

Balcia Insurance SE

ANNUAL REPORT

**FOR THE YEAR ENDED
31 DECEMBER 2017**

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Information about the Company

Name of the Company	<i>Balcia Insurance SE</i>
Legal status of the company	<i>European Company</i>
Number, place and date of registration	<i>40003159840, was registered in Riga, Latvia, in 1993 as a Joint Stock Insurance Company</i>
Address	<i>Kr.Valdemara 63, Riga, Latvia</i>
Board members and their positions	<i>Lauris Boss – Chairman of the Board Kaspars Ummers – Board member Dita Daukste – Board member (until 02.05.2017)</i>
Council members and their positions	<i>Gints Dandzbergs – Chairman of the Council Pauls Dandzbergs – Deputy Chairman of the Council Marts Dandzbergs – Deputy Chairman of the Council Andrejs Galanders – Member of the Council Agris Dambenieks – Member of the Council Bronislaw Woznialis – Member of the Council</i>
Reporting year	<i>01.01.2017 – 31.12.2017</i>
Auditors	<i>KPMG Baltics SIA Vesetas iela 7 Riga, Latvia, LV-1013 Licence No 55</i>

Management Report

MAJOR EVENTS AND DEVELOPMENT

The year 2017 has been rich in setting new goals and challenges within Balcia Insurance SE (hereinafter “the Company”). There were many events, and the expansion in the Lithuanian market was one of the largest steps taken. Also, changes in tax legislation has hit the bottom line for several million EUR.

In May of 2017, Balcia Insurance SE branch was established in Vilnius to develop the Company’s business in Lithuania. The Company has licenses for all types of non-life insurance, however the branch started with the acquisition of the part of the competitor’s motor third party liability insurance portfolio.

BRAND

The year 2017 has been challenging for the Balcia brand to become recognizable with its new name and visual identity among the existing and new partners, as well as current and potential customers in all markets the Company has its business.

The Company’s main corporate domain balcia.com has been chosen for setting up the website and building up an international online recognition, other domains were bought for the brand’s protection.

EMPLOYEES

The year 2017 was quite a challenge for the human resource team. The main objective was to build a team of 15 people for the newly established Lithuanian branch. At the same time, the process of recruiting new team members in France and Germany was managed successfully. The number of employees reached 142 at the end of 2017, what was an increase of 13% in comparison with previous year.

The number is comprised of 77 employees working in headquarters in Latvia, and 65 employees working in the Company’s branches in Poland, France, Lithuania, Germany, and the UK altogether.

In Poland, the intermediaries network of our dedicated partner RESO Europa Service, which has agreements with more than 7.6 thousand sales partners - insurance brokers and multi-agents, as well as more than 100 experts all over the country, support our Polish branch activities significantly.

The Company aims to create an environment where motivated, loyal and professional employees feel like home. Challenging and complex objectives motivate our people as their accomplishment often entails cooperation across different management levels, functions, countries and cultures. In addition, the Company supports professional training to ensure the professional development of our people, financial incentives, as well as team-building events to foster the team’s spirit, which is key in achieving the goals of the Company.

IT

The Company completed many projects, which contained new and old infrastructure separation, development of required functionalities for the Lithuanian branch, the competitor’s portfolio transfer and passing of tests with the Lithuanian Motor Bureau, as well as an establishment of a branch office infrastructure. The system adjustment for new sales partners was done to support the German branch, and upgrade of financial system was made.

FINANCIALS

Due to changes in tax legislation the result of the Company has been affected for EUR 1.5 million leading the net profit to EUR 0.1 million. The major part of the positive technical result is from successfully implemented business strategy in the Poland and France.

In the year 2017, the Company’s gross written premiums reached EUR 97 million that represents an increase of 35% compared to the previous year.

Management Report

The major part of the growth is related to Poland, as the result of an increase of tariffs in the market in combination with the Company's thoughtful investments in IT solutions, as well as strengthening the Company's image as a reliable partner for our sales representatives and insurance brokers.

The Company's shareholders' equity reached EUR 55.1 million in 2017. Due to an increase in the business volume, the Company's gross technical reserves increased by 18% to EUR 120.3 million compared to 2016. The shareholders' equity ensures that the growth of the Company is supported by its strong capital base.

In the reporting year, the Company followed a conservative approach to its investment policy, primarily investing in low-risk assets. Significant amount of the financial assets the Company invested into government bonds of a high investment rating (A to AAA according to the international rating agency's Standard & Poor classification) or held deposit and current accounts with credit institutions of a high rating.

RISK MANAGEMENT

In 2017, the Company continued to implement and execute its risk management principles across all Balcia business areas, consistent with Company's Business strategy and Risk Appetite.

In 2017, Balcia performed its regular compliance assessment against the internal and external regulatory requirements.

The Company has started its annual Own Risk and Solvency Assessment (ORSA) for 2017, assessing the overall solvency needs on forward looking basis of 3 years.

Pursuant to a previous year enactment of Solvency II regulations in the Insurance sector, National Supervisory Authority carried out a planned on-site audit to assess the Company's compliance to Insurance and Reinsurance Law requirements. With small improvements to be made, the Company proved to be at a good standing and with going concern for year 2017.

In 2017, the Company started the General Data Protection Regulation (GDPR) implementation process by an established grid plan for the main GDPR tasks across all branches.

SOLVENCY II CAPITALISATION

The Solvency 2 ratio on 31 December 2017 reached the level of 128.0%.

PROPOSAL ON DISTRIBUTION OF PROFITS

As the Company is still in the process of establishing new sales channels and strengthening its positions in the target markets, the Board recommends to strengthen the capital base and to retain the profit for the year undistributed.

FUTURE OUTLOOK

In 2018, the Company shall focus on strengthening its primary target markets in Poland, France, Lithuania, and Germany. It plans for a prudent and profitable growth in all core markets and segments where it operates.

Globally, the IT Department shall keep focusing on changes in IT systems, infrastructure and security, needed for GDPR requirements. The support for the development of the Company's branches will be covered in on-going projects, such as the launching of the HR portal and an improvement of systems for all Customer Support teams.

The challenging projects are to be related to the infrastructure reinstallation to the Balcia domain, new products launching in Lithuania, online sale of some of existing Poland products, as well as adjustment of existing platforms for new sales partners in France and Germany.

In Poland, the Company shall aim to diversify its portfolio by increasing sales in the lines of business other than compulsory motor insurance, as well as making inroads in the small and medium enterprise business segment.

Management Report

In Germany, the Company shall focus on developing new sales channels and introducing new insurance products.

In France, the Company shall focus on improving certain business processes and shall aim to diversify its portfolio by introducing new insurance products. The Company plans to expand the partnerships to focus on developing in small and medium enterprise business segments, as well as in certain segments on serving the private individuals.

In Lithuania, the Company shall focus on developing its motor third party liability insurance portfolio, and other insurance products.

In Spain and Italy, the Company shall maintain sales volumes only in transparent and profitable segments and products.

In the United Kingdom, the Company plans to grow by offering the claim handling and damage assessment services to certain insurance companies, whose insurance agreements are being claimed in the UK.

On behalf of the Council and the Board



Lauris Boss
Chairman of the Board



Gints Dandzbergs
Chairman of the Council

29 March 2018

Statement of management responsibility

In 2017, the Board of Directors of Balcia Insurance SE (hereinafter “the Company”), which consists of three members, was responsible for the management of the Company. The Management regularly informed the Council about the 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 booking transactions with the regulative norms applicable to accounting, safekeeping of the assets of the Company, as well as the prevention of fraud and other dishonest activities.

The Company’s Management assumes responsibility for the preparation of the Company’s financial statements for the year ended 31 December 2017 prepared in accordance with IFRS as adopted by the European Union to present fairly the activities and the Company’s cash flows from 1 January 2017 to 31 December 2017, as well as its financial position as at 31 December 2017.

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

The Company’s financial statements for 2017 have been prepared on the basis of prudent decisions and assumptions of the Management.

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

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 Company and the assessment of the financial statements.



Lauris Boss
Chairman of the Board



Gints Dandzbergs
Chairman of the Council

29 March 2018

Statement of Comprehensive Income

	Note	2017 EUR'000	2016 EUR'000
Gross written premiums	6	96 996	72 027
Reinsurers' share in written premiums	6, 23	(10 505)	(1 596)
Net written premiums	6	86 491	70 431
Change in unearned premium reserves			
Gross change	8	(4 987)	(18 367)
Reinsurers' share	8, 23	2 206	26
Change in net unearned premium reserves	8	(2 781)	(18 341)
Net earned premiums	7	83 710	52 090
Other technical income, net	9	1 582	1 198
Incurred claims, net			
Paid claims, net			
Gross claims paid	10	(58 814)	(33 467)
Paid claims		(55 791)	(31 040)
Loss adjustment expenses		(5 462)	(4 554)
Recovered losses		2 439	2 127
Reinsurers' share of claims paid	10, 23	15 494	527
Net paid claims		(43 320)	(32 940)
Change in net outstanding claim technical reserve			
Change in gross outstanding claim technical reserve	11	3 348	(16 776)
Reinsurers' share	11, 23	(11 955)	8 652
Change in net outstanding claim technical reserve		(8 607)	(8 124)
Net incurred claims	12	(51 927)	(41 064)
Operating (expenses)/ income			
Client acquisition costs	13	(22 366)	(17 171)
Change in deferred client acquisition costs	13	(144)	4 076
Administrative expenses	14	(6 893)	(6 427)
Depreciation and amortisation		(719)	(572)
Reinsurance commissions and profit participation	15, 23	1 705	56
Change in unearned reinsurance commission	15, 23	(610)	(20)
Net operating expenses		(29 027)	(20 058)

The accompanying notes on pages 14 to 74 form an integral part of these financial statements.

Statement of Comprehensive Income

	Note	2017 EUR'000	2016 EUR'000
Other technical expenses	16	(4 030)	(2 196)
Investment management charges	17	(135)	(148)
Interest income and dividend income	18	403	1 542
Gain from financial assets at fair value through profit or loss, net		1 037	394
Revaluation of investment property		-	212
Loss on foreign currency fluctuation		(248)	(19)
Impairment gain/(loss) on loans and receivables	19	(107)	632
Other income	20	572	103 014
Other expenses	21	(146)	(121)
Profit before tax		1 684	95 476
Income tax for the period	22	(1 537)	1 232
Profit from operations for the period		147	96 708
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Currency revaluation impact		28	(25)
Items that will not be reclassified to profit or loss			
Revaluation of land and buildings, net of tax		-	81
Tax income/(charge) from revaluation of land and buildings		477	-
Other comprehensive income for the year		505	56
Total comprehensive income		652	96 764

The accompanying notes on pages 14 to 74 form an integral part of these financial statements.



Lauris Boss
Chairman of the Board



Gints Dandzbergs
Chairman of the Council

29 March 2018

Statement of Financial Position

		31.12.2017	31.12.2016
	Note	EUR'000	EUR'000
Assets			
Land and buildings	25	1 553	1 684
Property and equipment	24	463	540
Intangible assets	26	951	730
Investment property	25	5 197	5 217
Financial investments			
Investments at fair value through profit or loss			
Non-fixed income securities	27	1 889	2 621
Debt securities and other fixed income securities	27	64 993	46 920
Total investments at fair value through profit or loss		66 882	49 541
Available-for-sale financial assets	28	6 070	5 488
Deposits with banks	29,33	16 000	5 506
Total financial investments		88 952	60 535
Loans and receivables			
Loans			
Mortgage loans	30	147	397
Other loans	30	659	2 857
Total loans issued		806	3 254
Receivables			
Receivables from direct insurance activities			
Due from policy holders	31	11 010	2 956
Due from intermediaries	31	3 136	2 133
Total receivables from direct insurance activities		14 146	5 089
Receivables from reinsurance activities		5 510	897
Other receivables	32	1 491	1 643
Total receivables		21 147	7 629
Total loans and receivables		21 953	10 883
Accrued income and deferred expenses			
Deferred client acquisition costs	13	12 983	12 285
Other accrued income and deferred expenses		1 330	921
Total accrued income and deferred expenses		14 313	13 206
Reinsurance contract assets			
Reinsurers' share in unearned premiums technical reserves	8	7 897	133
Reinsurers' share in outstanding claim technical reserve	11	11 826	14 931
Total assets from reinsurance contracts		19 723	15 064
Deferred tax asset	36	-	567
Cash and cash equivalents	33	41 519	64 542
Total assets		194 624	172 968

The accompanying notes on pages 14 to 74 form an integral part of these financial statements.


