

Balcia Insurance SE
(formerly BTA Insurance Company SE)

ANNUAL REPORT

FOR THE YEAR ENDED
31 DECEMBER 2016

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Information about the Company

Name of the Company	<i>Balcia Insurance SE (formerly BTA Insurance Company SE, until 02.11.2016)</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 (from 11.04.2016) Dita Daukste – Board member Kaspars Ummers – Board member (from 11.04.2016) Janis Lucaus – Chairman of the Board (until 11.04.2016) Oskars Hartmanis – Board member (until 11.04.2016)</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 (from 25.04.2016)</i>
Reporting year	<i>01.01.2016 – 31.12.2016</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 2016 has been rich in significant changes within Balcia Insurance SE (hereinafter “the Company”).

The Board of the Company was changed in April of 2016, when Lauris Boss was elected as the Chairman of the Board, Kaspars Ummers was elected as the Board Member, and Dita Daukste continued as the Board Member.

The Company completed its reorganisation by changing its organisational structure, team, IT infrastructure (hardware and software) as well as the internal processes to ensure that the Company and its subsidiary in the Baltic States – AAS BTA Baltic Insurance Company (hereinafter referred to as BTA Baltic) could run business independently from each other.

In August 2016 the sale of 90% shares of the Company’s subsidiary to Vienna Insurance Group AG was finalized. Upon completing the deal, the Company started working on creating a new brand. The new name - Balcia Insurance SE (hereinafter referred to as, Balcia or the Company) was registered in the Register of Enterprises of Latvia in November of 2016.

In December 2016 Balcia signed an agreement with Compensa Vienna Insurance Group UADB (Lithuania) on acquisition of the part of its motor third party liability insurance portfolio. This event landmarks Balcia’s plan to develop its business in Lithuania from 2017 and onwards.

SALE OF SHARES

The deal on selling 90% of the shares of BTA Baltic was signed in 2015, but the full regulatory approval took place in August 2016, after which the deal was closed.

Although Balcia still owns 10% in BTA Baltic, it is no longer a part of Balcia group and its operations are entirely separated from those of Balcia.

REBRANDING

The choice of Balcia as the new name for the Company was determined by many factors, the most important of them being historical. It is said that the roots of the word “Baltic” go back to the name of “Balcia” – an island in the Baltic Sea. This island represented a gateway between Europe and the Baltic region and vice versa.

The graphic image of the brand is based on the symbol of the sun, which is well recognised in almost any culture of the world. It also contains an element of the Latvian traditional sign - “Laima’s broom” (The symbol of luck, blessing, and happiness, a soul keeper, sweeps away the undesirable). Its position within the graphic image of the brand stands for a modern communication principle in business, called “human to human”, whereas the little circle in the middle of the sign represents the human, to whom everything is directed and from whom everything starts. The colour of the graphic sign is orange, which is a colour of a traditional Baltic symbol of amber and the colour of a rising sun, adding a sense of light and simplicity to our challenging world.

We see our brand as a strong ambassador to our clients and partners showing the values Balcia is committed to, as well as a guide to our team for living with the values associated with our brand – growth, challenge, trust and family.

EMPLOYEES

Following the sale of 90% of the shares of BTA Baltic, Balcia and its former subsidiary completely separated their business operations. This created a challenge of filling in a few important vacancies in respect to the functions that previously have been shared with the subsidiary. After recruiting new members to the team the number of employees reached 120 in the end of 2016.

This number is comprised of 78 employees working in headquarters in Latvia, 18 employees working in the Polish branch and 24 – in France, Germany, UK altogether. In Poland, however, the intermediaries network of our dedicated partner RESO Europa Service, which has agreements with more than 5,000 sales partners - insurance brokers and agents, as well as more than 100 experts all over the country, supports our branch activities significantly.

Balcia 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 trainings 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.

Management Report

FINANCIALS

During 2016 Balcia managed to write gross written premiums of 72 million Euro, which represent an increase of 44% compared to 2015. Major part of the increase has been generated in Poland, where, despite, gradual tariff increase, we managed to attract new clients thanks to our strategy.

In 2016 Balcia generated a net profit in the amount of 96.7 million Euro. The major part of the profit is the result of the sale of shares of the Company's subsidiary to Vienna Insurance Group AG.

Due to the same reason, Balcia has been able to increase the shareholders' equity by 20% up to 58.9 million Euro compared to the year 2015. Due to increase of the business Balcia's gross technical reserves increased by 51% to 101.6 million Euro compared to 2015. The increase in 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 of its investment policy, primarily investing in low-risk assets. The Company for the major part invested into government securities of a high investment rating (A to AAA according to the international rating agency's Standard & Poor classification) or held deposit or current accounts with credit institutions of high rating.

RISK MANAGEMENT

Pursuant to Insurance and Reinsurance Law of Latvia, which integrates requirements set out in Solvency II Directive, Balcia has executed prudent and effective Risk Management across all of the Company's organizational structure, applying risk management principles to its decision making process.

Balcia has performed the Own Risk and Solvency Assessment (ORSA) for the year 2016, by using a forward looking approach for a 3 year' projection period and made analysis to a continuous compliance with regulatory capital requirements. ORSA report confirms that Balcia is well capitalized and its risks have been effectively identified and managed on a regular basis.

SOLVENCY II CAPITALISATION

The Company consistently maintains a sufficient capital margin in compliance with the Solvency II capital requirements, which at the 31.12.2016 was in the level of 146%.

PROPOSAL ON DISTRIBUTION OF PROFITS

The part of the profit already has been distributed in interim dividends during 2016. The Board recommends to strengthen the capital base and to retain the rest of the profit for the year undistributed.

FUTURE OUTLOOK

In 2017 the Company shall focus on its primary targets in Poland, Germany, France and Lithuania.

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

In Germany the Company shall focus on developing new partnerships 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. Balcia plans to focus on developing in small and medium enterprise business segments.

In Spain and Italy the Company shall focus on maintaining its existing business, and monitoring the opportunities for developing a new business.

Management Report

In Lithuania the Company shall focus on delivering a smooth transaction of the portfolio from Compensa Vienna Insurance Group UADB (Lithuania) and retaining as much of its clients as possible.

In the United Kingdom the Company plans to grow by offering the claim handling services to more insurance companies, whose policies 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

31 March 2017

Statement of management responsibility

In 2016, 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 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 2016 prepared in accordance with IFRS as adopted by the European Union to present fairly the activities and Company’s cash flows from 1 January 2016 to 31 December 2016, as well as its financial position as at 31 December 2016.

The Company’s Management confirms that the Company’s financial statements for 2016 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 2016 have been prepared on the basis of prudent decisions and assumptions of the Management.

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

Management is not aware of any significant events after the year-end, which are not reflected in these financial statements and that might have a material impact on activities of the Company and the assessment of the financial statements.

	
<i>Lauris Boss</i> Chairman of the Board	<i>Gints Dandzbergs</i> Chairman of the Council

31 March 2017

Statement of Comprehensive Income

	Note	2016 EUR'000	2015 EUR'000
Gross written premiums	6	72 027	50 033
Reinsurers' share in written premiums	6, 23	(1 596)	(2 300)
Net written premiums	6	70 431	47 733
Change in unearned premium reserves			
Gross change	8	(18 367)	1 128
Reinsurers' share	8, 23	26	(540)
Change in net unearned premium reserves	8	(18 341)	588
Net earned premiums	7	52 090	48 321
Other technical income, net	9	1 198	375
Incurred claims, net			
Paid claims, net			
Gross claims paid	10	(33 467)	(29 059)
Paid claims		(31 040)	(26 390)
Loss adjustment expenses		(4 554)	(3 986)
Recovered losses		2 127	1 317
Reinsurers' share of claims paid	10, 23	527	171
Net paid claims		(32 940)	(28 888)
Change in net outstanding claim technical reserve			
Change in gross outstanding claim technical reserve	11	(16 776)	(6 679)
Reinsurers' share	11, 23	8 652	4 442
Change in net outstanding claim technical reserve		(8 124)	(2 237)
Net incurred claims	12	(41 064)	(31 125)
Operating (expenses)/ income			
Client acquisition costs	13	(17 171)	(13 040)
Change in deferred client acquisition costs	13	4 076	(440)
Administrative expenses	14	(6 427)	(4 748)
Depreciation and amortisation		(572)	(347)
Reinsurance commissions and profit participation	15, 23	56	81
Change in unearned reinsurance commission	15, 23	(20)	97
Net operating expenses		(20 058)	(18 397)

The accompanying notes on pages 14 to 79 form an integral part of these financial statements.

