

Movement in temporary differences during the year ended 31December 2018

				31 December 2018	
'000 EUR	**Net balance 1 January 2018**	**Recognised in profit or loss**	**Net balance 31 December 2018**	**Deferred tax asset**	**Deferred tax liability**
Property and equipment	-	-	-	-	-
Provisions	181	26	207	207	-
Deferred tax assets/(liabilities) before set-off	**181**			**207**	**-**
Set off of tax				-	-
Net deferred tax assets/(liabilities)				**207**	**-**

(31) Taxes and social contributions

Tax type	Balance at 31.12.2017 EUR'000	Calculated in reporting period EUR'000	Paid in reporting period EUR'000	Balance at 31.12.2018 EUR'000
Social contributions	416	6 260	(6 416)	260
Personal income tax	227	2 937	(3 069)	95
Value added tax	(11)	691	(683)	(3)
Real estate tax	4	15	(15)	4
Risk Duty	3	16	(16)	3
Other taxes	(3)	95	(91)	1
CIT in Latvia	(54)	6	(27)	(75)
CIT in Lithuania	199	1 162	(1 104)	257
	781	**11 182**	**(11 421)**	**542**

	31.12.2017 EUR'000	31.12.2018 EUR'000
Prepaid corporate income tax	(54)	(75)
Other tax prepayment, see Note 26	(46)	(3)
Other tax liabilities	881	620

	Tax payable 31.12.2017 EUR'000	Tax receivable 31.12.2017 EUR'000	Calculated in reporting period EUR'000	Paid in reporting period EUR'000	Tax payable 31.12.2018 EUR'000	Tax receivable 31.12.2018 EUR'000
Latvia	553	(57)	5 096	(5 306)	361	(75)
Lithuania	260	(43)	5 653	(5 689)	184	(3)
Estonia	68	-	433	(426)	75	-
	881	**(100)**	**11 182**	**(11 421)**	**620**	**(78)**

(32) Payables from reinsurance activities

	31.12.2018 EUR'000	31.12.2017 EUR'000
Acquired as result of reorganisation	-	1 912
Reinsurance companies	2 678	1 849
Reinsurance brokers	1 329	434
	4 007	**4 195**

Reinsurance creditors by geographic split:

	31.12.2018 EUR'000	31.12.2017 EUR'000
European Union member countries	3 824	4 166
Europe other than EU	67	-
North America	4	29
Other	112	-
	4 007	**4 195**

(33) Other creditors

	31.12.2018 EUR'000	31.12.2017 EUR'000
Financial liabilities		
Financial pledge	7 068	3 622
Other creditors	630	925
Total financial liabilities	**7 698**	**4 547**
Non-financial liabilities		
Acquired as result of reorganisation	-	308
Due to the Transport Insurance Bureau	102	91
Due to employees (remuneration)	384	486
Due to the Financial Capital and Market Commission, Latvia	126	108
Total non-financial liabilities	**612**	**993**
	8 310	**5 540**

(34) Provisions and accrued liabilities

Provisions

	31.12.2018 EUR'000	31.12.2017 EUR'000
Acquired as result of reorganisation	-	96
Accrued staff bonuses	1 802	1 274
Other provisions	-	50
	1 802	**1 420**

	Gross EUR'000
Provisions at 31 December 2016	**871**
Acquired as result of reorganisation	96
Paid	(807)
Increase of provisions	1 260
Provisions at 31 December 2017	**1 420**
Paid	(993)
Increase of provisions	1 375
Provisions at 31 December 2018	**1 802**

Accrued liabilities

	31.12.2018 EUR'000	31.12.2017 EUR'000
Accruals for unused employee vacations	1 128	936
Accrued liabilities	4 214	3 051
	5 342	**3 987**

(35) Number of employees and information on branches

	At 31 December 2018	At 31 December 2017
Employees	1 035	989
Insurance agents	149	162
	1 184	**1 151**

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 client service centres:

	At 31 December 2018	At 31 December 2017
Latvia	480	480
Branch in Lithuania	502	465
Branch in Estonia	53	44
	1 035	**989**

Number of branches and sales points:

	At 31 December 2018	At 31 December 2017
Customer service centres abroad	119	109
Customer service centres in Latvia (KAC)	-	6
Customer service centres in Latvia (KDC)	60	22
Customer regional centres in Latvia	-	2
Sales points	-	23