Statement of Financial Position

		31.12.2017	31.12.2016
	Note	EUR'000	EUR'000
Equity and liabilities			
Equity			
Share capital	35	14 220	14 220
Share premium		10 272	10 272
Revaluation reserves	35	3 148	2 643
Reserve capital and other reserves	35	8 536	8 536
Retained earnings:			
Retained earnings from prior years		18 758	13 550
Current year profit after interim dividends		147	9 708
Total equity		55 081	58 929
Liabilities			
Subordinated liabilities		-	1 700
Technical reserve			
Technical reserve for unearned premiums and unexpired risks	8	50 360	38 144
Outstanding claim technical reserve	11	69 978	63 413
Total technical reserve		120 338	101 557
Creditors			
Direct insurance creditors			
Due to policy holders		3 386	3 992
Due to intermediaries		62	77
Total direct insurance creditors		3 448	4 069
Taxes and social contributions	37	325	755
Reinsurance creditors	38	8 884	381
Other creditors	39	3 471	4 399
Total creditors		16 128	9 604
Deferred tax liabilities	36	522	-
Provisions	41	431	304
Accrued expenses and deferred income	42	-	834
Unearned reinsurance commission income	15	2 124	40
Total liabilities		139 543	114 039
Total equity and liabilities		194 624	172 968

The accompanying notes on pages 14 to 74 form an integral part of these financial statements.



Lauris Boss
Chairman of the Board



Gints Dandzbergs
Chairman of the Council

29 March 2018


Statement of Cash Flows

	Note	2017 EUR'000	2016 EUR'000
Cash flows from operating activities			
Premiums received in direct insurance		92 194	78 594
Claims paid in direct insurance		(55 791)	(30 891)
Payments received from reinsurers		15 382	543
Payments made to reinsurers		(3 128)	(1 907)
Income tax paid		-	(1)
Obligatory payments	34	(1 868)	(1 258)
Payments to employees		(2 661)	(2 679)
Payments to intermediaries		(31 875)	(27 382)
Other tax paid		(4 898)	(4 734)
Payments to other suppliers		(10 527)	(11 466)
Other payment made		(61)	(5 336)
Other payment received		15 605	26 779
Total cash flows from operating activities		12 372	18 910
Cash flows from investing activities			
Acquisition of fixed and intangible assets		(764)	(676)
Acquisition of investments		(53 170)	(43 971)
Proceeds from disposal of investments		27 127	156 000
Investment income received		656	331
Dividends received		97	933
Total cash flows from/(used in) investing activities		(26 054)	112 617
Cash flows from financing activities			
Subordinated loan repaid		(1 700)	-
Dividends paid		(7 891)	(83 611)
Total cash flows used in financing activities		(9 591)	(83 611)
Cash and cash equivalents net increase/ (decrease)		(23 273)	49 268
Effect of exchange rate fluctuations on cash and cash equivalents held		250	71
Cash and cash equivalents at the beginning of the year		69 542	20 203
Cash and cash equivalents at the end of the year	33	46 519	69 542

The accompanying notes on pages 14 to 74 form an integral part of these financial statements.



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Chairman of the Council

29 March 2018

Statement of Changes in Shareholders' Equity

	Share capital EUR'000	Share premium EUR'000	Revaluation reserve EUR'000	Reserve capital and other reserves EUR'000	Retained earnings EUR'000	Total Equity EUR'000
31.12.2015	14 220	10 272	2 587	8 536	13 550	49 165
Total comprehensive income						
Profit for the year	-	-	-	-	96 708	96 708
Revaluation of land and buildings, net of tax (note 25)	-	-	81	-	-	81
Currency revaluation impact	-	-	(25)	-	-	(25)
Transactions with shareholders, recognised in equity						
Interim dividends (note 35)	-	-	-	-	(87 000)	(87 000)
31.12.2016	14 220	10 272	2 643	8 536	23 258	58 929
Total comprehensive income						
Profit for the year	-	-	-	-	147	147
Derecognition of deferred tax previously recognised on revaluation of land and buildings (note 36)	-	-	477	-	-	477
Currency revaluation impact	-	-	28	-	-	28
Dividends (note 35)	-	-	-	-	(4 500)	(4 500)
31.12.2017	14 220	10 272	3 148	8 536	18 905	55 081

The accompanying notes on pages 14 to 74 form an integral part of these financial statements.



Lauris Boss
Chairman of the Board



Gints Dandzbergs
Chairman of the Council

29 March 2018

Notes to the Financial Statements

(1) General information

a) Principal activities

These financial statements include the financial statements of Balcia Insurance SE, hereinafter the "Company". Balcia Insurance SE is a company domiciled in the Republic of Latvia. The Company is registered in 1993 in Riga, Latvia as a Joint Stock Insurance Company. In 2011 the Company changed legal status from JSC to SE (Society Europe). The head office is located in Riga, Kr. Valdemara 63, Republic of Latvia.

The Company offers a wide range of non-life insurance products to legal Companies and individuals in the following insurance lines:

- motor own damage insurance (CASCO);
- compulsory motor third party liability (CMTPL);
- property (fire risks and natural catastrophes);
- property (other risks);
- general third party liability;
- various financial risks;
- guarantees;

The Company offers insurance services through the network of foreign branches in Lithuania, Germany, Poland, France and Great Britain.

The registered addresses of the branches:

- in Germany – Senefelderstr. 17, 63322 Rödermark;
- in Great Britain – 3B Westwood House, Greenwood Business Centre, Regent Road, Salford, Manchester, M5 4QH;
- in France – 86 rue Anatole France, 92300 Levallois-Perret, Paris;
- in Poland – Al. Jerozolimskie 136 02-305, Warsaw;
- in Lithuania – Žirmūnų g. 67A, LT-09112, Vilnius.

Business in other markets (Spain and Italy) is conducted through a local intermediary on the basis of freedom-of-services within the European Union.

b) Shareholders

Shareholders of the Company are eight legal companies and one joint stock company. None of the shareholders controls 33% or more of shares. Information on the shareholders:

	31.12.2017		31.12.2016	
	Number of shares	Shareholding	Number of shares	Shareholding
Company's shareholders:				
B5 Holding Limited (Malta)	26 498	26.50 %	26 498	26.50 %
HTT Holding Company Limited (Malta)	25 815	25.82 %	25 815	25.82 %
MDA Holding Limited (Malta)	9 797	9.80 %	9 797	9.80 %
Transporta informācijas aģentūra AS (Latvia)	9 578	9.58 %	9 578	9.58 %
B6 Holding Limited (Malta)	9 051	9.05 %	9 051	9.05 %
Other Companies (Latvia)	19 261	19.25 %	19 261	19.25 %
	100 000	100 %	100 000	100 %

Notes to the Financial Statements

(2) Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

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

The financial statements (hereinafter „the financial statements”) were approved by the Board of Directors on 29 March 2018. The shareholders have the right to reject the financial statements and request that new financial statements are prepared and issued.

(b) Functional and Presentation Currency

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

The functional currency of the Company, and its branches in Germany, France and Lithuania is the euro. The functional currency of the branch in Great Britain is the Great Britain pound. The functional currency of the branch in Poland is the zloty.

(c) Reporting period

The reporting period comprises 12 months 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,
- investment property which is carried at fair value, and
- land and buildings that are re-valued periodically, correspondingly applying revaluation to fair value method.

Consistent accounting principles have been applied to the financial years disclosed in these financial statements.

(e) Changes in accounting policies

The amendments to IAS 7 Statement of Cash flows require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value). For the respective disclosure refer to Note 33.

The following guidance with effective date of 1 January 2017 did not have any impact on these financial statements:

- *Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*
- *Annual Improvements to IFRSs*

(f) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statements.

(i) IFRS 9 Financial Instruments (2014) (Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted. Insurance undertakings are permitted to adopt the standard for the annual periods beginning on or after 1 January 2021)

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial

Notes to the Financial Statements

liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

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

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

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

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

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

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

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

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

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

The Company has not yet prepared an analysis of the expected quantitative impact of the new standard, because the management has selected to apply the temporary exemption applicable to companies whose activities are predominantly connected with insurance and defer the application of IFRS 9 until 1 January 2021.

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

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.

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

(iii) IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current classification of rent agreements into operating and finance lease for lessees and instead requires companies to bring the agreements that classify as a lease on-balance sheet under a single model.

Notes to the Financial Statements

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 Company has not yet prepared an analysis of the expected quantitative impact of the new standard, however, the Company management does not expect that the new standard, when initially applied, will have a material impact on the Company's financial statements. While the Company is party to contractual arrangements that would be in the scope of IFRS 16, their impact on the Company's financial statements is expected to be not material.

(iv) *Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021)*

(v) *Annual Improvements to IFRSs (Amendments to IFRS 1 First-time Adoption of IFRSs and IAS 28 Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2018); Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (effective for annual periods beginning on or after 1 January 2019))*

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

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

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

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost.

The Company does not plan to adopt this standard early. 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 quantitate impact.

(3) Significant accounting policies

3.1 Foreign currency

Transactions denominated in foreign currencies are recorded in EUR at exchange rates set by the European Central Bank (the 'ECB') at the date of the 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.

Any gain or loss resulting from a change in exchange rates subsequent to the transaction date is included in the statement of comprehensive income as gain or loss from revaluation of foreign currency positions.

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

	31.12.2017	31.12.2016
USD	1.1993	1.0541
PLN	4.1770	4.4103
GBP	0.88723	0.85618

The assets and liabilities of foreign operations whose functional currency is different from the Company's functional and presentation currency are translated to the presentation currency at the exchange rate at the reporting date, while the transactions of the foreign operations are translated into presentation currency at

Notes to the Financial Statements

exchange rates set at the date of the respective transactions. Foreign currency translation differences are recognized in other comprehensive income and transferred to profit or loss upon the disposal of foreign operation.

Note 2 (b) provides information on functional and presentation currency of the Company's branches.

3.2 Insurance contracts

(a) Classification of insurance contracts

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

Non-life insurance contracts include the following contracts:

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

Recognition and evaluation of insurance contracts

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

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

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

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

Notes to the Financial Statements

(b) Insurance premium and premium income

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

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

The unearned portion of premiums is recognised as an insurance-technical reserve.

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

(c) Premium refunds

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

(d) Unearned premium and unexpired risk reserves

Unearned premium reserves (UPR)

Unearned premium reserves represent the proportion of premiums written which relate to the period of risk subsequent to the reporting year. 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.

On each reporting date, the Company prepares a Liability adequacy test by assessing whether the insurance liabilities recognized during the reporting year for valid policies are adequate by comparing the insurance reserves established to the present value of the estimated future cash flows arising on existing insurance policies.

If the liability adequacy test shows a deficiency in the carrying amount of liabilities, the deficiency is recognised as a loss for the financial year by decreasing deferred client acquisition costs and setting aside additional unexpired risk reserves. The test is performed by line of business and the test is applied to the gross amounts of reserves, i.e., the effect of reinsurance is not taken into account.

(e) Claims incurred

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

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

(f) Outstanding claim technical reserves

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

Reported but not settled claims reserve (RBNS)

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

Notes to the Financial Statements

Incurred but not reported claims reserve (IBNR)

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

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

- motor own damage insurance in France and Spain;
- property insurance (fire risks) in France, Italy and Spain;
- property insurance (other risks) in France;
- general liability insurance in Italy;
- personal accident insurance in France;
- guarantee insurance in Spain;
- motor compulsory third party liability in France, Spain, Poland, Lithuania and Germany.

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

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

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

- accident insurance in Poland and Italy;
- motor own damage insurance in Poland and Italy;
- marine insurance in France;
- cargo in Poland;
- property insurance (fire risks) in Poland;
- property insurance (other risks) in Poland and Spain;
- general liability insurance France, Poland and Spain;
- marine third part liability insurance in France;
- guarantee insurance in Poland;
- travel accident insurance in Poland.

(g) Reinsurance

Assumed (inwards) reinsurance

An assumed reinsurance contract is a type of insurance contract where the insurance risk is assumed from another insurer. Consequently, all references to insurance contracts refer also to reinsurance assumed.

Ceded (outwards) reinsurance

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

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

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

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

(h) Client acquisition costs

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

Notes to the Financial Statements

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

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

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

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

(j) Liability adequacy test

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

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

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

Forecast economic inflation and discount rates are one of the key assumptions used in the estimates. The Company evaluates its provisions as adequate as at 31 December 2017. After analysing sensitivity due to changed economic inflation by 1%, the Company assessed that the amount of technical provisions is adequate. Below are the results of sensitivity analysis as at 31 December 2017 and 2016 for economic inflation:

EUR'000	Projected annual inflation increased by 1%		Projected annual inflation decreased by 1%	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Increase/ (decrease) in technical reserves	290	84	(281)	(83)

(k) Insurance receivables and payables

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

3.3 Financial instruments

(a) Classification

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

Financial instruments at fair value through profit or loss are financial assets or liabilities that are acquired or incurred principally for the purpose of selling or repurchasing in the near term; or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or that are a derivative (except for a derivative that is a designated and effective hedging instrument); or that are upon initial recognition, designated by the Company as at fair value through the profit or loss. These include groups of financial assets designated at fair value through profit and loss what 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.