Statement of Comprehensive Income

	Note	2016 EUR'000	2015 EUR'000
Other technical expenses	16	(2 196)	(3 057)
Investment management charges	17	(148)	(27)
Interest income and dividend income	18	1 542	389
Gain from financial assets at fair value through profit or loss, net		394	158
Revaluation of investment property		212	-
Loss on foreign currency fluctuation		(19)	(67)
Impairment gain on loans and receivables	19	632	183
Other income	20	103 014	171
Other expenses	21	(121)	(61)
Profit/(loss) before tax		95 476	(3 137)
Income tax for the period	22	1 232	42
Profit/(loss) from operations for the period		96 708	(3 095)
Discontinued operations			
Profit from discontinued operation, net of tax	5	-	6 844
Profit for the year		96 708	3 749
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Currency revaluation impact		(25)	(26)
Items that will not be reclassified to profit or loss			
Revaluation of land and buildings, net of tax		81	-
Other comprehensive income for the year		56	(26)
Total comprehensive income		96 764	3 723

The accompanying notes on pages 14 to 79 form an integral part of these financial statements.



Lauris Boss
Chairman of the Board



Gints Dandzbergs
Chairman of the Council

31 March 2017

Statement of Financial Position


		31.12.2016	31.12.2015
	Note	EUR'000	EUR'000
Assets			
Land and buildings	25	1 684	3 247
Property and equipment	24	540	457
Intangible assets	26	730	555
Investment property	25	5 217	3 547
Financial investments			
Investments in subsidiary	28	-	29 000
Investments at fair value through profit or loss			
Non-fixed income securities	27	2 621	2 716
Debt securities and other fixed income securities	27	46 920	32 480
Total investments at fair value through profit or loss		49 541	35 196
Available-for-sale financial assets	28	5 488	1 635
Deposits with banks	29	5 506	1 213
Total financial investments		60 535	67 044
Loans and receivables			
Loans			
Mortgage loans	30	397	4 241
Other loans	30	2 857	4 397
Total loans issued		3 254	8 638
Receivables			
Receivables from direct insurance activities			
Due from policy holders	31	2 956	2 174
Due from intermediaries	31	2 133	2 081
Total receivables from direct insurance activities		5 089	4 255
Receivables from reinsurance activities		897	447
Other receivables	32	1 643	1 290
Prepaid income tax		-	15
Total receivables	37	7 629	6 007
Total loans and receivables		10 883	14 645
Accrued income and deferred expenses			
Deferred client acquisition costs	13	12 285	8 239
Other accrued income and deferred expenses		921	890
Total accrued income and deferred expenses		13 206	9 129
Reinsurance contract assets			
Reinsurers' share in unearned premiums technical reserves	8	133	109
Reinsurers' share in outstanding claim technical reserve	11	14 931	6 290
Total assets from reinsurance contracts		15 064	6 399
Deferred tax asset	36	567	-
Cash and cash equivalents	33	64 542	19 776
Total assets		172 968	124 799


The accompanying notes on pages 14 to 79 form an integral part of these financial statements.

Statement of Financial Position

		31.12.2016	31.12.2015
	Note	EUR'000	EUR'000
Equity and liabilities			
<u>Equity</u>			
Share capital	35	14 220	14 220
Share premium		10 272	10 272
Revaluation reserves	35	2 643	2 587
Reserve capital and other reserves	35	8 536	8 536
Retained earnings:			
Retained earnings from prior years		13 550	9 801
Current year profit after interim dividends		9 708	3 749
<u>Total equity</u>		58 929	49 165
<u>Liabilities</u>			
Subordinated liabilities		1 700	1 700
Technical reserve			
Technical reserve for unearned premiums and unexpired risks	8	38 144	20 335
Outstanding claim technical reserve	11	63 413	47 155
<u>Total technical reserve</u>		101 557	67 490
Creditors			
Direct insurance creditors			
Due to policy holders		3 992	641
Due to intermediaries		77	161
<u>Total direct insurance creditors</u>		4 069	802
Taxes and social contributions	37	755	32
Reinsurance creditors	38	381	1 701
Other creditors	39	4 399	1 475
<u>Total creditors</u>		9 604	4 010
Deferred tax liabilities	36	-	665
Provisions	41	304	271
Accrued expenses and deferred income	42	834	1 478
Unearned reinsurance commission income	15	40	20
<u>Total liabilities</u>		114 039	75 634
Total equity and liabilities		172 968	124 799

The accompanying notes on pages 14 to 79 form an integral part of these financial statements.


Lauris Boss
Chairman of the Board



Gints Dandzbergs
Chairman of the Council


31 March 2017

Statement of Cash Flows

	Note	2016 EUR'000	2015 EUR'000
Cash flows from operating activities			
Premiums received in direct insurance		78 594	111 519
Claims paid in direct insurance		(30 891)	(61 537)
Payments received from reinsurers		543	72
Payments made to reinsurers		(1 907)	(6 368)
Income tax paid		(1)	(847)
Obligatory payments	34	(1 258)	(1 645)
Payments to employees		(2 679)	(7 825)
Payments to intermediaries		(27 382)	(24 307)
Other tax paid		(4 734)	(14 117)
Payments to other suppliers		(11 466)	(20 460)
Acquisition of fixed and intangible assets		(676)	(913)
Other payment made		(5 336)	(5 141)
Other payment received		26 779	29 039
Total cash flows from/(used in) operating activities		19 586	(2 530)
Cash flows from investing activities			
Acquisition of investments		(43 971)	(468 770)
Proceeds from disposal of investments		156 000	451 635
Investment income received		331	1 714
Dividends received		933	-
Total cash flows from/(used in) investing activities		113 293	(15 421)
Cash flows from financing activities			
Subordinated loan received		-	1 700
Dividends paid		(83 611)	(3 483)
Total cash flows used in financing activities		(83 611)	(1 783)
Cash and cash equivalents net increase/ (decrease)		49 268	(19 734)
Effect of exchange rate fluctuations on cash and cash equivalents held		71	326
Cash and cash equivalents at the beginning of the year		20 203	39 611
Cash and cash equivalents at the end of the year	33	69 542	20 203

The accompanying notes on pages 14 to 79 form an integral part of these financial statements.


Lauris Boss
Chairman of the Board



Gints Dandzbergs
Chairman of the Council


31 March 2017

Statement of Changes in Shareholders' Equity

	Share capital EUR'000	Share premium EUR'000	Revaluation reserve EUR'000	Equalisation reserve EUR'000	Reserve capital and other reserves EUR'000	Retained earnings EUR'000	Total Equity EUR'000
31.12.2014	14 220	10 272	2 996	107	8 536	13 284	49 415
Total comprehensive income							
Profit for the year	-	-	-	-	-	3 749	3 749
Transferred to liabilities held for sale	-	-	(383)	(107)	-	-	(490)
Currency revaluation impact	-	-	(26)	-	-	-	(26)
Transactions with shareholders, recognised in equity							
Dividends	-	-	-	-	-	(3 483)	(3 483)
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	-	-	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

The accompanying notes on pages 14 to 79 form an integral part of these financial statements.


Lauris Boss
Chairman of the Board


Gints Dandzbergs
Chairman of the Council

31 March 2017

Notes to the Financial Statements

(1) General information

a) Principal activities

These financial statements include the financial statements of Balcia Insurance SE (former name BTA Insurance Company SE, until 02.11.2016), 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 Germany, Poland, France and Great Britain.

The registered address of the branch:

- 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.

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:

	31.12.2016		31.12.2015	
	Number of shares	Shareholding	Number of shares	Shareholding
Company's shareholders:				
B5 Holding Limited (Malta)	26 498	26.50 %	31 358	31.36 %
HTT Holding Company Limited (Malta)	25 815	25.82 %	28 604	28.60 %
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 %	11 612	11.61 %
	100 000	100 %	100 000	100 %

(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").

Notes to the Financial Statements

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

The financial statements (hereinafter „the financial statements”) were approved by the Board of Directors on 31 March 2017. 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 and France 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 2016 to 31 December 2016.