(36) Personnel expenses

	2018 EUR'000	2017 EUR'000
Remuneration	17 903	15 320
Social contribution expenses	4 911	4 308
	22 814	**19 628**

	2018 EUR'000	2017 EUR'000
Personnel expenses (included in administrative expenses in Note 13)	7 015	7 111
Personnel expenses (included in loss adjustment expenses in Note 9)	3 846	3 162
Personnel expenses (included in indirect client acquisition costs in Note 12)	11 804	9 143
Personnel expenses (included in investment management charges)	149	212
	22 814	**19 628**

(37) Information on the remuneration of the members of the Management Board and Supervisory Board

	2018 EUR'000	2017 EUR'000
Supervisory Board	33	66
Management Board	586	808
Social contribution expenses	145	232
	764	**1 106**

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

(38) 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 Comp`any has the following related party transactions in 2018 and 2017 and debtors/creditors' balances as at 31 December 2018 and 2017:

Transactions with related parties
Reinsurance

	2018 EUR'000	2017 EUR'000
Vienna Insurance Group AG Wiener Versicherung Gruppe		
Ceded reinsurance premiums	(38 014)	(15 728)
Change in reinsurers' share in unearned premium reserves	(1 864)	716
Reinsurers' share in claims paid	19 032	3 371
Change in reinsurers' share in outstanding claims reserves	9 789	5 843
Reinsurance commissions and profit participations	10 203	5 423
Interest expense for reinsurance deposit	(24)	(4)
Total	***(878)***	***(379)***
VIG Re zajišt'ovna, a.s.		
Ceded reinsurance premiums	(2 298)	(669)
Change in reinsurers' share in unearned premium reserves	134	137
Reinsurers' share in claims paid	725	23
Change in reinsurers' share in outstanding claims reserves	466	24
Reinsurance commissions and profit participations	219	38
Total	***(754)***	***(447)***
DONAU Versicherung AG Vienna Insurance Group		
Ceded reinsurance premiums	(1)	-
Total	***(1)***	-

Other transactions

	2018 EUR'000	2017 EUR'000
Vienna Insurance Group AG Wiener Versicherung Gruppe		
Interest expense for subordinated loans	(79)	-
Other expenses	(29)	-
Total	***(108)***	-
VIG FUND, a.s.		
Interest income from loans	1	-
Total	***1***	-
Atrium Tower Sp. z o.o.		
Interest income from loans	8	-
Total	***8***	-
Compensa Life insurance SE Lietuvos filiāle		
Contributions to Life Insurance	-	(3)
Contributions to Health Insurance	(84)	(66)
Total	***(84)***	***(69)***
Compensa Vienna Insurance Group UADB (Lithuania)		
Other technical income	2	-
Claim handling costs	(1)	-
Total	***1***	-
Asigurarea Romaneasca - Asirom Vienna Insurance Group S.A.		
Other technical income	2	-
Total	***2***	-
Compensa Towarzystwo Ubezpieczeń Spolka Akcyjna Vienna Insurance Group		
Other technical income	1	-
Claim handling costs	(188)	-
Total	***(187)***	-
VIG Management Service SRL		
Claim handling costs	(2)	-
Total	***(2)***	-
Evija Matveja		
Income from insurance premiums	1	1
Total	***1***	***1***
Oskars Hartmanis		
Income from insurance premiums	1	-
Total	***1***	-
Tadeuš Podvorski		
Income from insurance premiums	2	-
Total	***2***	-
Jan Bogutyn		
Consulting expenses	(48)	-
Total	***(48)***	-

Balances with related parties

There are following outstanding balances with related parties as at the reporting date:

	31.12.2018 EUR'000	31.12.2017 EUR'000
Receivables		
Vienna Insurance Group AG Wiener Versicherung Gruppe		
Reinsurers' share of insurance contract liabilities	*31 276*	*23 352*
Receivables from reinsurance activities	*10*	*373*
Total Vienna Insurance Group AG Wiener Versicherung Gruppe	31 286	23 725
VIG RE zajišt'ovna a.s.		
Reinsurers' share of insurance contract liabilities	*1 124*	*1 865*
Receivables from reinsurance activities	*61*	*7*
Total VIG RE zajišt'ovna a.s	1 185	1 872
Compensa Life insurance SE Lietuvos filiāle	7	-
VIG FUND, a.s.	852	-
Atrium Tower Sp. z o.o.	1 358	-
	34 688	**25 597**
Payables		
Vienna Insurance Group AG Wiener Versicherung Gruppe		
Reinsurers' deposit	*31 276*	*23 354*
Subordinated loan	*7 000*	*1 500*
Payables from reinsurance activities	*250*	*40*
Other lianilities	*6*	-
Total Vienna Insurance Group AG Wiener Versicherung Gruppe	**38 532**	**24 894**
VIG RE zajišt'ovna a.s.		
Reinsurers' deposit	*1*	*394*
Payables from reinsurance activities	*449*	*262*
Total VIG RE zajišt'ovna a.s	**450**	**656**
Compensa Vienna Insurance Group, UADB	-	8
	38 982	**25 558**

Receivables due from VIG FUND, a.s. and Atrium Tower Sp. z.o.o. includes loans issued to these related parties in amount of EUR 150 thousand (2017: EUR 0) and EUR 1 350 thousand (2017: EUR 0), see Note 24, and accrued interest EUR 1 thousand (2017: EUR 0) and EUR 8 thousand (2017: EUR 0), respectively, which is included in the Statement of Financial Position under Loans caption. The payment terms of these loans is 31 December 2030 and annual interest rate is 2.5%.

In addition, receivables due from VIG FUND, a.s. include investment in the share capital of VIG FUND, a.s. in amount of EUR 700 thousand (2017: EUR 0), which is included in the Statement of Financial Position under Available-for-sale instruments caption, see Note 22.

Payables due to Vienna Insurance Group AG Wiener Versicherung Gruppe include:
• Subordinated loan in amount of EUR 1 500 thousand (2017: EUR 1 500 thousand) that has been acquired as a result of reorganisation of InterRisk Vienna Insurance Group AAS, see Note 1c. The payment term of this loan is 28 December 2025 and annual interest rate is 5%. Accrued interest expense as at 31 December 2018 amounted to EUR 417 (2017: EUR 417);
• Subordinated loan in amount of EUR 5 500 thousand which was received on 27 December 2018 with annual interest rate of 5.5%. The loan shall be repaid on tenth anniversary of the receipt of the loan. Accrued interest expense as at 31 December 2018 amounted to EUR 3 315.

(39) Remaining maturities of insurance liabilities

	2018 EUR'000 Gross liabilities	Reinsu-rance	Net liabilities	2017 EUR'000 Gross liabilities	Reinsu-rance	Net liabilities
Unearned premium and unexpired risk reserves	89 153	(18 081)	71 072	84 029	(19 164)	64 865
Outstanding claim reserves	129 566	(46 595)	82 971	101 389	(32 084)	69 305
Total	**218 719**	**(64 676)**	**154 043**	**185 418**	**(51 248)**	**134 170**
Up to 1 year	175 171	(64 676)	110 495	149 150	(51 248)	97 902
1-5 years	10 648	-	10 648	12 247	-	12 247
Over 5 years	32 900	-	32 900	24 021	-	24 021
No fixed maturity	-	-	-	-	-	-

(40) Operating leases

(a) The Company as a lessee

At 31 December, the future minimum lease payments under non-cancellable leases were payable as follows.

	31.12.2018 EUR'000	31.12.2017 EUR'000
Within one year	1 127	1 137
From 1 to 5 years	1 493	2 096
More than 5 years	-	-
	2 620	**3 233**

(b) The Company as a lessor

The Company leases out its investment properties (see Note 20).

At 31 December, the future minimum lease payments under non-cancellable leases were receivable as follows.

	31.12.2018 EUR'000	31.12.2017 EUR'000
Within one year	21	8
From 1 to 5 years	-	-
More than 5 years	-	-
	21	**8**

(41) 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.

(42) 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 2018	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	-	1 796	-	**1 796**
Available-for-sale instruments	147 576	45 740	6 511	**199 827**
Held-to-maturity instruments	1 778	-	-	**1 778**
	149 354	**47 536**	**6 511**	**203 401**

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**

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

Total gains or losses for the period of the financial instruments measured at fair value are presented in the statement of comprehensive income as follows:

31 December 2018	Financial instruments at fair value 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	6
Net realised gain/(loss) on financial instruments at fair value	57
Interest income	1 745
Total gains and losses included in other comprehensive income:	
Available-for-sale financial assets – net change in fair value	(1 421)

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

(b) Financial instruments not measured at fair value

Financial assets and financial liabilities other than those reflected at their fair value and those classified as held to maturity (see Note 22), are deposits, loans issued, receivables, cash and cash equivalents, payables and subordinated loan.