Available-for-sale assets are financial assets classified at inception as available for sale or assets other than classified as held for trading, held to maturity or loans and receivables. Available for sale instruments include short term investments and certain debt and equity securities. Generally, this category is assigned by the Company to financial assets that are held for an indeterminate period of time and may be sold based on liquidity or interest rate needs, or as a result of changes in exchange rates and share prices.

Notes to the Financial Statements

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

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

Derivative financial instruments

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

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

(b) Recognition and derecognition

Financial instruments are recognised when the Company becomes a party to the contractual rights of the instrument. All regular way purchase and sales of financial assets are recognised in the statement of financial position on the trade 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 have transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

(c) Initial and subsequent measurement

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

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

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

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

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

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

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

Specific controls include:

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

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

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

When applicable, the Company measure 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 calibrate 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 assess and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS as adopted by EU. This includes:

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

For further analysis of basis for fair value and fair value determination principles are disclosed in note 25 (Land and buildings and Investment property) and 49 (Fair value of financial instruments).

Notes to the Financial Statements

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 recognise 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.

For loans and receivables the Company considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are individually assessed for impairment. All individually significant assets which are not assessed as impaired are then collectively assessed for any impairment that has been incurred but not yet identified at the reporting period end date.

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

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

(b) Non-financial assets

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

All impairment losses in respect of non-financial assets are recognised in the statement of comprehensive income 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.

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3.6 Property and equipment

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

Office equipment	20% per year
Computers, electrical equipment	35% per year
Vehicles	20% per year
Buildings for own use	5% per year

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

The increase of value resulting from revaluation is recognised under "Revaluation reserve" in other comprehensive income. Valuations are regularly, at least once in 3 years, carried out by independent valuers. 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 reserve" and only if in excess of it, the revaluation decrease is recognized in the statement of profit or loss.

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

Maintenance costs of property, plant and equipment are recognised in the statement of comprehensive income 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, plant 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 book value of the asset and income generated from sale, and reflected as profit or loss in the statement of comprehensive income when disposed.

When revalued fixed assets are disposed the related revaluation reserve is transferred to retained earnings brought forward from previous years.

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

3.7 Intangible assets

Software licences

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

3.8 Investment property

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

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

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

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

3.9 Repossessed assets

As part of the normal course of business, the Company occasionally take possession of property that originally was pledged as security for a loan. When the Company acquire (i.e. gains a full title to) a property in this way, the property's classification follows the nature of its intended use by the Company. When the Company is uncertain of its intentions with respect to property that it has repossessed, those properties are classified as investment property (for real estate) or other assets.

Repossessed assets are initially valued at fair value.

3.10 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 year 2017 and 2016 the Company has only operating lease agreements.

• The Company as a lessor

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

• The Company as a lessee

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

3.11 Corporate income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current corporate income tax assets and liabilities are measured at the amount expected to be obtained from or paid to tax authorities. The Company will have to pay income tax on profit distribution starting from 2018. Correspondingly, income tax on profit distribution is recognised as expense at the moment dividends are declared.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax balance is measured at a tax rate which is applicable for undistributed profits until decision of profits distribution is made. Therefore, for jurisdictions where income tax is payable on profit distribution (e.g. dividends) any deferred tax liabilities or benefits are recognised at tax rate applicable to undistributed profits. Deferred tax assets and liabilities are netted only within the individual branches of the Company and only if certain criteria are met. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The carrying amount of deferred corporate income tax asset, if any, is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by management and extrapolated results thereafter. The financial forecast is based on management expectations that are believed to be reasonable under the circumstances.

3.12 Cash and cash equivalents

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

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3.13 Dividends

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

3.14 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.

3.15 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.

3.16 Acquired insurance portfolio

Upon acquisition insurance portfolio is measured at its nominal book value on the date of acquisition. The acquired insurance portfolio subsequently is measured by applying the Company's accounting policies of insurance contracts described in note 3.

3.17 Related parties

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

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

3.18 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

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assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, the actual results ultimately may differ from those estimates.

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

Key sources of estimation uncertainty:

Insurance technical reserves

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

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

Valuation of financial instruments

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described above in note 3.4. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. As a result, the Company evaluates such instruments at cost less impairment.

Impairment of financial investments

The determination of impairment indication is based on comparison of the financial instrument's carrying value and fair value. Due to frequent volatility of and relative illiquidity in the financial and capital markets, the market price is not always a reliable source for impairment indication. The Company uses valuation models based on quoted market prices of similar products. In case quoted market prices are unavailable, the Company's management makes estimates of any expected changes in future cash flows from a specific financial instrument based on analysis of financial position of the issuer of the financial instrument.

Valuation of investment property, buildings and land for own use

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

Buildings and land 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 (not applicable to land) 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, buildings and land for own use, the management relies on 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

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credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate. They will, however, always include uncertainty and may change depending on financial position of customers or general economic environment.

Measurement of fair values

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

(4) Risk and risk management

4.1 Risk and risk management

The business of insurance represents the transfer of risk from the policy holder to the insurer and management of this risk. The largest risks result from accepting insurance risk, choosing the reinsurance cover and fulfilling obligations with respect to signed insurance contracts. In addition, the insurer is also exposed to investment risks incurred when the insurer has to cover technical reserves with assets invested in various financial instruments, market risk, credit risk, liquidity risk and operational risk.

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

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

- Insurance risks
- Financial risks
- Operating risks

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

4.2 Insurance risks and risk management

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

(a) Underwriting strategy

The Company's underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome.

The underwriting strategy is set out in an annual business plan that sets out the classes of business to be written and the industry sectors to which the Company are prepared to expose itself. This strategy is cascaded down to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business and industry in order to enforce appropriate risk selection within the portfolio. The term of non-life contracts may be up to 5 years; however, contracts are usually annual in nature and the underwriters have the right to refuse prolongation or renewal or to change the terms and conditions of the contract at prolongation or renewal.

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

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

(b) Basic product features

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

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Casco insurance

Product features

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

Management of risks

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

Casco insurance premiums are determined on the basis of the bonus-malus system, driver's driving experience period, insurance territory and other criteria which decreases the insurance premium upon the absence of losses and increases the insurance premium upon the occurrence of losses. The sums insured very rarely exceed EUR 75 thousand. Insurance premiums are set in line with applicable insurance methodology. Motor insurance usually contains a retention element by the policyholder.

Motor third party liability insurance

Product features

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

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

Management of risks

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

Property insurance

Product features

Property insurance indemnifies, subject to any specified limits or deductibles, the insured against loss or damage to material damage of property and business interruption arising from this damage. The risks covered by property insurance include fire risk, pipe leakage explosion, burglary and robbery, earthquake, flood and storm risk. When insuring real estate assets, liability insurance can also be purchased.

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

The most frequently occurring risks for property include pipe leakages and fire. Larger losses result most often from fire.

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

Management of risks

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

To charge premiums appropriate specifics of different properties are assessed. For private property insurance, it is expected that there will be large numbers of properties with similar risk profiles. However, for commercial

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business this may not be the case. Many commercial property proposals comprise a unique combination of location, type of business, and safety measures in place. Calculating a premium commensurate with the risk for these policies will be more complex.

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

(c) Insurance risk concentration

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

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

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

In order to minimise losses that might be incurred in case of a risk concentration, the Company use reinsurance – by reinsuring both proportionally, as well as non-proportionally. When placing reinsurance, the Company's share in the risk is fixed both for one object, as well as for one event, in which losses may be caused simultaneously for several objects. Such risks are reinsured in practically all types of insurance. The reinsurance policy, to which the Company adheres, has been approved by the Board.

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

The Company set 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 are exposed. The Company use a number of modelling tools to monitor aggregation and to measure the effectiveness of the reinsurance programmes and the net exposure to which the Company are exposed.

Geographic concentration of risks

Geographic concentration risk is a serious issue in insurance business. In view of this and to reduce the concentration risk the Company operates in a number of countries in Europe. Major countries of operation for the Company are Poland 74.0% (2016: 67.8%) and France 17.4% (2016: 28.1%) of all business (by gross written premiums, note 6).

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Exposure to various business lines and the key concentrations of the Company are as follows:

			Net retention		Average
	Total insured	Reinsurance	(after	Number of	amount
	amount	amount	reinsurance)	contracts in	insured
	EUR'000	EUR'000	EUR'000	force	EUR'000
2017					
Insurance type					
Motor own damage insurance	185 691	-	185 691	16 606	11
Compulsory motor third party liability**	-	-	-	815 567	-
Property insurance*	11 905 205	2 257 720	9 647 485	12 005	804
Various financial risks	4 339 217	320 008	4 019 209	245	16 405
General third party liability	1 219 159	403 589	815 570	5 908	138
Personal accident insurance*	1 770 103	-	1 770 103	151 153	12
Travel accident insurance	822 721	-	822 721	62 812	13
Marine insurance	70	63	7	3	2
Guarantee insurance	23 965	7 707	16 258	689	24
Cargo insurance	293	25	268	21	13
Aircraft third party liability insurance	-	-	-	3	-
Total	20 266 424	2 989 112	17 277 312	1 065 012	-
2016					
Insurance type					
Motor own damage insurance	110 090	84	110 006	10 950	10
Compulsory motor third party liability**	-	-	-	503 600	-
Property insurance*	11 971 588	678 981	11 292 607	8 619	1 310
Various financial risks	4 228 339	293 925	3 934 414	231	17 032
General third party liability	988 451	350 045	638 406	4 232	151
Personal accident insurance*	1 542 598	4 848	1 537 750	135 957	11
Travel accident insurance	130 396	-	130 396	36 953	4
Marine insurance	422	422	-	4	-
Guarantee insurance	24 188	5 795	18 393	729	25
Cargo insurance	69	2	67	7	10
Aircraft third party liability insurance	219	197	22	4	6
Total	18 996 360	1 334 299	17 662 061	701 286	-

* in one contract several objects/ persons can be covered

** gross insurance risk is unlimited. Losses in excess of EUR 800 thousand (2016: EUR 800 thousand) are covered by reinsurance

(d) Catastrophes

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

Notes to the Financial Statements

(e) Insurance risk management

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

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

In order to minimise such risks, the Company have developed and uses the quality management system, which describes all processes and order that are carried out during the insurance administration process and the claims regulation procedures. It has been identified when and in what circumstances certain types of procedures should be observed. Quality measurements can be carried out in any process and identify whether this process is being carried out in accordance with the Company's interests and described procedures. The measurements of these processes are the responsibility of the Quality Management Department, which regularly provides information to the Company's management about the process management in the Company. As a result of these measurements, the management can make an adequate decision to minimise the risk that is connected with the insurance processes.

(f) Liability adequacy test

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

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

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

Claims development

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

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

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

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

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Claims development analysis, EUR'000

	2010 and before	Year of insurance event occurrence							Total
		2011	2012	2013	2014	2015	2016	2017	
Estimate of cumulative claims at end of accident year	212 540	73 823	79 151	86 574	115 498	57 454	44 749	54 217	54 217
- one year later	233 597	71 919	78 314	85 045	94 189	58 848	49 933		49 933
- two years later	231 049	72 320	79 096	79 240	95 808	61 101			61 101
- three years later	230 607	71 239	74 295	79 192	97 995				97 995
- four years later	227 959	68 503	74 933	80 474					80 474
- five years later	218 103	69 420	75 635						75 635
- six years later	218 571	69 789							69 789
- seven years later	218 604								218 604
Cumulative payments to date	217 591	67 546	72 681	77 338	89 997	51 890	32 154	25 255	634 452
Outstanding claims reserves at 31.12.2017	1 014	2 243	2 954	3 136	7 998	9 211	17 779	28 962	73 297

(g) Sensitivity analysis assumption made for general business

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

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

As at 31 December 2017 97% of IBNR (31 December 2016: 94%) consists of the following lines of business: compulsory motor TPL, guarantees and property (fire and catastrophes) 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 economic inflation.

The tables below presents the change in IBNR as at 31 December 2017 for the Company in the case if the annual economic inflation of 2% used for base scenario in the IBNR estimation would change as a result of a 3% change in economic inflation:

2017

EUR'000

Line of business	IBNR, as at 31.12.2017	IBNR if projected annual inflation increased by 3%	IBNR without annual inflation
Compulsory motor TPL	13 287	13 983	12 786
Property	2 272	2 399	2 192

2016

EUR'000

Line of business	IBNR, as at 31.12.2016	IBNR if projected annual inflation increased by 3%	IBNR without annual inflation
Compulsory motor TPL	5 659	5 867	5 525
Property	1 493	1 521	1 475

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

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

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

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

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

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

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

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

Changes in assumptions used for estimation of MTPL claim reserves

IBNR estimation of MTPL claims is performed for the main part of claims incurred excluding pensions and separate calculation is performed for pensions. If chain coefficients can be calculated using at least 3-year historic data, the coefficients of country are used.