(d) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items, which are carried at fair value:

- derivatives,
- other financial assets and liabilities designated at fair value through profit or loss,
- available-for-sale assets,
- 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) Discontinued operations

In first half of 2015 before the transfer of portfolio to former subsidiary the Company's Statement of Comprehensive Income did include discontinued operations (refer to Note 5). In the Statement of Comprehensive Income the comparative information for 2015 does not include discontinued operations. Due to the fact that cash flow from discontinued and continued operations in 2015 could not be clearly separated, the comparative information of the Financial Statement of Cash Flows represents 12 months of 2015 for combined operation.

(f) Changes in accounting policies

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

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

The following guidance with effective date of 1 January 2016 did not have any impact on these financial statements:

- IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- IAS 1 – Presentation of Financial Statements
- IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets
- IAS 19 – Defined Benefit Plans: Employee Contributions
- IAS 27 – Separate Financial Statements
- Annual Improvements to IFRSs

Notes to the Financial Statements

(g) 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 2016, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

(i) *IFRS 9 Financial Instruments (2014)* (Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted. 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 liabilities continues to apply, and Companies 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 asset 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 Company’s risk management and hedging activities are required. It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since the classification and the measurement of the Company’s financial instruments are expected to change.

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

At this stage it is still unclear what portion of the Company’s debt securities will be measured at FVTPL, at FVOCI or amortized cost as this determination will depend on the outcome of the business model test. It is expected that a significant portion of debt securities will be reclassified under IFRS 9 either into or out of FVOCI.

It is also possible that a number of equity instruments currently classified as available for sale will be measured at FVTPL under IFRS 9, but this determination will depend on an election to be made by the Company at the

Notes to the Financial Statements

date of initial application – that is 1 January 2018. The Company has not yet decided how it will classify these instruments.

It is expected that the new expected credit loss model under IFRS 9 will accelerate the recognition of impairment losses and lead to higher impairment allowances at the date of initial application.

The Company is not yet able to quantify the expected impact that the initial application of IFRS 9 will have on its IFRS statements.

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

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Companies 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 Company transfers control of goods or services to a customer at the amount to which the Company expects to be Companded. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the Company'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 Company shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

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

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

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

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

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

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

The Company does not expect that the new Standard, when initially applied, will have material impact on the financial statements because the Company is not party to a contractual arrangement that would be in the scope of IFRS 16.

Notes to the Financial Statements

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

The amendments clarify share-based payment accounting on the following areas:

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

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

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

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

The Company, as an insurance provider, intends to apply the exemption from adopting IFRS 9 and therefore does not expect any material impact on the financial statements of the Company.

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

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while

a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

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

(vii) *Amendments to IAS 7 (Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Early application is permitted)*

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

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company.

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

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

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

Notes to the Financial Statements

(ix) Amendments to IAS 40 Transfers of Investment Property

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

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

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

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

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

(xi) Annual Improvements to IFRSs

Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IFRS 12 *Disclosure of Interest in Other Companies* are effective for annual periods beginning on or after 1 January 2017 and amendments on IAS 28 *Investments in Associates and Joint Ventures* are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted.

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

(3) Significant accounting policies

3.1 Foreign currency

Transactions denominated in foreign currencies are recorded in EUR at exchange rates set by 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 respective 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.

Notes to the Financial Statements

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

	31.12.2016	31.12.2015
USD	1.05410	1.0926
PLN	4.4103	4.2400
GBP	0.85618	0.73799

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 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 Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to remaining assets and liabilities on a pro rata basis.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

3.3 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).

Notes to the Financial Statements

Recognition and evaluation of insurance contracts

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

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

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

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

(b) Insurance premium and premium income

Written premiums include amounts which are due for the insurance contracts signed during the reporting 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.

Notes to the Financial Statements

(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.

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;
- general liability insurance in Italy;
- personal accident insurance in France;
- guarantee insurance in Spain;
- motor compulsory third party liability in France, Spain, Poland 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, France 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.

Notes to the Financial Statements

(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.

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 2016. 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 2016 and 2015 for economic inflation:

Notes to the Financial Statements

EUR'000	Projected annual inflation increased by 1%		Projected annual inflation decreased by 1%	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Increase/ (decrease) in technical reserves	84	105	(83)	(103)

(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.

3.4 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 which are managed and performance evaluated on a fair value basis, in accordance with the Company's documented investment strategy and information about the Company internally on that basis is provided to key management personnel.

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.

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

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

Derivative financial instruments

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

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

(b) Recognition and derecognition

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

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or where the Company 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.

Notes to the Financial Statements

(c) Initial and subsequent measurement

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

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

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

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

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

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

3.5 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.

Notes to the Financial Statements

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).

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.

3.6 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 consider 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.

Notes to the Financial Statements

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.

3.7 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.

Notes to the Financial Statements

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.

3.8 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.

3.9 Investment property

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

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

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

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

3.10 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.

3.11 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 2016 and 2015 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.

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3.12 Corporate income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income except to the extent it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised providing for temporary differences between the carrying value of assets and liabilities in the financial statements (financial reporting purposes) and the amounts used for tax purposes. These differences have mainly occurred from the different depreciation rates of property and equipment applied, which are used for tax accounting and financial accounting and provisions made.

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

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are not discounted.

3.13 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.

3.14 Dividends

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

3.15 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.

3.16 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.

3.17 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) An Company is related to a reporting Company if any of the following conditions applies:

Notes to the Financial Statements

- 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 an 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 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 3.6. 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

Notes to the Financial Statements

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 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.

Deferred tax asset recognition

A deferred tax asset is recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and available tax losses can be utilised.

Measurement of fair values

More detailed description of fair value measurement is disclosed in Note 3.6.

(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.

Notes to the Financial Statements

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.

Casco insurance

Product features

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

Management of risks

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

Casco insurance premiums are determined on the basis of the bonus-malus system, driver's driving experience period, insurance territory and other criteria which decreases the insurance premium upon the absence of losses and increases the insurance premium upon the occurrence of losses. The sums insured very rarely exceed EUR 75 000. Insurance premiums are set in line with applicable insurance methodology. Motor 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.

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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 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

Notes to the Financial Statements

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

Business concentration risk is a serious issue in the insurance business. In view of this and to reduce the concentration risk the Company are developing operations in a number of countries in Europe. Major countries of operation for the Company (excluding discontinued operations in 2015) are Poland 67.8% (2015: 37.4%) and France 28.1% (2015: 40.6%) 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:

2016	Total insured amount EUR'000	Reinsurance amount EUR'000	Net retention (after reinsurance) EUR'000	Number of contracts in force	Average amount insured EUR'000
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	-

2015	Total insured amount EUR'000	Reinsurance amount EUR'000	Net retention (after reinsurance) EUR'000	Number of contracts in force	Average amount insured EUR'000
Insurance type					
Motor own damage insurance	578 149	1 260	576 889	3 028	191
Compulsory motor third party liability**	-	-	-	478 890	-
Property insurance*	12 673 650	987 025	11 686 625	3 198	3 654
Various financial risks	5 041 768	-	5 041 768	285	17 690
General third party liability	2 925 276	1 271 029	1 654 247	1 917	863
Personal accident insurance*	132 498	-	132 498	79 678	2
Travel accident insurance	64 660	-	64 660	16 803	4
Marine insurance	422	422	-	4	-
Guarantee insurance	25 018	5 111	19 907	1 300	15
Total	21 441 441	2 264 847	19 176 594	585 103	-

* in one contract several objects/ persons can be covered

** gross insurance risk is unlimited. Losses in excess of EUR 800 thousand (2015: 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.

(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.

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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

	2009 and before	Year of insurance event occurrence							Total
		2010	2011	2012	2013	2014	2015	2016	
Estimate of cumulative claims at end of accident year	169 050	45 562	73 823	79 150	86 582	113 472	57 454	44 749	44 749
- one year later	166 978	55 199	71 919	78 313	84 550	94 189	58 848		58 848
- two years later	178 398	54 254	72 320	78 618	79 240	95 808			95 808
- three years later	176 795	55 186	70 973	74 295	79 192				79 192
- four years later	175 423	53 374	68 503	74 933					74 933
- five years later	174 395	51 386	69 420						69 420
- six years later	166 717	51 573							51 573
- seven years later	166 998								166 998
Cumulative payments to date	164 490	49 881	67 061	71 843	76 798	88 348	42 034	15 141	575 596
Outstanding claims reserves at 31.12.2016	2 508	1 692	2 359	3 090	2 394	7 460	16 814	29 608	65 925

(h) 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 2016 94% of IBNR (31 December 2015: 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 present the change in IBNR as at 31 December 2016 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:

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

2015

EUR'000

Line of business	IBNR, as at 31.12.2015	IBNR if projected annual inflation increased by 3%	IBNR without annual inflation
Compulsory motor TPL	5 676	5 953	5 526
Property	2 672	2 720	2 639

The main assumption used in the calculation of technical reserves is a stable claims statistics. 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.