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

Insurance, reinsurance and other financial debtors and financial liabilities, other than loans issued and subordinated loan, have their remaining maturities of less than one year and carry no interest, thus, their fair value is deemed not to materially differ from their carrying amounts.

Cash and cash equivalents are short-term financial instruments that have their remaining maturities of less than one year and that carry no or little interest, thus, their fair value is deemed not to materially differ from their carrying amounts.

The loans issued carry interest in line with market circumstances and terms and conditions of the respective loan (see Note 38). Taking into account the above, and as there are no material transactions costs related to this loan, its fair value is deemed not to materially differ from its carrying amount.

The subordinated loan carries interest in line with market circumstances and terms and conditions of the loan, including the increased risk due to subordination (see Note 38). Taking into account the above, and as there are no material transactions costs related to this loan, its fair value is deemed not to materially differ from its carrying amount.

(43) 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.

Wolfgang Stockmeyer Chairman of the Management Board	**Oskars Hartmanis** Deputy Chairman of the Management Board	**Evija Matveja** Member of Management Board	**Tadeuš Podvorski** Member of Management Board

8 March 2019

Independent Auditors' Report

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Independent Auditors' Report

To the shareholders of BTA Baltic Insurance Company AAS

Report on the Audit of the Financial Statements

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of BTA Baltic Insurance Company AAS ("the Company") set out on pages 20 to 81 of the accompanying Annual Report, which comprise:

- the statement of financial position as at 31 December 2018,
- the statement of comprehensive income for the year then ended,
- the statement of changes in shareholders' equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of BTA Baltic Insurance Company AAS as at 31 December 2018, 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.

KPMG

Measurement of claims reserves

The Company's gross outstanding claims reserves as at 31 December 2018 amounted to EUR 129 566 thousand (31 December 2017: EUR 101 389 thousand).

Reference to the financial statements: Note 10 "Outstanding claim technical reserve" on pages 61 to 62, Note 39 "Remaining maturities of insurance liabilities" on page 79 and Note 3 "Significant accounting policies" point 3.2 (e) "Outstanding claim reserves" on pages 34 to 36, point 3.2 (i) "Outstanding claim reserves" on page 36, point 3.16 "Significant accounting estimates and judgement in applying accounting policies" on page 43 and point 4.2 "Insurance risks and risk management" on pages 48 to 50.

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 within liabilities in the statement of financial position. The most significant claims reserves are associated with the obligatory motor third party liability, motor own damage and general third partly 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 material 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

Our response

Our audit procedures, performed, where applicable, with the assistance of our actuarial and information technology (IT) specialists, included, among others:

- Testing the design, implementation and operating effectiveness of key controls related to the process of establishing and remeasuring outstanding claims reserves, including the relevant management review controls, accounting and actuarial controls, such as reconciliations of key data underlying the actuarial calculations (including 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.

payments, and the expected payment period.

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

- For all insurance contract portfolios, performing a retrospective analysis of the accuracy and completeness of the Company's gross outstanding claims reserves recognized at the end of prior year, comparing this analysis to the Company's current actuals 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 Annual Report,
- Letter of the Chairman of the Supervisory Board, as set out on pages 4 to 5 of the Annual Repot
- Management Report, as set out on pages 6 to 15 of the Annual Report,
- About Vienna Insurance Group, as set out on pages 16 to 18 of the Annual Report,
- Statement of management responsibility, as set out on page 19 of the 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 Letter of the Chairman of the Supervisory Board and the Management Report 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 Letter of the Chairman of the Supervisory Board and the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Letter of the Chairman of the Supervisory Board and the Management Report 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.

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 shareholders' meeting on 27 April 2018 to audit the financial statements of BTA Baltic Insurance Company AAS for the year ended 31 December 2018. Our total uninterrupted period of engagement is 4 years, covering the periods ending 31 December 2015 to 31 December 2018.

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
8 March 2019

Irēna Sarma
Latvian Certified Auditor
Certificate No. 151