For pensions' claims, chain coefficients are calculated on a combined triangle basis, and then are applied for each country's triangle 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, which includes price, interest rate and currency risks, credit risk and liquidity risk. Below is a description of each of these financial risks and a summary of the methods used by the Company to manage these risks. Exposure to those risks arises in the normal course of the Company's business.

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

- Market risk: changes to the market situation may adversely impact the insurer's assets and/or liabilities, investments may be impaired, and return on assets decreased. Market risk includes interest rate risk, fair value risk and currency risk;
- Credit risk: failure of a counterparty to fulfil a contractual obligation may cause financial losses to the Company,
- Liquidity risk: under certain adverse conditions for the insurer, the insurer may be forced to sell assets at a lower price than their fair value in order to be able to settle liabilities.

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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 are 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 restrict investment risk, investments are made in different financial instruments. When choosing financial instruments, the requirements of the insurance company and the law on supervision of insurance companies are applied.

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

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

The Company manage market risks by investing most of the investments in markets and investments with high ratings. Deposits are mainly invested in Latvian and Poland commercial banks that are subsidiaries of foreign banks and that do not have separate ratings.

Currency risk

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

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

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

	2017	2016
EUR'000	Net income	Net income
10% depreciation of PLN against EUR	251	469
10% appreciation of PLN against EUR	(251)	(469)

Impact from open positions in other currencies is not significant.

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The split of financial assets and liabilities and technical reserves by currencies of the Company as at year-end was as follows:

31 December 2017

Financial assets	EUR EUR'000	USD EUR'000	PLN EUR'000	GBP EUR'000	Other EUR'000	Total EUR'000
Shares and other non-fixed income securities	1 823	66	-	-	-	1 889
Debt securities and other fixed income securities	14 472	-	50 521	-	-	64 993
Available-for-sale financial assets	6 070	-	-	-	-	6 070
Deposits with banks	16 000	-	-	-	-	16 000
Mortgage loans	120	27	-	-	-	147
Other loans	659	-	-	-	-	659
Receivables	13 850	39	6 210	114	-	20 213
Cash and cash equivalents	40 175	86	1 049	209	-	41 519
Total financial assets	93 169	218	57 780	323	-	151 490
Technical reserves, net						
Technical reserves for unearned premiums and unexpired risks, net	7 886	43	34 534	-	-	42 463
Outstanding claim technical reserves, net	33 051	-	25 078	-	23	58 152
Total technical reserves, net	40 937	43	59 612	-	23	100 615
Financial liabilities	13 168	-	679	(74)	-	13 773
Technical reserves, net and financial liabilities	54 105	43	60 291	(74)	23	114 388
Open currency position	39 064	175	(2 511)	397	(23)	37 102

31 December 2016

Financial assets	EUR EUR'000	USD EUR'000	PLN EUR'000	GBP EUR'000	Other EUR'000	Total EUR'000
Shares and other non-fixed income securities	2 559	62	-	-	-	2 621
Debt securities and other fixed income securities	9 485	-	37 435	-	-	46 920
Available-for-sale financial assets	5 488	-	-	-	-	5 488
Deposits with banks	5 506	-	-	-	-	5 506
Mortgage loans	367	30	-	-	-	397
Other loans	2 857	-	-	-	-	2 857
Receivables	3 156	116	3 438	120	-	6 830
Cash and cash equivalents	62 744	1 099	304	395	-	64 542
Total financial assets	92 162	1 307	41 177	515	-	135 161
Technical reserves, net						
Technical reserves for unearned premiums and unexpired risks, net	9 563	58	28 390	-	-	38 011
Outstanding claim technical reserves, net	34 036	-	14 306	117	23	48 482
Total technical reserves, net	43 599	58	42 696	117	23	86 493
Financial liabilities	5 501	-	3 166	(33)	-	8 634
Technical reserves, net and financial liabilities	49 100	58	45 862	84	23	95 127
Open currency position	43 062	1 249	(4 685)	431	(23)	40 034

i) 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 take a long or short position in a financial instrument. The Company's exposure to the price risk arises from its investment in shares and other

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non-fixed income securities, debt securities and other fixed income securities and available-for-sale financial assets.

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

	2017	2016
	EUR'000	EUR'000
5% increase in securities prices	3 344	2 477
5% decrease in securities prices	(3 344)	(2 477)

ii) Interest rate risk

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

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

Interest rate sensitivity analysis of the Company:

EUR'000	31.12.2017		31.12.2016	
	Profit or loss	OCI	Profit or loss	OCI
10 bp parallel increase	73	73	55	55
10 bp parallel decrease	(73)	(73)	(55)	(55)

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 tables 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 year-end was as follows:

31 December 2017	Within 6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Non-interest bearing	Total	Of which subject to fixed rates
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Financial assets								
Investments at fair value through profit or loss	9 174	20 762	22 722	11 594	741	1 889	66 882	66 882
Deposits with banks	5 000	11 000	-	-	-	-	16 000	16 000
Loans issued	-	-	-	161	645	-	806	806
Receivables	-	-	-	-	-	20 213	20 213	-
Cash and cash equivalents	-	-	-	-	-	41 519	41 519	-
Total financial assets	14 174	31 762	22 722	11 755	1 386	63 621	145 420	83 688

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31 December 2016	Within 6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Non-interest bearing	Total	Of which subject to fixed rates
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Financial assets								
Investments at fair value through profit or loss	680	9 322	20 527	13 951	2 440	2 621	49 541	46 920
Deposits with banks	5 000	-	-	106	-	400	5 506	5 106
Loans issued	-	-	-	2 183	1 071	-	3 254	3 254
Receivables	-	-	-	-	-	6 830	6 830	-
Cash and cash equivalents	-	-	-	-	-	64 542	64 542	-
Total financial assets	5 680	9 322	20 527	16 240	3 511	74 393	129 673	55 280

(a) Liquidity risks

In accordance with the approved investment procedure methodology, the Company's Financial Department is required to ensure that most of investments would be placed in high liquidity investments.

High liquidity investments are deemed to be the following assets:

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

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

Notes to the Financial Statements**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					
Investments at fair value through profit or loss	29 936	34 316	741	1 889	66 882
Available-for-sale financial assets	-	-	-	6 070	6 070
Deposits with banks	16 000	-	-	-	16 000
Loans issued	-	161	645	-	806
Receivables from direct insurance activities	14 146	-	-	-	14 146
Receivables from reinsurance activities	5 510	-	-	-	5 510
Other receivables	557	-	-	-	557
Cash and cash equivalents	41 519	-	-	-	41 519
Total financial assets taking into account maturity	107 668	34 477	1 386	7 959	151 490
Total financial assets taking into account liquidity	144 614	161	645	6 070	151 490
Technical reserves and financial liabilities					
Technical reserves, net	90 332	31	336	9 916	100 615
Financial liabilities	13 773	-	-	-	13 773
Total technical reserves and financial liabilities	104 105	31	336	9 916	114 388
Maturity gap	3 563	34 446	1 050	(1 957)	37 102
Maturity gap taking into account liquidity	40 509	130	309	(3 846)	37 102

31 December 2016

	Up to 12 months EUR'000	From 1 to 5 years EUR'000	Over 5 years EUR'000	No fixed maturity EUR'000	Total EUR'000
Financial assets					
Investments at fair value through profit or loss	10 002	32 159	4 759	2 621	49 541
Available-for-sale financial assets	-	-	-	5 488	5 488
Deposits with banks	5 000	106	-	400	5 506
Loans issued	-	2 183	1 071	-	3 254
Receivables from direct insurance activities	5 089	-	-	-	5 089
Receivables from reinsurance activities	897	-	-	-	897
Other receivables	844	-	-	-	844
Cash and cash equivalents	64 542	-	-	-	64 542
Total financial assets taking into account maturity	86 374	34 448	5 830	8 509	135 161
Total financial assets taking into account liquidity	126 313	2 289	1 071	5 488	135 161
Technical reserves and financial liabilities					
Technical reserves, net	83 482	24	168	2 819	86 493
Financial liabilities	9 604	-	-	-	9 604
Total technical reserves and financial liabilities	93 086	24	168	2 819	96 097
Maturity gap	(6 712)	34 424	5 662	5 690	39 064
Maturity gap taking into account liquidity	33 227	2 265	903	2 669	39 064

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

Notes to the Financial Statements

(b) Credit risk

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

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

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

Maximum credit risk of the Company as at 31 December 2017 and 2016 was as follows:

	31.12.2017 EUR'000		31.12.2016 EUR'000	
	Gross	Net	Gross	Net
Government bonds	63 440	63 441	44 142	44 142
Corporate bonds	1 552	1 552	2 269	2 269
Mortgage bonds	-	-	509	509
Deposits with banks	16 000	16 000	5 506	5 506
Investment funds and equity securities	1 889	1 889	2 621	2 621
Loans	1 785	806	4 164	3 254
Due from policy holders	12 610	11 010	3 696	2 956
Due from intermediaries	3 978	3 136	2 818	2 133
Receivables from reinsurance activities	5 510	5 510	897	897
Other debtors	574	557	864	844
Cash and cash equivalents	41 519	41 519	64 542	64 542
Total	148 857	145 420	132 028	129 673

For credit quality details of loans, due from policyholders and intermediaries refer to notes 30 and 31 respectively.

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

Investment analysis by ratings of the Company:

31 December 2017	Ratings	Mortgage bonds	Investment funds	Listed debt securities	Government bonds	Total
Agency		EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Fitch	AAA	-	-	-	542	542
	BBB+	-	-	-	521	521
	BBB-	-	-	222	-	222
	BB+	-	-	-	815	815
Moody's	Aa1	-	-	-	-	-
	Aa2	-	-	203	-	203
	Ba1	-	-	533	-	533
	Ba2	-	-	315	-	315
	Baa2	-	-	256	-	256
	Baa3	-	-	-	719	719
S&P	AA+	-	-	-	402	402
	A-	-	-	-	60 441	60 441
No rating		-	1 124	23	-	1 147
Total		-	1 124	1 552	63 440	66 116

Notes to the Financial Statements

31 December 2016	Ratings	Mortgage bonds EUR'000	Investment funds EUR'000	Listed debt securities EUR'000	Government bonds EUR'000	Total EUR'000
Agency						
Fitch	AAA	-	-	-	559	559
	BBB+	-	-	-	542	542
	BBB-	-	-	546	-	546
	BB+	-	-	-	780	780
Moody's	Aa1	509	-	-	-	509
	Aa2	-	-	206	-	206
	Ba1	-	-	558	-	558
	Ba2	-	-	310	-	310
	Baa2	-	-	258	2 157	2 415
	Baa3	-	-	-	255	255
S&P	AA+	-	-	-	404	404
	A-	-	-	363	39 445	39 808
No rating		-	1 930	28	-	1 958
Total		509	1 930	2 269	44 142	48 850

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 reinsure share of underwritten risks in order to control its exposures to losses and protect own capital. The Company buys facultative, proportional and non-proportional portfolio protection reinsurance to reduce the net exposure and not to exceed the actual margin of solvency. The Company also buys reinsurance treaties for the main lines of its business that protect the Company from any cumulative losses that may arise from multiple claims resulting from the same event or occurrence.

Ceded reinsurance contains credit risk, and such reinsurance recoverable is reported after deductions for known counterparty insolvencies and uncollectible items. The Company monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. Reinsurance is carried out with world-known reinsurance companies with a sound reputation.

When carrying out reinsurance, the ratings of a reinsurance company are generally not lower than the Standard & Poor's evaluation BBB- (or analogous assessment of another international rating agency). Almost all reinsurance is carried out in reinsurance companies whose rating is not lower than the Standard & Poor's assessment A-. Reinsurance companies cover their liabilities in the time period of up to 30 days. Reinsurance agreements also provide cases when upon the insurance indemnity exceeding a certain amount, the reinsurance claim is paid immediately.

During 2017, there have been no cases where a reinsurance company has not met its liabilities to the Company.