Notes to the Financial Statements

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.

Furthermore, according to the law On the Compulsory Insurance against Civil Liability in Respect of Motor Vehicles applicable in the Republic of Latvia (applicable for discontinued operations), moral or pain and suffering damage of a road accident victim includes physical pain, mental suffering, inconveniences, mental shock, emotional depression, humiliation, impairment of reputation, diminution of possibilities to associate with others and other moral or pain and suffer claims consequences arising from personal injury of health or loss of life in a road accident. Even with all the uncertainty, the management believes the respective reserves are adequate as at 31 December 2016.

Changes in assumptions used for estimation of Casco claim reserves

Starting from 2014 assumptions for Casco claims reserves calculation are the same as for MTPL. There have been no changes in 2016. Reserves are calculated according to internal methodology.

4.3 Financial risks and risk management

The Company are 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

Notes to the Financial Statements

is a description of each of these financial risks and a summary of the methods used by the Company to manage these risks. Exposure to those risks arises in the normal course of the Company's business.

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

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

Market risks

All financial instruments and positions are subject to market risk, the risk that future changes in market conditions may make an instrument more or less valuable. The Company 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 2016 and 2015 and a simplified scenario of a 10% change in PLN to EUR exchange rate is as follows:

	2016	2015
EUR'000	Net income	Net income
10% depreciation of PLN against EUR	473	(359)
10% appreciation of PLN against EUR	(473)	359

Impact from open positions in other currencies is not significant.

Notes to the Financial Statements

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

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	88 493
Financial liabilities	5 501	-	3 166	(33)	-	8 634
Technical reserves, net and financial liabilities	49 100	58	45 862	84	23	97 127
Open currency position	43 062	1 249	(4 685)	431	(23)	40 034

31 December 2015

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	2 641	75	-	-	-	2 716
Debt securities and other fixed income securities	9 901	641	21 938	-	-	32 480
Available-for-sale financial assets	1 635	-	-	-	-	1 635
Deposits with banks	786	-	427	-	-	1 213
Mortgage loans	4 159	82	-	-	-	4 241
Other loans	4 376	21	-	-	-	4 397
Receivables	3 545	-	1 628	132	-	5 305
Cash and cash equivalents	18 968	394	178	236	-	19 776
Total financial assets	46 011	1 213	24 171	368	-	71 763
Technical reserves, net						
Technical reserves for unearned premiums and unexpired risks, net	11 311	-	8 915	-	-	20 226
Outstanding claim technical reserves, net	29 817	-	10 733	284	31	40 865
Total technical reserves, net	41 128	-	19 648	284	31	61 091
Financial liabilities	2 568	-	501	25	-	3 103
Technical reserves, net and financial liabilities	43 696	-	20 149	309	31	64 194
Open currency position	2 251	1 213	4 022	59	(31)	7 505

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.

Notes to the Financial Statements

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 2016 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:

	2016	2015
	EUR'000	EUR'000
5% increase in securities prices	2 477	1 776
5% decrease in securities prices	(2 477)	(1 776)

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	31.12.2016		31.12.2015	
	Profit or loss	OCI	Profit or loss	OCI
10 bp parallel increase	55	55	37	37
10 bp parallel decrease	(55)	(55)	(37)	(37)

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 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	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	

Notes to the Financial Statements

31 December 2015	Within 6 months EUR'000	6-12 months EUR'000	1-2 years EUR'000	2-5 years EUR'000	Over 5 years EUR'000	Non- interest bearing EUR'000	Total EUR'000	Of which subject to fixed rates EUR'000
Financial assets								
Investments at fair value through profit or loss	12 383	6 634	8 089	1 517	3 857	2 716	35 196	35 196
Deposits with banks	710	-	103	-	-	400	1 213	1 213
Loans issued	1 910	2 088	3 380	1 149	111	-	8 638	8 638
Receivables	-	-	-	-	-	5 305	5 305	-
Cash and cash equivalents	-	-	-	-	-	19 776	19 776	-
Total financial assets	15 003	8 722	11 572	2 666	3 968	28 197	70 128	45 047

(a) Liquidity risks

In accordance with the approved investment procedure methodology, the Company's Financial Department is required to ensure that at least 90% of the assets required for the technical reserve cover would be placed in high liquidity investments.

High liquidity investments are deemed to be the following assets:

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

The tables below 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 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	8 634	-	-	-	8 634
Total technical reserves and financial liabilities	92 116	24	168	2 819	95 227
Maturity gap	(5 742)	34 424	5 662	5 690	40 034
Maturity gap taking into account liquidity	34 197	2 265	903	2 669	39 934

31 December 2015

	Up to 12 months EUR'000	From 1 to 5 years EUR'000	Over 5 years EUR'000	No fixed maturity EUR'000	Total EUR'000
Financial assets					
Investments at fair value through profit or loss	19 017	9 606	3 857	2 716	35 196
Available-for-sale financial assets	-	-	-	1 635	1 635
Deposits with banks	710	103	-	400	1 213
Loans issued	3 998	4 529	111	-	8 638
Receivables from direct insurance activities	4 255	-	-	-	4 255
Receivables from reinsurance activities	447	-	-	-	447
Other receivables	603	-	-	-	603
Cash and cash equivalents	19 776	-	-	-	19 776
Total financial assets taking into account maturity	48 806	14 238	3 968	4 751	71 763
Total financial assets taking into account liquidity	65 385	4 632	111	1 635	71 763
Technical reserves and financial liabilities					
Technical reserves, net	57 082	2 717	38	1 254	61 091
Financial liabilities	3 103	-	-	-	3 103
Total technical reserves and financial liabilities	60 185	2 717	38	1 254	64 194
Maturity gap	(11 379)	11 521	3 930	3 497	7 569
Maturity gap taking into account liquidity	5 136	1 915	73	381	7 569

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.

Impact from credit crisis, inactive real estate market

The Company has assessed the possible decrease of value for the collateral of issued loans taking into account the current market situation and has established allowances for loan amounts exceeding the value of collateral. 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 2016 and 2015 was as follows:

	31.12.2016 EUR'000		31.12.2015 EUR'000	
	Gross	Net	Gross	Net
Government bonds	44 142	44 142	27 399	27 399
Corporate bonds	2 269	2 269	4 564	4 564
Mortgage bonds	509	509	517	517
Deposits with banks	5 506	5 506	1 213	1 213
Investments in investment funds and equity securities	2 621	2 621	2 716	2 716
Loans	4 164	3 254	10 255	8 638
Due from policy holders	3 696	2 956	3 044	2 174
Due from intermediaries	2 818	2 133	2 808	2 081
Receivables from reinsurance activities	897	897	490	447
Other debtors	864	844	618	588
Cash and cash equivalents	64 542	64 542	19 776	19 776
Total	132 028	129 673	73 400	70 113

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 2016	Ratings	Mortgage bonds	Investment funds	Listed debt securities	Government bonds	Total
Agency		EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
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

Notes to the Financial Statements

31 December 2015	Ratings	Investments in subsidiary	Mortgage bonds	Investment funds	Listed debt securities	Government bonds	Total
Agency		EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Fitch	AAA	-	-	-	-	1 724	1 724
	AA	-	-	-	-	-	314
	AA-	-	-	-	-	-	101
	A+	-	-	-	-	-	305
	BBB+	-	-	-	-	558	663
	BBB-	-	-	-	829	210	1 039
Moody's	BB+	-	-	-	-	735	735
	Aa1	-	517	-	-	-	517
	Aa2	-	-	-	207	-	207
	Aa3	-	-	-	261	-	261
	Baa2	-	-	-	1 003	2 064	3 067
	Baa3	-	-	-	-	171	171
S&P	Ba1	-	-	-	745	-	745
	Ba2	-	-	-	301	-	301
	AA+	-	-	-	401	-	401
	AA	-	-	-	262	-	262
	A+	-	-	-	104	-	104
	A	-	-	-	-	21 937	21 937
No rating	A-	-	-	-	369	-	369
	BB	-	-	-	41	-	41
Total		29 000	517	1 891	4 564	27 399	65 831

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 2016, there have been no cases where a reinsurance company has not met its liabilities to the Company.