Rating	Reinsurance debtors EUR'000	2017	Reinsurer's share in claims paid EUR'000
		Reinsurer's share on written premiums EUR'000	
AA-, AA, AA+	923	1 572	5 423
A-, A, A+	4 309	8 846	9 708
BBB-, BBB, BBB+	278	87	363
Total	5 510	10 505	15 494

Rating	Reinsurance debtors EUR'000	2016	Reinsurer's share in claims paid EUR'000
		Reinsurer's share on written premiums EUR'000	
AA-, AA, AA+	312	486	249
A-, A, A+	558	1 084	278
BBB-, BBB, BBB+	27	26	-
Total	897	1 596	527

Notes to the Financial Statements

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

	2017 EUR'000	2016 EUR'000
Motor own damage insurance	Retained on net	Retained on net
CMTPL	800	800
Property insurance	3 012	1 800
General third party liability	500	400
Various financial risks	3 012	1 800
Guarantee insurance	1 500	1 500
Personal accident insurance	Retained on net	Retained on net

4.4 Operating risks and risk management

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

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

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

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

4.5 Capital adequacy requirements and Capital management

Capital risk management

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

Risk management

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

Notes to the Financial Statements

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

Equity and solvency compliance	31.12.2017
	EUR'000
Total own funds to comply with the Solvency Capital Requirement	52 098
Total own funds to comply with the Minimum Capital Requirements	49 260
The Solvency Capital Requirement	40 852
The Minimum Capital Requirement	16 193
The own capital in the Solvency Capital Requirement	128.0%
The own capital in the Minimum Capital Requirement	304.2%

(5) Acquisition of portfolio

On 14 December 2016 the Company signed a transfer agreement with Compensa Vienna Insurance Group UADB (Lithuania) to acquire legal entities motor third party liability insurance portfolio. The Company agreed to purchase the motor third party liability insurance portfolio and to complete transaction of the portfolio transfer during year 2017. The acquired portfolio includes open insurance contracts, all receivables, claims or rights held and liabilities incurred as of 31.08.2017, which at the date of acquisition were measured at their nominal book value. The transfer did not include acquisition of any relevant process related to insurance portfolio management and cannot be considered as a business combination.

The acquired portfolio is 100% reinsured. Bank of Lithuania and Financial Capital Market Commission in Latvia granted permit to open a branch in Lithuania in February 2017. The completion of the insurance portfolio transfer was finalised after completing regulatory requirements related to establishment of insurance company branch in Lithuania. Additional details of the transaction have not been disclosed due to confidentiality clauses stipulated in the insurance portfolio acquisition agreement.

The transferred balance sheet of motor third party liability insurance portfolio was completed on 01.09.2017. Assets and liabilities acquired as at the date of acquisition was as follows:

	Gross acquired portfolio 01.09.2017 EUR'000	Reinsurance part EUR'000	Net acquired portfolio 01.09.2017 EUR'000
Assets			
Due from policy holders	4 108	-	4 108
Other receivables	487	-	487
Deferred client acquisition costs	1 022	-	1 022
Cash and cash equivalents/ Reinsurance debtors	9 642	(9 642)	-
Total Assets	15 259	(9 642)	5 617
Liabilities			
Technical reserve			
Technical reserve for unearned premiums	5 551	(5 551)	-
Outstanding claim technical reserve	8 812	(8 812)	-
Total technical reserve, net	14 363	(14 363)	-
Creditors			
Due to policy holders	75	-	75
Due to intermediaries	104	-	104
Reinsurance creditors	-	4 721	4 721
Other creditors	717	-	717
Total creditors	896	4 721	5 617
Total liabilities	15 259	(9 642)	5 617

Notes to the Financial Statements**(6) Written premiums**

	2017 EUR'000			2016 EUR'000		
	Gross written premiums	Reinsurer's share in premiums	Net written premiums	Gross written premiums	Reinsurer's share in premiums	Net written premiums
CMTPL in EU	72 600	(7 052)	65 548	47 485	(191)	47 294
Property insurance	14 779	(2 803)	11 976	17 323	(982)	16 341
CASCO	3 984	-	3 984	3 026	(2)	3 024
Personal accident insurance	2 153	-	2 153	1 865	(6)	1 859
Travel accident insurance	1 190	-	1 190	716	12	728
General third party liability	985	(326)	659	960	(340)	620
Guarantee insurance	917	(295)	622	387	(93)	294
Various financial risks	384	(28)	356	261	(18)	243
Cargo insurance	3	-	3	1	-	1
Marine insurance	1	(1)	-	2	27	29
Marine third party liability insurance	-	-	-	1	(1)	-
Aircraft third party liability insurance	-	-	-	-	(2)	(2)
Total	96 996	(10 505)	86 491	72 027	(1 596)	70 431

Gross premiums from direct insurance business and reinsurance assumed are underwritten in the following territories:

	2017 EUR'000	2016 EUR'000
Poland	71 503	48 846
France	17 053	20 215
Lithuania	6 084	-
Italy	1 368	1 553
Spain	464	717
Germany	407	566
Latvia	117	130
Total	96 996	72 027

Notes to the Financial Statements**(7) Net earned premiums**

	2017 EUR'000			2016 EUR'000		
	Gross earned premiums	Reinsurer's share in premiums	Net earned premiums	Gross earned premiums	Reinsurer's share in premiums	Net earned premiums
CMTPL in EU	66 922	(4 953)	61 969	29 719	(191)	29 528
Property insurance	16 464	(2 803)	13 661	18 640	(1 009)	17 631
CASCO	3 600	-	3 600	2 223	(2)	2 221
Personal accident insurance	2 219	-	2 219	1 287	(6)	1 281
Travel accident insurance	1 036	-	1 036	353	12	365
General third party liability	968	(340)	628	933	(341)	592
Various financial risks	381	(28)	353	254	1	255
Guarantee insurance	418	(174)	244	248	(56)	192
Marine insurance	1	(1)	-	2	27	29
Marine third party liability insurance	-	-	-	1	(1)	-
Aircraft third party liability insurance	-	-	-	-	(2)	(2)
Credit insurance	-	-	-	-	(2)	(2)
Total	92 009	(8 299)	83 710	53 660	(1 570)	52 090

(8) Technical reserves for unearned premiums and unexpired risks

	Gross EUR'000	Reinsurer share EUR'000	Net EUR'000
Balance at 31 December 2015	20 335	(109)	20 226
Written premiums	72 027	(1 596)	70 431
Premiums earned	(53 660)	1 570	(52 090)
<i>Changes during year</i>	<i>18 367</i>	<i>(26)</i>	<i>18 341</i>
<i>Currency revaluation impact</i>	<i>(558)</i>	<i>2</i>	<i>(556)</i>
Balance at 31 December 2016	38 144	(133)	38 011
Written premiums	96 996	(10 505)	86 491
Premiums earned	(92 009)	8 299	(83 710)
<i>Changes during year</i>	<i>4 987</i>	<i>(2 206)</i>	<i>2 781</i>
<i>Acquired from Compensa</i>	<i>5 551</i>	<i>(5 551)</i>	<i>-</i>
<i>Currency revaluation impact</i>	<i>1 678</i>	<i>(7)</i>	<i>1 671</i>
Balance at 31 December 2017	50 360	(7 897)	42 463

Notes to the Financial Statements

Technical reserves for unearned premiums and unexpired risk of the Company were as follows:

	31.12.2017		31.12.2016	
	EUR'000		EUR'000	
	Gross	Net	Gross	Net
Unearned premium reserve	50 273	42 376	38 144	38 011
Unexpired risk reserve	87	87	-	-
	50 360	42 463	38 144	38 011

(9) Other technical income

	2017	2016
	EUR'000	EUR'000
Fee for policy amendments and cancellation	176	7
Other technical income	1 406	1 191
	1 582	1 198

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 claims handling services.

(10) Paid claims

	2017			2016		
	EUR'000			EUR'000		
	Gross claims paid	Reinsurer's share in claims paid	Net claims paid	Gross claims paid	Reinsurer's share in claims paid	Net claims paid
CMTPL in EU	(32 131)	2 270	(29 861)	(19 157)	60	(19 097)
Property insurance	(21 038)	12 912	(8 126)	(11 258)	349	(10 909)
CASCO	(2 165)	-	(2 165)	(1 312)	-	(1 312)
Guarantee insurance	(2 570)	196	(2 374)	(1 228)	81	(1 147)
General third party liability	(397)	116	(281)	(314)	37	(277)
Travel accident insurance	(424)	-	(424)	(149)	-	(149)
Personal accident insurance	(89)	-	(89)	(49)	-	(49)
Total	(58 814)	15 494	(43 320)	(33 467)	527	(32 940)

The Company's gross claims paid include:

	2017	2016
	EUR'000	EUR'000
Claims paid	(55 791)	(31 040)
Loss adjustment expenses*	(5 462)	(4 554)
Recovered losses	2 439	2 127
	(58 814)	(33 467)

* Loss adjustment expenses in 2017 for the Company include EUR 389 thousand (2016: EUR 366 thousand) of salary and social contributions to employees dealing with claims handling.

Notes to the Financial Statements**(11) Outstanding claim technical reserve**

	Gross EUR'000	Reinsurer share EUR'000	Net EUR'000
Balance at 31 December 2015	47 155	(6 290)	40 865
Claims incurred	50 243	(9 179)	41 064
Claims paid	(33 467)	527	(32 940)
<i>Changes during year</i>	<i>16 776</i>	<i>(8 652)</i>	<i>8 124</i>
<i>Currency revaluation impact</i>	<i>(518)</i>	<i>11</i>	<i>(507)</i>
Balance at 31 December 2016	63 413	(14 931)	48 482
Claims incurred	55 466	(3 539)	51 927
Claims paid	(58 814)	15 494	(43 320)
<i>Changes during year</i>	<i>(3 348)</i>	<i>11 955</i>	<i>8 607</i>
<i>Currency revaluation impact</i>	<i>1 101</i>	<i>(38)</i>	<i>1 063</i>
<i>Acquired from Compensa</i>	<i>8 812</i>	<i>(8 812)</i>	<i>-</i>
Balance at 31 December 2017	69 978	(11 826)	58 152

The outstanding claim technical reserves for the Company were as follows:

	31.12.2017 EUR'000		31.12.2016 EUR'000	
	Gross	Net	Gross	Net
RBNS	52 488	42 634	54 130	39 199
IBNR	17 490	15 426	9 283	9 283
	69 978	58 060	63 413	48 482

(12) Net incurred claims

	2017 EUR'000			2016 EUR'000		
	Gross claims incurred	Reinsurer's share in claims incurred	Net claims incurred	Gross claims incurred	Reinsurer's share in claims incurred	Net claims incurred
Property insurance	(6 118)	(245)	(6 363)	(23 698)	8 735	(14 963)
CMTPL in EU	(42 802)	3 445	(39 357)	(21 860)	275	(21 585)
Guarantee insurance	(3 539)	197	(3 342)	(2 715)	81	(2 634)
CASCO	(2 084)	-	(2 084)	(1 191)	-	(1 191)
General third party liability	(228)	117	(111)	(472)	69	(403)
Travel insurance	(574)	-	(574)	(202)	-	(202)
Personal accident	(115)	-	(115)	(92)	-	(92)
Financial risks	(6)	25	19	(13)	19	6
Total	(55 466)	3 539	(51 927)	(50 243)	9 179	(41 064)

Notes to the Financial Statements**(13) Change in deferred client acquisition costs**

	EUR'000
Balance at 31 December 2015	8 239
Change in intermediary commission of future periods	(30)
Written commissions	17 171
Deferred commissions allocated to statement of comprehensive income	(13 095)
<i>Changes during the year</i>	<i>4 076</i>
Balance at 31 December 2016	12 285
Change in intermediary commission of future periods	(180)
Acquired from Compensa	1 022
Written commissions	22 366
Deferred commissions allocated to statement of comprehensive income	(22 510)
<i>Changes during the year</i>	<i>(144)</i>
Balance at 31 December 2017	12 983

(14) Administrative expenses

	2017	2016
	EUR'000	EUR'000
Salaries and social contribution expenses	3 818	3 662
Computer programs rent and maintenance	357	280
Audit and consultant services	349	419
Other personnel expenses	322	214
Legal expenses	266	457
Rent payments	252	226
Other business related costs	237	183
Obligatory payments*	209	160
Advertising and presentation expenses	195	106
Car maintenance costs	163	163
Telecommunication costs	127	82
Utility expenses (electricity, heating, water)	115	103
Repairs and maintenance of own property	101	48
Expenses for printing	70	29
Computer maintenance	39	40
Press subscription, documentation, books	31	45
Other administrative expenses	242	210
	6 893	6 427

* Obligatory payments include payments to FCMC.