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

Rating	Reinsurance debtors EUR'000	2015 Reinsurer's share on written premiums EUR'000	Reinsurer's share in claims paid EUR'000
AA-, AA, AA+	149	2 380	270
A-, A, A+	231	3 748	457
BBB-, BBB, BBB+	-	46	3
No rating	67	41	-
Total	447	6 215	730

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

	2016 EUR'000	2015 EUR'000
Motor own damage insurance	Retained on net	Retained on net
CMTPL	800	800
Property insurance	1 800	1 800
General third party liability	400	400
Various financial risks	1 800	1 800
Guarantee insurance	1 500	2 400
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.

Notes to the Financial Statements

Risk management

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

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

(5) Discontinued operations

On 1 July 2015, in accordance with the terms, set in the reorganisation agreement, the Company successfully completed the reorganisation, splitting the Company according to the geographic boundaries of business: the Baltic States and the rest of Europe, and transferred the portfolio, related to the business in Baltic States, to the former subsidiary – BTA Baltic Insurance Company AAS.

Results from discontinued operations in the period from 1 January 2015 till 30 June 2015:

	EUR'000
Gross written premiums	58 168
Net earned premiums	54 033
Other technical income, net	41
Net incurred claims	(32 950)
Operating (expenses)/ income	
Client acquisition costs and change in deferred client acquisition costs	(6 297)
Administrative expenses	(10 613)
Reinsurance commissions	517
Net operating expenses	(16 393)
Other technical expenses	(787)
Investment result	3 412
Profit before tax	7 356
Income tax expense	(512)
Profit from discontinued operations	6 844

The profit from discontinued operations is attributable to the shareholders of the Company.

Notes to the Financial Statements

(6) Written premiums

	2016 EUR'000			2015 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	47 485	(191)	47 294	27 569	(444)	27 125
Property insurance	17 323	(982)	16 341	18 246	(1 421)	16 825
CASCO	3 026	(2)	3 024	1 836	(4)	1 832
Personal accident insurance	1 865	(6)	1 859	1 002	-	1 002
General third party liability	960	(340)	620	854	(371)	483
Travel accident insurance	716	12	728	244	-	244
Guarantee insurance	387	(93)	294	279	(57)	222
Various financial risks	261	(18)	243	-	-	-
Marine insurance	2	27	29	2	(2)	-
Marine third party liability insurance	1	(1)	-	1	(1)	-
Cargo insurance	1	-	1	-	-	-
Aircraft third party liability insurance	-	(2)	(2)	-	-	-
Total	72 027	(1 596)	70 431	50 033	(2 300)	47 733

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

	2016 EUR'000	2015 EUR'000
Poland	48 846	18 725
France	20 215	20 298
Italy	1 553	1 659
Spain	717	1 953
Germany	566	7 291
Latvia	130	107
Total	72 027	50 033

Notes to the Financial Statements

(7) Net earned premiums

	2016 EUR'000			2015 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	29 719	(191)	29 528	26 911	(444)	26 467
Property insurance	18 640	(1 009)	17 631	19 343	(1 429)	17 914
CASCO	2 223	(2)	2 221	1 809	(4)	1 805
Personal accident insurance	1 287	(6)	1 281	950	-	950
General third party liability	933	(341)	592	1 664	(921)	743
Travel accident insurance	353	12	365	269	-	269
Various financial risks	254	1	255	9	(1)	8
Guarantee insurance	248	(56)	192	203	(38)	165
Marine insurance	2	27	29	2	(2)	-
Marine third party liability insurance	1	(1)	-	1	(1)	-
Aircraft third party liability insurance	-	(2)	(2)	-	-	-
Credit insurance	-	(2)	(2)	-	-	-
Total	53 660	(1 570)	52 090	51 161	(2 840)	48 321

Notes to the Financial Statements

(8) Technical reserves for unearned premiums and unexpired risks

	Gross EUR'000	Reinsurer share EUR'000	Net EUR'000
Balance at 31 December 2014	71 179	(2 562)	68 617
Continued operations			
Written premiums	50 033	(2 300)	47 733
Premiums earned	(51 161)	2 840	(48 321)
Changes during year	(1 128)	540	(588)
Currency revaluation impact	114	-	114
Discontinued operations			
Written premiums	58 168	(3 915)	54 253
Premiums earned	(57 515)	3 482	(54 033)
Changes during year	653	(433)	220
Transferred to liabilities held for sale	(50 483)	2 346	(48 137)
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)
Changes during year	18 367	(26)	18 341
Currency revaluation impact	(558)	2	(556)
Balance at 31 December 2016	38 144	(133)	38 011

Technical reserves for unearned premiums and unexpired risk of the Company as at 31 December 2016 and 2015 were as follows:

	31.12.2016 EUR'000		31.12.2015 EUR'000	
	Gross	Net	Gross	Net
Unearned premium reserve	38 144	38 011	20 210	20 101
Unexpired risk reserve	-	-	125	125
	38 144	38 011	20 335	20 226

(9) Other technical income

	2016 EUR'000	2015 EUR'000
Fee for policy amendments and cancellation	7	4
Other technical income	1 191	371
	1 198	375

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.

Notes to the Financial Statements

(10) Paid claims

	2016 EUR'000			2015 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	(19 157)	60	(19 097)	(17 481)	-	(17 481)
Property insurance	(11 258)	349	(10 909)	(9 524)	46	(9 478)
CASCO	(1 312)	-	(1 312)	(926)	-	(926)
Guarantee insurance	(1 228)	81	(1 147)	(838)	16	(822)
General third party liability	(314)	37	(277)	(179)	37	(142)
Travel accident insurance	(149)	-	(149)	(61)	72	11
Personal accident insurance	(49)	-	(49)	(50)	-	(50)
Total	(33 467)	527	(32 940)	(29 059)	171	(28 888)

The Company's gross claims paid include:

	2016 EUR'000	2015 EUR'000
Claims paid	(31 040)	(26 390)
Loss adjustment expenses*	(4 554)	(3 986)
Recovered losses	2 127	1 317
	(33 467)	(29 059)

* Loss adjustment expenses in 2016 for the Company include EUR 366 thousand (2015: EUR 191 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 2014	96 807	(9 864)	86 943
Continued operations			
Claims incurred	35 738	(4 613)	31 125
Claims paid	(29 059)	171	(28 888)
<i>Changes during year</i>	<i>6 679</i>	<i>(4 442)</i>	<i>2 237</i>
<i>Currency revaluation impact</i>	<i>(101)</i>	<i>3</i>	<i>(98)</i>
Discontinued operations			
Claims incurred	33 473	(523)	32 950
Claims paid	(34 909)	559	(34 350)
<i>Changes during year</i>	<i>(1 436)</i>	<i>36</i>	<i>(1 400)</i>
<i>Transferred to liabilities held for sale</i>	<i>(54 794)</i>	<i>7 977</i>	<i>(46 817)</i>
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

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

	31.12.2016 EUR'000		31.12.2015 EUR'000	
	Gross	Net	Gross	Net
RBNS	54 130	39 199	37 897	31 607
IBNR	9 283	9 283	9 258	9 258
	63 413	48 482	47 155	40 865

Notes to the Financial Statements

(12) Net incurred claims

	2016 EUR'000			2015 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	(23 698)	8 735	(14 963)	(13 990)	4 625	(9 365)
CMTPL in EU	(21 860)	275	(21 585)	(19 187)	(113)	(19 300)
Guarantee insurance	(2 715)	81	(2 634)	(1 217)	16	(1 201)
CASCO	(1 191)	-	(1 191)	(990)	-	(990)
General third party liability	(472)	69	(403)	(163)	(29)	(192)
Travel insurance	(202)	-	(202)	(49)	72	23
Personal accident	(92)	-	(92)	(53)	-	(53)
Financial risks	(13)	19	6	(89)	42	(47)
Total	(50 243)	9 179	(41 064)	(35 738)	4 613	(31 125)

(13) Change in deferred client acquisition costs

	EUR'000
Balance at 31 December 2014	14 220
Continued operations	
Change in intermediary commission of future periods	(604)
Transferred to assets held for sale	(4 815)
Written commissions	13 040
Deferred commissions allocated to statement of comprehensive income	(13 480)
<i>Changes during the year</i>	<i>(440)</i>
Discontinued operations	
Change in intermediary commission of future periods	(31)
Written commissions	6 206
Deferred commissions allocated to statement of comprehensive income	(6 297)
<i>Changes during the year</i>	<i>(91)</i>
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

Notes to the Financial Statements

(14) Administrative expenses

	2016 EUR'000	2015 EUR'000
Salaries and social contribution expenses	3 662	2 885
Legal expenses	457	361
Audit and consultant services	419	132
Computer programs rent and maintenance	280	55
Rent payments	226	229
Other personal expenses	214	175
Other business related costs	183	129
Car maintenance costs	163	160
Obligatory payments*	160	135
Utility expenses (electricity, heating, water)	103	46
Telecommunication costs	82	103
Presentation expenses	70	13
Repairs and maintenance of own property	48	36
Press subscription, documentation, books	45	56
Computer maintenance	40	142
Other administrative expenses	275	91
	6 427	4 748

* Obligatory payments include payments to FCMC.