Administrative expenses allocated by insurance types:

	2017	2016
	EUR'000	EUR'000
CMTPL in EU except Latvia	5 176	3 255
Property insurance	1 040	2 354
CASCO	280	292
Personal accident	152	148
Travel insurance	84	94
General third party liability	69	163
Guarantee insurance	65	88
Financial risks	27	29
Marine insurance	-	3
Legal insurance	-	1
	6 893	6 427

Notes to the Financial Statements**(15) Change in unearned reinsurance commission**

	EUR'000
Statement of financial position at 31 December 2015	<u>20</u>
Written commissions	56
Deferred commissions allocated to the statement of comprehensive income	(36)
<i>Changes during the year</i>	<u>20</u>
Statement of financial position at 31 December 2016	<u>40</u>
Written commissions	1 705
Deferred commissions allocated to the statement of comprehensive income	(1 095)
<i>Changes during the year</i>	<u>610</u>
Acquired from Compensa	1 474
Statement of financial position at 31 December 2017	<u>2 124</u>

(16) Other technical expenses

	2017 EUR'000	2016 EUR'000
Deductions paid	1 659	1 090
Expenses related to distribution of policies	1 213	596
Insurance tax	830	207
Impairment allowance for receivables from direct insurance and reinsurance operations	185	147
Other	143	156
	<u>4 030</u>	<u>2 196</u>

(17) Investment management charges

	2017 EUR'000	2016 EUR'000
Transaction commissions	129	146
Other charges	6	2
	<u>135</u>	<u>148</u>

(18) Interest income and dividend income

	2017 EUR'000	2016 EUR'000
Dividends from investments held as available for sale	240	933
Interest on loans	115	245
Interest income from financial assets at fair value through profit or loss	56	331
Interest income/ (expense) from deposits with credit institutions	(8)	33
	<u>403</u>	<u>1 542</u>

(19) Impairment gain/loss

	2017 EUR'000	2016 EUR'000
(Increase)/ decrease in allowances for bad debts, other than insurance debts	1	(77)
(Increase)/ decrease in allowances for loans	(108)	709
	<u>(107)</u>	<u>632</u>

Notes to the Financial Statements**(20) Other income**

	2017 EUR'000	2016 EUR'000
Other income	572	103 014
	572	103 014

Other income in 2017 includes gain from acquisition of portfolio described in note 5. Other income in 2016 includes gain from sale of investments and gain from revaluation of remaining stake. Details have been described in note 28.

(21) Other expenses

	2017 EUR'000	2016 EUR'000
Real estate tax	60	51
Other expenses	86	70
	146	121

(22) Income tax expense

	2017 EUR'000	2016 EUR'000
Corporate income tax	-	-
Change in deferred tax	1 537	(1 232)
	1 537	(1 232)

	2017 EUR'000	2016 EUR'000
Profit before tax	1 684	96 708
Theoretical tax using the 15% rate	253	14 506
Tax exempt income	(155)	(15 310)
Non-deductible expenses	395	129
Effect of change in deferred tax asset recognition	1 044	(557)
Tax expenses/ (income)	1 537	(1 232)

Income declared by the Company's branches in France, the UK, Lithuania, Germany and Poland is taxable in Latvia.

On 28 July 2017, Latvian parliament passed amendments to the Latvian tax legislations which became effective on 1 January 2018. The amendments concern corporate income tax regime and certain other taxes in Latvia. Up to this date corporate income tax in Latvia was payable on taxable profits and the taxable profits could be partially offset by tax loss carry forward from previous tax periods. The new regime introduces a concept where corporate income tax is payable only on dividend pay-outs (irrespective of profits in the particular period) and certain expenses which for tax purposes are considered earnings distributions (e.g. non-business expenses and representative expenses that exceed specific threshold). In accordance with the amendments, for profits which are generated within Latvian jurisdiction and are not paid out in dividends, corporate income tax from 1 January 2018 is not payable.

The current version of the amended tax legislation retains certain conditional transitional provisions where the new tax does not apply to distribution of retained earnings from previous tax regime (currently no expiry date) and unutilised tax losses may be offset against certain tax payables (5 year expiry date). The Company, in case dividends were to be distributed, might have positive tax benefits from these transitional provisions, but as deferred tax is calculated on tax rate which applies to undistributed earnings, no deferred tax asset may be recognised until actual distribution.

The Company has written-off a half of previously recognized deferred Income tax due to changes of legislation. Deferred tax derecognition impact directly on equity is EUR 477 thousand.

Notes to the Financial Statements**(23) Reinsurance cession result**

	2017 EUR'000	2016 EUR'000
Reinsurance premiums	(10 505)	(1 596)
Changes in reinsurers' share in unearned premiums reserve	2 206	26
Reinsurers' share in claims paid	15 494	527
Changes in reinsurers' share in reserve for outstanding claims	(11 955)	8 652
Reinsurance commissions and profit participation	1 705	56
Change in unearned reinsurance commissions	(610)	(20)
Total reinsurance cession result	(3 665)	7 645

(24) Property and equipment

The Company's property and equipment movement table for the years 2016 and 2017 is presented as follows:

Cost	Vehicles EUR'000	Other property and equipment EUR'000	Total EUR'000
31.12.2015	473	718	1 191
Purchased	-	311	311
Disposals	(43)	(117)	(160)
31.12.2016	430	912	1 342
Purchased	15	216	231
Disposals	(84)	(11)	(95)
31.12.2017	361	1 117	1 478
Accumulated depreciation			
31.12.2015	(219)	(515)	(734)
Depreciation for the year	(93)	(95)	(188)
Depreciation on disposed assets	19	101	120
31.12.2016	(293)	(509)	(802)
Depreciation for the year	(56)	(220)	(276)
Depreciation on disposed assets	53	10	63
31.12.2017	(296)	(719)	(1 015)
Balance at 31.12.2016	137	403	540
Balance at 31.12.2017	65	398	463

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

Notes to the Financial Statements**(25) Land and buildings and Investment property****(a) Land and buildings**

	Land and Buildings
	EUR'000
Deemed cost 31.12.2015	4 490
<i>of which revaluation prior to 31.12.2015</i>	<i>2 612</i>
Disposal	(11)
Reclassification to investment property	(1 458)
Revaluation	96
Deemed cost 31.12.2016	3 117
Revaluation	-
Deemed cost 31.12.2017	3 117
Accumulated depreciation	
31.12.2015	(1 243)
Depreciation	(194)
Disposal	4
31.12.2016	(1 433)
Depreciation	(131)
31.12.2017	(1 564)
Balance at 31.12.2016	1 684
Balance at 31.12.2017	1 553

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

Revalued assets

In December 2016 the Company's management revalued land and buildings and investment property and valuation of land and buildings was performed by an external, independent property appraisers that had appropriate professional qualifications and recent experience in valuation of properties of the same real estate category and the area of location. The valuation was based on discounted cash flows technique where possible and the income capitalisation approach. The management considers that the real estate market prices have not changed significantly during 2017; therefore, the management assesses that the fair value determined in 2016 is representative of the fair value of land and buildings as at 31 December 2017.

The fair value measurement for land and buildings of EUR 1 553 thousand (31.12.2016: EUR 1 684 thousand) has been categorised as a Level 3 in the fair value hierarchy.

Notes to the Financial Statements

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 as at 31.12.2017:

Type	Fair value, EUR'000	Valuation technique	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Buildings and land located in Riga and Riga region	1 426	Discounted cash flows technique	Rental income per m ² in the range between EUR 2.00 and EUR 9 Discount rate in the range between 7.12% and 8.62%	The estimated fair value would increase/ (decrease) if rental income per m ² was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Tukums	75	Discounted cash flows technique	Rental income of EUR 3.50 per m ² Discount rate 10.30%	The estimated fair value would increase/ (decrease) if rental income per m ² was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Liepaja	52	Discounted cash flows technique	Rental income per m ² in the range between EUR 3.45 and EUR 3.63 Discount rate 10.30%	The estimated fair value would increase/ (decrease) if rental income per m ² was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)

The model of discounted cash flows technique is based on discounted cash flows from rental income.

Notes to the Financial Statements

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 as at 31 December 2016:

Type	Fair value, EUR'000	Valuation technique	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Buildings and land located in Riga and Riga area	1 548	Discounted cash flows technique ¹	Rental income per m ² in the range between EUR 2.00 and EUR 9 Discount rate in the range between 7.12% and 8.62%	The estimated fair value would increase/ (decrease) if rental income per m ² was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Tukums	80	Discounted cash flows technique ¹	Rental income of EUR 3.50 per m ² Discount rate 10.30%	The estimated fair value would increase/ (decrease) if rental income per m ² was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Liepaja	56	Discounted cash flows technique ¹	Rental income per m ² in the range between EUR 3.45 and EUR 3.63 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)

(b) Investment property

	EUR'000
Deemed cost 31.12.2015	3 547
<i>of which revaluation prior to 31.12.2015</i>	<i>1 725</i>
Revaluation recognised in profit or loss	212
Reclassification from own used properties	1 458
Deemed cost 31.12.2016	5 217
Disposals	(20)
Deemed cost 31.12.2017	5 197
Balance at 31.12.2016	5 217
Balance at 31.12.2017	5 197

Rental income and operating expense for the year ended 31 December 2017:

	Book value EUR'000	Rental income EUR'000	Operating expenses EUR'000
Investment property rented out	5 010	108	80
Investment property not rented out	187	-	-
Total	5 197	108	80

Rental income and operating expenses are recognized in the statement of Comprehensive Income under Other income and Other expense captions respectively. Non-cancellable rental income for the Company is EUR 11 thousand.

Notes to the Financial Statements

In December 2016 the Company's management revalued land and buildings and investment property and valuation of land and buildings was performed by an external, independent property appraisers that had appropriate professional qualifications and recent experience in valuation of properties of the same real estate category and the area of location. The valuation was based on discounted cash flows technique where possible and the income capitalisation approach. The management considers that the real estate market prices have not changed significantly during 2017; therefore, the management assesses that the fair value determined in 2016 is representative of the fair value of land and buildings as at 31 December 2017.

The fair value measurement for Investment property of EUR 5 197 thousand (2016: EUR 5 217 thousand) has been categorised as a Level 3 in the fair value hierarchy. The following table shows the valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs used which have not changed significantly since 31 December 2017.

Type	Fair value, EUR'000	Valuation technique	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Buildings and land located in Riga and Riga area	4 885	Discounted cash flows technique	Rental income per m ² in the range between EUR 2.00 and EUR 8.50 Discount rate in the range between 7.12% and 9.62%	The estimated fair value would increase/ (decrease) if rental income per m ² was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Liepaja	168	Discounted cash flows technique	Rental income per m ² in the range between EUR 3.45 and EUR 3.63 Discount rate 10.30%	The estimated fair value would increase/ (decrease) if rental income per m ² was higher/ (lower) The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Sigulda	132	Discounted cash flows technique	Price 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)
Land located in Incukalna	12	The sales comparison approach	Price per m ²	The estimated fair value would increase/ (decrease) if rental income per m ² was higher/ (lower)

The model of discounted cash flows technique is based on discounted cash flows from rental income.

Notes to the Financial Statements

The following table shows the valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs used as at 31 December 2016:

Type	Fair value, EUR'000	Valuation technique	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Buildings and land located in Riga and Riga area	4 885	Discounted cash flows technique	Rental income per m ² in the range between EUR 2.00 and EUR 8.50 Discount rate in the range between 7.12% and 9.62%	The estimated fair value would increase/ (decrease) if rental income per m ² was higher/ (lower). The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Liepaja	168	Discounted cash flows technique	Rental income per m ² in the range between EUR 3.45 and EUR 3.63 Discount rate 10.30%	The estimated fair value would increase/ (decrease) if rental income per m ² was higher/ (lower) The estimated fair value would increase/ (decrease) if discount rate was lower/ (higher)
Buildings and land located in Sigulda	132	Discounted cash flows technique	Price 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)
Land located in Incukalna	12	The sales comparison approach	Price per m ²	The estimated fair value would increase/ (decrease) if rental income per m ² was higher/ (lower)
Commercial properties in Lithuania	20	Market comparison technique	Price per m ²	The fair value would increase/ (decrease) if the price per m ² was higher/ (lower)

Notes to the Financial Statements**(26) Intangible assets**

The table below represents Intangible assets movement for the Company:

	Software EUR'000
Cost	
31.12.2015	699
Purchased	365
31.12.2016	1 064
Purchased	533
31.12.2017	1 597
Accumulated amortization	
31.12.2015	(144)
Amortisation for the year	(190)
31.12.2016	(334)
Amortisation for the year	(312)
31.12.2017	(646)
Balance at 31.12.2016	730
Balance at 31.12.2017	951

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

(27) Investments at fair value through profit or loss

	31.12.2017 EUR'000		31.12.2016 EUR'000	
Non-fixed income securities	Purchase cost	Fair value	Purchase cost	Fair value
Investments in investment funds	864	1 124	1 798	2 526
Shares and other equity securities	635	765	201	95
	1 499	1 889	1 999	2 621

	31.12.2017 EUR'000		31.12.2016 EUR'000	
Fixed income securities	Purchase cost	Fair value	Purchase cost	Fair value
Debt securities issued or guaranteed by central governments or municipalities	62 244	63 440	43 099	44 142
Other debt securities with fixed income, which are included in a regulated market	1 606	1 553	2 281	2 269
Mortgage bonds	-	-	498	509
	63 850	64 993	45 878	46 920

Notes to the Financial Statements

Investment portfolio of fixed income securities by geography:	31.12.2017 EUR'000	31.12.2016 EUR'000
Poland	50 521	37 435
Lithuania	8 915	2 009
Other European Union countries	4 242	6 206
North America	23	28
Other countries	1 292	1 242
	64 993	46 920

(28) Available-for-sale financial assets

Equities classified as available-for-sale financial assets are shares in other companies which are not quoted. These are stated at cost as fair value is not practicable to be determined. The gross amounts and net of impairment are as follows:

	31.12.2017 EUR'000		31.12.2016 EUR'000	
	Gross	Net, after impairment recognised	Gross	Net, after impairment recognised
BTA Baltic (9.17%)	4 881	4 881	3 964	3 964
Megape Īpašumi AS (36.90%)	910	910	1 245	1 245
Kroha OOO (19.5%)	289	279	289	279
	6 080	6 070	5 498	5 488

BTA Baltic Insurance Company AAS ("BTA Baltic") is the former subsidiary 90% of which has been sold to Vienna Insurance Group in 2016. Gain from the transaction has been disclosed in note 20 and represents the difference between consideration received and the carrying value of the stake disposed immediately before sale. Additional details of the transaction have not been disclosed due to confidentiality clauses stipulated in the share sale agreement.