Administrative expenses allocated by insurance types:

	2016 EUR'000	2015 EUR'000
CMTPL in EU except Latvia	3 255	1 695
Property insurance	2 354	1 082
CASCO	292	778
General third party liability	163	208
Personal accident	148	122
Travel insurance	94	200
Guarantee insurance	88	139
Financial risks	29	5
Marine insurance	3	16
Legal insurance	1	1
Health insurance	-	435
Cargo insurance	-	30
Aircraft third party liability insurance	-	17
Credit insurance	-	9
Railway insurance	-	6
Aircraft insurance	-	4
Marine third party liability insurance	-	1
	6 427	4 748

Notes to the Financial Statements

(15) Change in unearned reinsurance commission

	EUR'000
Statement of financial position at 31 December 2014	634
Continued operations	
Written commissions	81
Deferred commissions allocated to the statement of comprehensive income	16
<i>Changes during the year</i>	97
Discontinued operations	
Written commissions	547
Deferred commissions allocated to the statement of comprehensive income	731
<i>Changes during the year</i>	(184)
Transferred to liabilities held for sale	(547)
Statement of financial position at 31 December 2015	20
Written commissions	56
Deferred commissions allocated to the statement of comprehensive income	(36)
<i>Changes during the year</i>	20
Statement of financial position at 31 December 2016	40

(16) Other technical expenses

	2016 EUR'000	2015 EUR'000
Deductions paid	1 090	530
Expenses related to distribution of policies	596	251
Insurance tax	207	180
Impairment allowance for receivables from direct insurance and reinsurance operations	147	1 878
Other	156	218
	2 196	3 057

(17) Investment management charges

	2016 EUR'000	2015 EUR'000
Transaction commissions	146	27
Other charges	2	-
	148	27

(18) Interest income and dividend income

	2016 EUR'000	2015 EUR'000
Dividends from investments held as available for sale	933	14
Interest income from financial assets at fair value through profit or loss	331	31
Interest on loans	245	330
Interest income from deposits with credit institutions	33	14
	1 542	389

Notes to the Financial Statements

(19) Impairment gain

	2016 EUR'000	2015 EUR'000
Increase in allowances for bad debts, other than insurance debts	(77)	(8)
Decrease in allowances for loans	709	191
	632	183

(20) Other income

	2016 EUR'000	2015 EUR'000
Other income	103 014	171
	103 014	171

Other income includes gain from sale of investments and gain from revaluation of remaining stake. Details have been described in Note 28.

(21) Other expenses

	2016 EUR'000	2015 EUR'000
Real estate tax	51	32
Gifts to staff	1	29
Other expenses	69	-
	121	61

(22) Income tax expense

	2016 EUR'000	2015 EUR'000
Deferred tax (income)	(1 232)	(42)
	(1 232)	(42)

	2016 EUR'000	2015 EUR'000
Profit/ (loss) before tax	96 708	(3 137)
Theoretical tax using the 15% rate	14 506	(471)
Tax exempt income	(15 310)	(58)
Non-deductible expenses	129	457
Effect of change in deferred tax asset recognition	(557)	30
Tax expenses	(1 232)	(42)

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

(23) Reinsurance cession result

	2016 EUR'000	2015 EUR'000
Reinsurance premiums	(1 596)	(2 300)
Changes in reinsurers' share in unearned premiums reserve	26	(540)
Reinsurers' share in claims paid	527	171
Changes in reinsurers' share in reserve for outstanding claims	8 726	4 442
Reinsurance commissions and profit participation	56	81
Change in unearned reinsurance commissions	(20)	97
Total reinsurance cession result	7 719	1 951

Notes to the Financial Statements

(24) Property and equipment

The Company's property and equipment movement table for the years 2015 and 2016 is presented as follows:

Cost		Vehicles EUR'000	Other property and equipment EUR'000	Total EUR'000
	31.12.2014	2 169	3 035	5 204
Purchased		44	174	218
Transfer to assets held for sale		(1 580)	(2 424)	(4 004)
Disposals		(160)	(67)	(227)
	31.12.2015	473	718	1 191
Purchased		-	311	311
Disposals		(43)	(117)	(160)
	31.12.2016	430	912	1 342
Accumulated depreciation				
	31.12.2014	(1 117)	(2 167)	(3 284)
Depreciation for the year		(233)	(242)	(475)
Transferred to assets held for sale		1 003	1 889	2 892
Depreciation on disposed assets		128	5	133
	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)
	Balance at 31.12.2015	254	203	457
	Balance at 31.12.2016	137	403	540

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 31.12.2014	4 996
<i>of which revaluation prior to 31.12.2014</i>	<i>2 612</i>
Purchased	121
Transferred to assets held for sale	(627)
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
Accumulated depreciation	
31.12.2014	(1 168)
Depreciation	(238)
Transferred to assets held for sale	163
31.12.2015	(1 243)
Depreciation	(194)
Disposal	4
31.12.2016	(1 433)
Balance at 31.12.2015	3 247
Balance at 31.12.2016	1 684

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 fair value measurement for land and buildings of EUR 1 684 thousand (2015: EUR 3 247 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 31.12.2016:

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 region	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)

¹ The model 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 2015:

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	3 092	Discounted cash flows technique ²	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 Tukums	86	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	60	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)
Buildings and land located in Valmiera	9	Discounted cash flows technique ¹	Price per m ² Discount rate 10.30%	The estimated fair value would increase/ (decrease) if rental income per m ² was higher/ (lower)

(b) Investment property

	EUR'000
Deemed cost 31.12.2014	3 646
<i>of which revaluation prior to 31.12.2014</i>	<i>1 725</i>
Transferred to assets held for sale	(99)
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
Balance at 31.12.2015	3 547
Balance at 31.12.2016	5 217

Rental income and operating expense for the year ended 31 December 2016:

	Book value EUR'000	Rental income EUR'000	Operating expenses EUR'000
Investment property rented out	5 010	115	46
Investment property not rented out	207	-	-
Total	5 217	115	46

² The model is based on discounted cash flows from rental income.

Notes to the Financial Statements

Rental income and operating expenses are recognized in the statement of Comprehensive Income under Other income and Other expense captions respectively.

Investment property comprises a number of commercial properties. Starting from 1 July 2015 the Company rents a property in Riga to its former subsidiary BTA Baltic Insurance Company AAS that is also required to cover all maintenance related costs. In 2015 and 2016 a property was leased to a related party BTA Īpašumi SIA. BTA Īpašumi SIA provides maintenance services to all of the Company's investment properties.

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 fair value measurement for Investment property of EUR 5 217 thousand (2015: EUR 3 547 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 2015.

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 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)
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)
Land located in Incukalns	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)

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 2015:

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	3 215	Discounted cash flows technique	Rental income per m2 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 m2 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	
31.12.2014	2 633
Purchased	574
Transfer to assets held for sale	(2 508)
31.12.2015	699
Purchased	365
31.12.2016	1 064
Accumulated amortization	
31.12.2014	(1 342)
Amortization for the year	(252)
Transfer to assets held for sale	1 450
31.12.2015	(144)
Amortisation for the year	(190)
31.12.2016	(334)
Balance at 31.12.2015	555
Balance at 31.12.2016	730

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

	31.12.2016 EUR'000		31.12.2015 EUR'000	
Non-fixed income securities	Purchase cost	Fair value	Purchase cost	Fair value
Investments in investment funds	1 798	2 526	1 364	1 891
Shares and other equity securities	201	95	723	825
	1 999	2 621	2 087	2 716

	31.12.2016 EUR'000		31.12.2015 EUR'000	
Fixed income securities	Purchase cost	Fair value	Purchase cost	Fair value
Debt securities issued or guaranteed by central governments or municipalities	43 099	44 142	26 134	27 399
Other debt securities with fixed income, which are included in a regulated market	2 281	2 269	4 151	4 564
Mortgage bonds	498	509	498	517
	45 878	46 920	30 783	32 480

Notes to the Financial Statements

	31.12.2016	31.12.2015
Investment portfolio of fixed income securities by geography:	EUR'000	EUR'000
Poland	37 435	21 938
Lithuania	2 009	-
Other European Union countries	6 206	8 396
North America	28	303
Other countries	1 242	1 843
	46 920	32 480

(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:

	31.12.2016		31.12.2015	
	EUR'000		EUR'000	
	Gross	Net, after impairment recognised	Gross	Net, after impairment recognised
BTA Baltic (10%)	3 964	3 964	-	-
BTA Īpašumi SIA (48.87%)	1 245	1 245	1 245	1 245
Kroha OOO (19.5%)	289	279	279	279
Other	-	-	121	111
	5 498	5 488	1 645	1 635

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.

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.

BTA Īpašumi SIA is a related party of the Company that manages the Company's real estate properties. 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.

(29) Deposits with banks

	31.12.2016	31.12.2015
Investment maturity structure:	EUR'000	EUR'000
With original maturity not longer than 3 months	5 000	427
With original maturity from 1 to 5 years	506	786
	5 506	1 213

Notes to the Financial Statements

	31.12.2016 EUR'000	31.12.2015 EUR'000
Investment structure by geographic split:		
France	5 000	-
Lithuania	400	400
Latvia	106	386
Poland	-	427
	5 506	1 213

(30) Loans

	31.12.2016 EUR'000	31.12.2015 EUR'000
Structure of loan portfolio		
Amount of loans, gross	4 079	9 994
Accrued interest payments	51	261
Impairment allowance	(876)	(1 617)
	3 254	8 638

In 2016 the Company has extended loan repayment term for loans in the net amount of EUR 56 thousand (2015: EUR 2 165 thousand).

	Gross EUR'000
Allowance as at 31 December 2014	(2 593)
Charge for the year	(31)
Write-off	720
Recoveries	287
Allowance as at 31 December 2015	(1 617)
Charge for the year	(1)
Recoveries	742
Allowance as at 31 December 2016	(876)

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

	31.12.2016		31.12.2015	
	Amortised cost EUR'000	Fair Value EUR'000	Amortised cost EUR'000	Fair Value EUR'000
Mortgage loans	397	382	4 241	4 080
Other loans	2 857	2 821	4 397	4 297
Total loans	3 254	3 203	8 638	8 377

Notes to the Financial Statements

	31.12.2016 EUR'000	31.12.2015 EUR'000
Overdue mortgage loans		
Overdue more than 12 months	9	-
Overdue 3 to 12 months	30	9
Not overdue mortgage loans	1 087	5 546
Impairment allowance	(729)	(1 314)
Mortgage loans	397	4 241
Overdue other loans		
Overdue more than 12 months	1	1
Overdue 3 to 12 months	-	-
Not overdue other loans	3 038	4 699
Impairment allowance	(182)	(303)
Other loans	2 857	4 397
Total loans	3 254	8 638
	31.12.2016 EUR'000	31.12.2015 EUR'000
Mortgage loans:		
Loans to non-financial institutions	1 002	5 389
Loans to individuals	124	166
Impairment allowance	(729)	(1 314)
	397	4 241
	31.12.2016 EUR'000	31.12.2015 EUR'000
Other loans:		
Loans to non-financial institutions	2 917	4 539
Loans to individuals	87	161
Impairment allowance	(147)	(303)
	2 857	4 397

As at 31 December 2016 loans in amount of EUR 104 thousand (31 December 2015: EUR 111 thousand) had maturity more than 5 years.

(31) Receivables from direct insurance activities

	31.12.2016 EUR'000	31.12.2015 EUR'000
Due from policy holders	3 697	3 044
Due from intermediaries	2 817	2 808
Impairment allowance for bad debtors	(1 425)	(1 597)
	5 089	4 255
	Allowance for policy holders EUR'000	Allowance for intermediaries EUR'000
Allowance as at 31 December 2014	(771)	(51)
Impairment loss reversed	212	29
Impairment loss charge	(311)	(705)
Allowance as at 31 December 2015	(870)	(727)
Impairment loss reversed	330	42
Impairment loss charge	(200)	-
Allowance as at 31 December 2016	(740)	(685)
	Total allowance for insurance debtors EUR'000	
	(822)	(1 597)
	(1 016)	(372)
	(200)	(1 425)

Notes to the Financial Statements

	31.12.2016 EUR'000	31.12.2015 EUR'000
Overdue receivables		
Less than 3 months	130	808
More than 3 months	701	489
Outstanding receivables not yet due	1 987	1 511
Allowances for doubtful debts	(685)	(727)
Intermediaries	2 133	2 081
Overdue receivables		
Less than 3 months	642	683
More than 3 months	1 412	1 183
Outstanding receivables not yet due	1 642	1 178
Allowances for doubtful debts	(740)	(870)
Policyholders	2 956	2 174
Total direct insurance debtors	5 089	4 255

(32) Other receivables

	31.12.2016 EUR'000	31.12.2015 EUR'000
<i>Non-financial assets</i>		
Advance payments	599	612
Other tax advance payments	200	90
	799	702
<i>Financial assets</i>		
Receivables for claims handling services provided	451	418
Other debtors	413	190
Impairment allowance	(20)	(20)
Total financial assets	844	588
Total other receivables	1 643	1 290

	Gross EUR'000
Allowance as at 31 December 2014	(415)
Transferred to assets held for sale	395
Allowance as at 31 December 2015	(20)
Written off	-
Allowance as at 31 December 2016	(20)

(33) Cash and cash equivalents

	31.12.2016 EUR'000	31.12.2015 EUR'000
Current accounts with credit institutions	64 542	19 776
Deposits with original maturity less than 3 months	5 000	427
Cash and cash equivalents	69 542	20 203

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

(34) Obligatory payments disclosed in statement of cash flows

	31.12.2016	31.12.2015
	EUR'000	EUR'000
Paid to:		
Latvian Transport Insurance Bureau	-	143
Transport Insurance Bureau	1 090	1 020
FCMC (Financial and Capital Market Commission)	160	444
Foreign insurance supervisory institutions	7	32
Insured Protection Fund	1	6
Total obligatory payments	1 258	1 645

(35) Capital and reserves

Share capital

The authorized and issued share capital of the Company at 31 December 2016 was EUR 14 220 000 (31 December 2015: EUR 14 220 000) and comprised of 100 000 shares (31 December 2015: 100 000) and was fully paid. Nominal value of one share was EUR 142.20 (31 December 2015: EUR 142.20).

	31.12.2016		31.12.2015	
	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.

	31.12.2016	31.12.2015
	EUR'000	EUR'000
Land and buildings revaluation reserves	3 171	3 074
Deferred tax liabilities at 15%	(477)	(461)
Currency revaluation impact	(51)	(26)
	2 643	2 587

	EUR'000
Balance at 31 December 2014	2 996
Currency revaluation impact	(26)
Transferred to liabilities held for sale	(383)
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

Notes to the Financial Statements

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

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

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

EUR'000	Balance at 1 January 2016	Recognized in the statement of comprehensive income	Balance as at 31 December 2016
Property and equipment	(1 002)	405	(637)
Tax loss carried forward	326	854	1 219
Temporary revaluation difference	11	(27)	(15)
	(665)	1 232	567

The management expects to use deferred corporate income tax in nearest future. Strategic plan for the Company anticipates stable development and return to profitability from insurance business. Deferred corporate income tax is expected to be recovered until 2021. The Company's largest operating geographical segment has already been profitable in 2016 due to significant increase in customer base and price of insurance services. In other operating segment the Company has reorganised business processes and has taken in-house claims handling that allows decreasing claims handling expenses as well as to improve claim process. The Company will reduce operations in several smaller segments, which have been unprofitable. By focusing on solely profitable insurance products the Company expects to become profitable there as well.