During 2017 BTA Baltic increased its share capital. The Company contributed additional capital of 917 thousand EUR and its share in BTA Baltic dropped from 10% to 9.17%.

At the end of 2015 100% ownership in BTA Baltic was classified as Investment in subsidiary in the value of 29 000 thousand EUR. The management based its assessment of the value of retained 10% shareholding on the expected return of equity from the investment. Given that BTA Baltic is not a listed company and that fair value cannot be measured reliably in the subsequent periods the Company measures the respective financial asset at its notional cost subject to impairment testing.

Megape Īpašumi AS is a related party of the Company that manages the Company's real estate properties. In 2017 the share of the Company in Megape Īpašumi AS decreased from 48.87% to 36.90% due to partial sale of the investment at the price which did not materially differ from the carrying amount.

OOO Kroha's line of business is the development of real estate projects.

The Company's management has assessed whether it controls the companies classified as available for sale investments. Based on the management's assessment the Company does not have power over these investees since it does not hold more than half of the voting rights and it does not have ability to direct the relevant activities. Therefore, the Company does not consolidate these investments. The Company also does not have a significant influence over the respective entities and none of them is classified as investment in associates.

Notes to the Financial Statements**(29) Deposits with banks**

	31.12.2017 EUR'000	31.12.2016 EUR'000
Investment maturity structure:		
With original maturity not longer than 3 months (refer to note 33)	5 000	5 000
With original maturity from 1 to 5 years	11 000	506
	16 000	5 506

	31.12.2017 EUR'000	31.12.2016 EUR'000
Investment structure by geographic split:		
France	5 000	5 000
Lithuania	-	400
Latvia	11 000	106
	16 000	5 506

(30) Loans

	31.12.2017 EUR'000	31.12.2016 EUR'000
Structure of loan portfolio		
Amount of loans, gross	1 785	4 079
Accrued interest payments	5	51
Impairment allowance	(984)	(876)
	806	3 254

In 2017 the Company has extended loan repayment term for loans in the net amount of EUR 0 thousand (2016: EUR 56 thousand).

	Gross EUR'000
Allowance as at 31 December 2015	(1 617)
Charge for the year	(1)
Recoveries	742
Allowance as at 31 December 2016	(876)
Charge for the year	(108)
Allowance as at 31 December 2017	(984)

The following table provides an analysis of the Company's loan portfolio, net of impairment, by types of collateral:

	31.12.2017		31.12.2016	
	Amortised cost EUR'000	Fair Value EUR'000	Amortised cost EUR'000	Fair Value EUR'000
Mortgage loans	147	145	397	382
Other loans	659	657	2 857	2 821
Total loans	806	802	3 254	3 203

Notes to the Financial Statements

	31.12.2017 EUR'000	31.12.2016 EUR'000
Overdue mortgage loans		
Overdue more than 12 months	340	9
Overdue 3 to 12 months	-	30
Not overdue mortgage loans	644	1 087
Impairment allowance	(837)	(729)
Mortgage loans	147	397
Overdue other loans		
Overdue more than 12 months	1	1
Overdue 3 to 12 months	-	-
Not overdue other loans	805	3 038
Impairment allowance	(147)	(182)
Other loans	659	2 857
Total loans	806	3 254

	31.12.2017 EUR'000	31.12.2016 EUR'000
Mortgage loans:		
Loans to non-financial institutions	938	1 002
Loans to individuals	46	124
Impairment allowance	(837)	(729)
	147	397

	31.12.2017 EUR'000	31.12.2016 EUR'000
Other loans:		
Loans to non-financial institutions	719	2 917
Loans to individuals	87	87
Impairment allowance	(147)	(147)
	659	2 857

As at 31 December 2017 loans in amount of EUR 25 thousand (2016: EUR 104 thousand) had maturity more than 5 years.

(31) Receivables from direct insurance activities

	31.12.2017 EUR'000	31.12.2016 EUR'000
Due from policy holders	12 767	3 697
Due from intermediaries	3 822	2 817
Impairment allowance for bad debtors	(2 443)	(1 425)
	14 146	5 089

	Allowance for policy holders EUR'000	Allowance for intermediaries EUR'000	Total allowance for insurance debtors EUR'000
Allowance as at 31 December 2015	(870)	(727)	(1 597)
Impairment loss reversed	330	42	372
Impairment loss charge	(200)	-	(200)
Allowance as at 31 December 2016	(740)	(685)	(1 425)
Impairment loss reversed	-	24	24
Impairment loss charge	(861)	(181)	(1 042)
Allowance as at 31 December 2017	(1 601)	(842)	(2 443)

Notes to the Financial Statements

	31.12.2017 EUR'000	31.12.2016 EUR'000
Overdue receivables		
Less than 3 months	829	130
More than 3 months	158	701
Outstanding receivables not yet due	2 991	1 987
Allowances for doubtful debts	(842)	(685)
Intermediaries	3 136	2 133
Overdue receivables		
Less than 3 months	1 834	642
More than 3 months	3 001	1 412
Outstanding receivables not yet due	7 776	1 642
Allowances for doubtful debts	(1 601)	(740)
Policyholders	11 010	2 956
Total direct insurance debtors	14 146	5 089

(32) Other receivables

	31.12.2017 EUR'000	31.12.2016 EUR'000
<i>Non-financial assets</i>		
Advance payments	736	599
Other tax advance payments	198	200
	934	799
<i>Financial assets</i>		
Receivables for claims handling services provided	359	451
Other debtors	215	413
Impairment allowance	(17)	(20)
Total financial assets	557	844
Total other receivables	1 491	1 643

	Gross EUR'000
Allowance as at 31 December 2015	(20)
Written off	-
Allowance as at 31 December 2016	(20)
Written off	3
Allowance as at 31 December 2017	(17)

(33) Cash and cash equivalents

	31.12.2017 EUR'000	31.12.2016 EUR'000
Current accounts with credit institutions	41 519	64 542
Deposits with original maturity less than 3 months	5 000	5 000
Cash and cash equivalents	46 519	69 542

Deposits with original maturity less than 3 months are included in Statement of Financial Position in the caption Deposits with banks.

Notes to the Financial Statements

Reconciliation of movements of loans and borrowings to cash flows arising from financing activities.

	Subordinated loan EUR'000
Balance as at 1 January 2016	1 700
Changes from financing cash	
Repayment of subordinated loan	-
Balance as at 31 December 2016	1 700
Changes from financing cash	
Repayment of subordinated loan	(1 700)
Balance as at 31 December 2017	-

(34) Obligatory payments disclosed in statement of cash flows

	31.12.2017 EUR'000	31.12.2016 EUR'000
Paid to:		
Transport Insurance Bureau	1 659	1 090
FCMC (Financial and Capital Market Commission)	204	160
Foreign insurance supervisory institutions	4	7
Insured Protection Fund	1	1
Total obligatory payments	1 868	1 258

(35) Capital and reserves**Share capital**

The authorized and issued share capital of the Company at 31 December 2017 was EUR 14 220 000 (31 December 2016: EUR 14 220 000) and comprised of 100 000 shares (31 December 2016: 100 000) and was fully paid. Nominal value of one share was EUR 142.20 (31 December 2016: EUR 142.20).

	31.12.2017		31.12.2016	
	Number of shares	EUR'000	Number of shares	EUR'000
Ordinary shares with voting rights	96 000	13 651	96 000	13 651
Preference shares without voting rights	4 000	569	4 000	569
	100 000	14 220	100 000	14 220

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company and rank equally with regard to the Company's residual assets. Holders of preference shares are entitled to receive dividends, but do not have voting rights. The holders of preference shares have preference over ordinary shareholders on the residual assets.

The rights to purchase preference shares are given to employees and the management of the Company by a decision of the shareholders' meeting.

Revaluation reserve

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

	31.12.2017 EUR'000	31.12.2016 EUR'000
Land and buildings revaluation reserves	3 171	3 171
Deferred tax liabilities at 15%	-	(477)
Currency revaluation impact	(23)	(51)
	3 148	2 643

Notes to the Financial Statements

	EUR'000
Balance at 31 December 2015	2 587
Revaluation reserve increase	97
Deferred tax from changes in revaluation reserve	(16)
Currency revaluation impact	(25)
Balance at 31 December 2016	2 643
Revaluation reserve increase	-
Deferred tax from changes in revaluation reserve	477
Currency revaluation impact	28
Balance at 31 December 2017	3 148

Reserve capital and other reserves

In previous years a part of the profit had been transferred to reserve capital and other reserves in total amount of EUR 8 536 thousand. These reserves are available for shareholders and there are no restrictions on those reserves.

Dividends

Dividends in amount of EUR 4 500 thousand were calculated and paid in 2017.

On 6 October 2016 the shareholders of the Company agreed on the same date to pay out the extraordinary dividends of EUR 87 000 thousand or EUR 870.00 per share. The dividends were paid out after the completion of sale of 90% of investment in BTA Baltic and after receiving permission from Financial and Capital Market Commission.

(36) Deferred tax

In 2017 the Company made a one-off deferred tax asset write-off (refer to note 22). According to the new income tax regime, from 1 January 2018 the corporate income tax is payable only on dividend pay-outs (irrespective of profits in the particular period) and certain expenses which for tax purposes are considered earnings distributions. Therefore, undistributed profits will be treated favourably under the new Latvian income tax regime.

Movement in temporary differences during the year ended 31 December 2017:

EUR'000	Net balance as at 1 January 2017	Recognized in profit or loss statement	Recognized directly in equity	Net balance as at 31 December 2017	Deferred tax asset	Deferred tax liability
Property and equipment and Revaluation of land and buildings	(637)	160	477	-	-	-
Tax loss carried forward	2 693	(1 714)	-	979	979	-
Temporary revaluation difference	(15)	15	-	-	-	-
Deferred client acquisition costs	(1 359)	(272)	-	(1 631)	-	(1 631)
Other temporary differences	(115)	245	-	130	130	-
	567	(1 566)	477	(522)	1 109	(1 631)
				Set off tax	(1 109)	1 109
				Net deferred tax liabilities	-	(522)

Notes to the Financial Statements

Movement in temporary differences during the year ended 31 December 2016:

EUR'000	Net balance as at 1 January 2016	Recognized in profit or loss statement	Recognized directly in equity	Net balance as at 31 December 2016	Deferred tax asset	Deferred tax liability
Property and equipment and Revaluation of land and buildings	(1 002)	365	-	(637)	-	(637)
Tax loss carried forward	1 800	893	-	2 693	2 693	-
Temporary revaluation difference	11	(26)	-	(15)	-	(15)
Deferred client acquisition costs	(1 474)	115	-	(1 359)	-	(1 359)
Other temporary differences	-	(115)	-	(115)	-	(115)
	(665)	1 232	-	567	2 693	(2 126)
				Set off tax	(2 693)	2 693
				Net deferred tax assets	567	-

As at 31 December 2016 the rate of tax applicable for deferred tax was 15%.

Notes to the Financial Statements**(37) Taxes and social contributions**

Tax type	Balance at 31.12.2016 EUR'000	Calculated in 2017 EUR'000	Paid in 2017 EUR'000	Balance at 31.12.2017 EUR'000
Social tax	75	1 227	(1 179)	123
Personal income tax	-	516	(510)	6
VAT	(2)	271	(248)	21
Property tax	-	85	(85)	-
Insurance premium tax	479	2 363	(2 736)	106
Other taxes	3	8	(8)	3
CIT in other countries	-	-	(132)	(132)
	555	4 470	(4 898)	127
Including:				
Other tax prepayment	(200)			(198)
Other tax liabilities	755			325

Tax type	Balance at 31.12.2015 EUR'000	Calculated in 2016 EUR'000	Paid in 2016 EUR'000	Moved to/ (from) EUR'000	Balance at 31.12.2016 EUR'000
Social tax	(9)	1 211	(1 071)	(56)	75
Personal income tax	20	1 177	(1 197)	-	-
VAT	9	188	(184)	(15)	(2)
Property tax	-	73	(73)	-	-
Insurance premium tax	(81)	2 767	(2 207)	-	479
Other taxes	3	47	(47)	-	3
CIT in Latvia	(15)	(56)	-	71	-
CIT in other countries	-	(44)	44	-	-
	(73)	5 363	(4 735)	-	555
Including:					
CIT Latvia	(15)				-
Other tax prepayment	(90)				(200)
Other tax liabilities	32				755

Notes to the Financial Statements

Tax overpayment is included in the statement of financial position under Other receivables caption.

	Tax payable 31.12.2016 EUR'000	Tax receivable 31.12.2016 EUR'000	Calculated in 2017 EUR'000	Paid in 2017 EUR'000	Tax payable 31.12.2017 EUR'000	Tax receivable 31.12.2017 EUR'000
Latvia	81	-	1 255	(1 242)	94	-
Lithuania	-	-	190	(161)	29	-
Germany	2	-	195	(95)	102	-
Great Britain	8	-	43	(44)	7	-
Italy	-	(200)	271	(154)	-	(83)
France	650	-	2 275	(2 832)	93	-
Spain	-	-	24	(24)	-	-
Poland	14	-	217	(346)	-	(115)
Total	755	(200)	4 470	(4 898)	325	(198)

	Tax payable 31.12.2015 EUR'000	Tax receivable 31.12.2015 EUR'000	Calculated in 2016 EUR'000	Paid in 2016 EUR'000	Tax payable 31.12.2016 EUR'000	Tax receivable 31.12.2016 EUR'000
Latvia	4	(15)	2 015	(1 923)	81	-
Germany	7	(5)	100	(100)	2	-
Great Britain	6	-	72	(70)	8	-
Italy	-	(66)	301	(435)	-	(200)
France	46	(60)	2 625	(1 961)	650	-
Spain	-	-	48	(48)	-	-
Poland	10	-	202	(198)	14	-
Total	73	(146)	5 363	(4 735)	755	(200)

(38) Reinsurance creditors

	31.12.2017 EUR'000	31.12.2016 EUR'000
Reinsurance companies	7 965	8
Reinsurance brokers	919	373
	8 884	381

Reinsurance creditors geographic segmentation:	31.12.2017 EUR'000	31.12.2016 EUR'000
European Union member countries	8 884	381
	8 884	381

Increase in reinsurance creditors is mainly related to the portfolio acquisition described in note 5.

Notes to the Financial Statements**(39) Other creditors**

	31.12.2017 EUR'000	31.12.2016 EUR'000
<i>Financial liabilities</i>		
Due to the Transport Insurance Bureau	218	138
Due to employees (remuneration)	120	106
Due to the FCMC, Latvia	45	47
Due to owners for current year dividends	2	3 389
Other creditors	731	504
<i>Non-financial liabilities</i>		
Accrued liabilities	2 355	215
	3 471	4 399

(40) Related parties

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

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

The Company has the following significant transactions with related parties:

Loans issued to related parties:

	31.12.2017 EUR'000	31.12.2016 EUR'000
Mortgage loans issued to the companies controlled by Board or Council members	680	693
Impairment allowance	(623)	(629)
Mortgage loans issued to the companies controlled by board and council members, net	57	64
Other loans issued to the related parties	-	439
Other loans issued to other related parties, net	-	439
Loans issued to related parties, net	57	503

Other balances with related parties:

	31.12.2017 EUR'000	31.12.2016 EUR'000
Other receivables	321	807
Other payables	47	3 484
	368	4 291

The interest rate on loans issued according to agreements varies from 3.0% to 4.8%.

Information about other transactions with related parties:

A property maintenance agreement was signed and property provided for maintenance to a related party. Members of the management or their related parties acquire insurance products of the Company. The amount of these transactions is insignificant both individually and in aggregate and therefore is not separately disclosed in these financial statements.

Megape Īpašumi AS is a related party of the Company that manages the Company's real estate properties. The share of the Company in Megape Īpašumi AS decreased from 48.87% to 36.90% in 2017 due to partial sale of the investment at the price which did not materially differ from the carrying amount.

Notes to the Financial Statements**(41) Provisions**

	31.12.2017 EUR'000	31.12.2016 EUR'000
Provision for staff bonuses	75	75
Accruals for unused employee vacations	291	178
Other provisions	65	51
	431	304
		Gross EUR'000
Provisions as at 31 December 2015		271
Paid		(55)
Increase of provisions		88
Provisions as at 31 December 2016		304
Paid		(71)
Increase of provisions		198
Provisions as at 31 December 2017		431

(42) Accrued expenses and deferred income

	31.12.2017 EUR'000	31.12.2016 EUR'000
Deferred income from prepaid policies	-	836
Other accrued expenses	-	(2)
	-	834

(43) Number of employees and information on branches

The Company's Headquarter is in Latvia with 5 foreign branches in Germany, France, Poland, Lithuania and the UK.

Number of employees as at end of the year:

	2017	2016
Latvia	77	83
Branch in Poland	21	18
Branch in Lithuania	15	-
Branch in France	12	11
Branch in Germany	9	7
Branch in the United Kingdom	8	6
	142	126

(44) Personnel expenses

	2017 EUR'000	2016 EUR'000
Remuneration	3 341	3 262
Social contribution expenses	866	766
	4 207	4 028
Employees (included in administrative expenses)	3 818	3 662
Employees (included in loss adjustment expenses)	389	366
	4 207	4 028

Notes to the Financial Statements**(45) Remuneration of the members of the Board of Directors and Supervisory Council**

	2017 EUR'000	2016 EUR'000
Supervisory Council	149	130
Board of Directors	557	659
Social contribution expenses	106	119
	812	908

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

(46) Remaining maturities of insurance liabilities

	2017 EUR'000			2016 EUR'000		
	Gross liabilities	Reinsurance	Net liabilities	Gross liabilities	Reinsurance	Net liabilities
Unearned premium and unexpired risk technical reserves	50 360	(7 897)	42 463	38 144	(133)	38 011
Outstanding claim technical reserves	69 978	(11 826)	58 152	63 413	(14 931)	48 482
Total	120 338	(19 723)	100 615	101 557	(15 064)	86 493
Up to 1 year	110 055	(19 723)	90 332	98 546	(15 064)	83 482
1-5 years	31	-	31	24	-	24
Over 5 years	336	-	336	168	-	168
No fixed maturity	9 916	-	9 916	2 819	-	2 819

(47) Operating leases

Non-cancellable operating lease rentals are payable as follows for the Company:

	31.12.2017 EUR'000	31.12.2016 EUR'000
Within one year	191	190
From 1 to 5 years	148	384
	339	574

Notes to the Financial Statements

(48) Contingent liabilities and commitments

General claims

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

As at 31 December 2017 there were no material open legal claims against the Company.

Credit related commitments

As at 31 December 2017 the Company did not have off balance sheet credit related commitments.

Capital commitments

As at 31 December 2017 the Company did not have any capital commitments, or any other contingent liabilities.

(49) Fair value of financial instruments

(a) Financial instruments measured at fair value

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

31 December 2017	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets				
Financial instruments at fair value through profit or loss	66 860	-	22	66 882
	66 860	-	22	66 882
31 December 2016				
Financial assets				
Financial instruments at fair value through profit or loss	49 513	-	28	49 541
	49 513	-	28	49 541

In 2017 financial instruments were not transferred into or out of Level 3.

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

2017	Financial assets at fair value through profit or loss EUR'000	Available for sale instruments EUR'000
Total gains included		
in profit or loss	296	115
in OCI	-	-
	296	115

Notes to the Financial Statements

2016	Financial assets at fair value through profit or loss EUR'000	Available for sale instruments EUR'000
Total gains included		
in profit or loss	379	933
in OCI	-	1 064
	379	1 997

The following table shows the valuation techniques use in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used:

Type	Valuation technique	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Financial instruments at fair value through profit or loss	Discounted cash flows	Discount rates	The fair value would increase/ (decrease) if the discount rate was lower (higher).
Available for sale assets	Discounted cash flows	Discount rates	The fair value would increase/ (decrease) if the discount rate was lower (higher).

Notes to the Financial Statements

(b) Financial instruments not measured at fair value

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

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
31 December 2017	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Financial assets					
Cash and cash equivalents	-	-	-	41 519	41 519
Mortgage loans	-	-	147	147	147
Other loans	-	-	659	659	659
Deposits with banks ¹	-	-	16 000	16 000	16 000
Receivables from direct insurance ²	-	-	14 146	14 146	14 146
Receivables from reinsurance	-	-	5 510	5 510	5 510
Other receivables ³	-	-	1 491	1 491	1 491
Financial liabilities					
Direct insurance creditors ⁴	-	-	3 448	3 448	3 448
Reinsurance creditors ⁵	-	-	8 884	8 884	8 884
Other creditors ⁵	-	-	1 441	1 441	1 441

No level of fair value has been assigned for cash and cash equivalents on the basis that these are available on demand and therefore no modelling of fair value is required.

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

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

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

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

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

Notes to the Financial Statements

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
31 December 2016	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Financial assets					
Cash and cash equivalents	-	-	-	64 542	64 542
Mortgage loans	-	-	397	397	397
Other loans	-	-	2 857	2 857	2 857
Deposits with banks ⁶	-	-	5 506	5 506	5 506
Receivables from direct insurance ⁷	-	-	5 089	5 089	5 089
Receivables from reinsurance	-	-	897	897	897
Other receivables ⁸	-	-	844	844	844
Financial liabilities					
Direct insurance creditors ⁹	-	-	4 069	4 069	4 069
Reinsurance creditors ¹⁰	-	-	381	381	381
Other creditors ¹⁰	-	-	4 399	4 399	4 399

The following table shows the valuation techniques use in measuring fair values of financial instruments not measured at fair value, as well as the significant unobservable inputs used:

Type	Valuation technique	Significant unobservable inputs
Mortgage loans	Discounted cash flows. Discount rates in range between 2% and 16%	The estimated fair value would increase/ (decrease) if discount rates were lower (higher).
Other loans	Discounted cash flows. Discount rates in range between 2% and 21%	The estimated fair value would increase/ (decrease) if discount rates were lower (higher).

(50) Subsequent events

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

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

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

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

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

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



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Independent Auditors' Report

To the shareholders of Balcia Insurance SE

Report on the Audit of the Financial Statements

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of Balcia Insurance SE ("the Company") set out on pages 8 to 74 of the accompanying Annual Report, which comprise:

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

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

Basis for Opinion

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

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

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

Key Audit Matters

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



Measurement of claims reserves

The Company's gross outstanding claim technical reserve as at 31 December 2017 amounted to EUR 69 978 thousand (31 December 2016: EUR 63 413 thousand).

Reference to the financial statements: Note 11 "Outstanding claim technical reserve" on page 48, Note 46 "Remaining maturities of insurance liabilities" on page 70 and Note 3 "Significant accounting policies" point 3.2 (f) "Outstanding claim technical reserves" on pages 19 to 20.

Key audit matter

Gross outstanding claim technical reserve ("claim reserves") for the Company, as a non-life insurance provider, constitute the most significant element of insurance contract liabilities presented in the liabilities of the Company's statement of financial position. The most significant claims reserves are associated with the obligatory motor third party liability, property and guarantee 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 claim (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 claim reserves generally involves a significant degree of Management Board's judgment, mainly in respect of the assumptions about future events and developments. Relatively insignificant changes in those assumptions may have a significant effect on the estimated amounts of claim reserves. The assumptions most subject to estimation uncertainty are those in respect of loss rates, claim frequency, average claim amounts, court settlements, discount rates, changes in the amount of future annuity payments, and the expected payment period.

Our response

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

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



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

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

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

Reporting on Other Information

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

- Information about the Company, as set out on page 3 of the accompanying Annual Report,
- Management Report, as set out on pages 4 to 6 of the accompanying Annual Report,
- Statement of management responsibility, as set out on page 7 of the accompanying Annual Report.

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

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

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

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

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia 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 Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia 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 council meeting on 1 July 2017 to audit the financial statements of Balcia Insurance SE for the year ended 31 December 2017. Our total uninterrupted period of engagement is 13 years, covering the periods ending 31 December 2005 to 31 December 2017.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company;



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

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

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A handwritten signature in blue ink, appearing to be 'Armine Movsisjana', written in a cursive style.

Armine Movsisjana
Chairperson of the Board
Latvian Certified Auditor
Certificate No. 178
Riga, Latvia
29 March 2018