Movement in temporary differences during the year ended 31 December 2015:

EUR'000	Balance as at 1 January 2015	Recognized in the statement of comprehensive income	Balance as at 31 December 2015
Property and equipment	(960)	(42)	(1 002)
Tax loss carried forward	326	-	326
Temporary revaluation difference	51	(40)	11
Unrecognized deferred tax asset	(40)	40	-
	(623)	(42)	(665)

The rate of tax applicable for deferred tax was 15% (31.12.2015: 15%).

Notes to the Financial Statements

(37) Taxes and social contributions

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

Tax type	Balance at 31.12.2014 EUR'000	Calculated in 2015 EUR'000	Paid in 2015 EUR'000	Moved to/ (from) EUR'000	Balance at 31.12.2015 EUR'000
Social tax	258	3 167	(3 270)	(164)	(9)
Personal income tax	188	1 410	(1 578)	-	20
VAT	16	262	(263)	(6)	9
Property tax	3	60	(63)	-	-
Risk Duty	-	10	(10)	-	-
Insurance premium tax	652	8 200	(8 933)	-	(81)
Other taxes	(110)	113	-	-	3
CIT in Latvia	(185)	-	-	170	(15)
CIT in Lithuania	377	512	(889)	-	-
CIT in other countries	-	(42)	42	-	-
	1 199	13 692	(14 964)	-	(73)
Including:					
CIT Latvia	(185)				(15)
Other tax prepayment	(110)				(90)
CIT Lithuania	377				-
Other tax liabilities	1 117				32

Notes to the Financial Statements

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

	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)

	Tax payable 31.12.2014 EUR'000	Tax receivable 31.12.2014 EUR'000	Calculated in 2015 EUR'000	Paid in 2015 EUR'000	Tax payable 31.12.2015 EUR'000	Tax receivable 31.12.2015 EUR'000
Latvia	369	(185)	2 479	(2 674)	4	(15)
Lithuania	408	(5)	2 091	(2 494)	-	-
Germany	555	(111)	3 806	(4 248)	7	(5)
Estonia	58	-	270	(328)	-	-
Great Britain	6	-	69	(69)	6	-
Italy	50	-	494	(610)	-	(66)
France	54	-	4 433	(4 491)	56	(60)
Poland	-	-	50	(50)	-	-
Total	1 500	(301)	13 692	(14 964)	73	(146)

(38) Reinsurance creditors

	31.12.2016 EUR'000	31.12.2015 EUR'000
Reinsurance companies	8	381
Reinsurance brokers	373	1 320
	381	1 701

Reinsurance creditors geographic segmentation:	31.12.2016 EUR'000	31.12.2015 EUR'000
European Union member countries	381	1 521
Commonwealth of Independent States, Central Asia	-	178
North America	-	2
	381	1 701

Notes to the Financial Statements

(39) Other creditors

	31.12.2016 EUR'000	31.12.2015 EUR'000
<i>Financial liabilities</i>		
Due to the Transport Insurance Bureau	138	196
Due to employees (remuneration)	106	118
Due to the FCMC, Latvia	47	9
Due to owners for current year dividends	3 389	-
Other creditors	504	277
<i>Non-financial liabilities</i>		
Accrued liabilities	215	875
	4 399	1 475

(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:

	31.12.2016 EUR'000	31.12.2015 EUR'000
Mortgage loans issued to the companies controlled by Board or Council members	693	5 142
Impairment allowance	(629)	(1 267)
Mortgage loans issued to the companies controlled by board and council members, net	64	3 875
Loans issued to Council and Board members	-	68
Impairment allowance	-	(20)
Other loans issued to Council and Board members, net	-	48
Other loans issued to the related parties	439	1 716
Impairment allowance	-	(131)
Other loans issued to other related parties, net	439	1 585
Loans issued to related parties, net	503	5 508

Other balances with related parties:

	31.12.2016 EUR'000	31.12.2015 EUR'000
Other receivables	807	169
Other payables	3 484	107
	4 291	276

The interest rate on loans issued according to agreements varies from 3.3% 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.

Notes to the Financial Statements

Transactions with related parties include income from BTA Baltic Insurance Company AAS for rent in the amount of EUR 42 thousand (2015: EUR 20 thousand) and income from loss adjustment expenses in the amount of EUR 774 thousand (2015: EUR 290 thousand).

(41) Provisions

	31.12.2016 EUR'000	31.12.2015 EUR'000
Provision for staff bonuses	75	74
Accruals for unused employee vacations	178	158
Other provisions	51	39
	304	271
		Gross EUR'000
Provisions as at 31 December 2014		1 087
Paid		(336)
Increase of provisions		457
Transferred to liabilities held for sale		(937)
Provisions as at 31 December 2015		271
Paid		(55)
Increase of provisions		88
Provisions as at 31 December 2016		304

(42) Accrued expenses and deferred income

	31.12.2016 EUR'000	31.12.2015 EUR'000
Deferred income from prepaid policies	836	1 480
Other accrued expenses	(2)	(2)
	834	1 478

(43) Number of employees and information on branches

The Company Headquarter is in Latvia with 4 foreign branches in Germany, France, Poland and UK.

Number of employees as at end of the year:

	2016	2015
Latvia	78	51
Branch in Germany	7	8
Branch in the United Kingdom	6	8
Branch in France	11	8
Branch in Poland	18	16
	120	91

Notes to the Financial Statements

(44) Personnel expenses

	2016 EUR'000
Remuneration	3 262
Social contribution expenses	766
	4 028
Employees (included in administrative expenses)	3 662
Employees (included in loss adjustment expenses)	366
	4 028

Details of personnel expenses for 2015 are not prepared due to impracticability to separate personnel expenses by continued and discontinued operations before Reorganisation (in first 6 months period of 2015).

(45) Remuneration of the members of the Board of Directors and Supervisory Council

	2016 EUR'000	2015 EUR'000
Supervisory Council	130	256
Board of Directors	659	573
Social contribution expenses	119	153
	908	982

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

(46) Remaining maturities of insurance liabilities

	2016 EUR'000			2015 EUR'000		
	Gross liabilities	Reinsurance	Net liabilities	Gross liabilities	Reinsurance	Net liabilities
Unearned premium and unexpired risk technical reserves	38 144	(133)	38 011	20 335	(109)	20 226
Outstanding claim technical reserves	63 413	(14 931)	48 482	47 155	(6 290)	40 865
Total	101 557	(15 064)	86 493	67 490	(6 399)	61 091
Up to 1 year	98 546	(15 064)	83 482	63 481	(6 399)	57 082
1-5 years	24	-	24	2 717	-	2 717
Over 5 years	168	-	168	38	-	38
No fixed maturity	2 819	-	2 819	1 254	-	1 254

(47) Operating leases

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

	31.12.2016 EUR'000	31.12.2015 EUR'000
Within one year	190	146
From 1 to 5 years	384	220
	574	366

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 2016 there were no material open legal claims against the Company.

Credit related commitments

As at 31 December 2016 the Company did not have off balance sheet credit related commitments.

Capital commitments

As at 31 December 2016 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 2016	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets				
Financial instruments at fair value through profit or loss	49 513	-	28	49 541
	49 513	-	28	49 541
31 December 2015				
Financial assets				
Financial instruments at fair value through profit or loss	35 155	-	41	35 196
	35 155	-	41	35 196

In 2016 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:

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

Notes to the Financial Statements

2015	Financial assets at fair value through profit or loss EUR'000	Available for sale instruments EUR'000
Total gains included		
in profit or loss	158	-
	158	-

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 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 ³	-	-	5 506	5 506	5 506
Receivables from direct insurance	-	-	5 089	5 089	5 089
Receivables from reinsurance	-	-	897	897	897
Other receivables ⁵	-	-	844	844	844
Financial liabilities					
Direct insurance creditors ⁶	-	-	4 069	4 069	4 069
Reinsurance creditors ⁵	-	-	381	381	381
Other creditors ⁷	-	-	4 399	4 399	4 399

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.

³ Deposits with banks are highly liquid assets; thus their carrying amount approximates the fair value.

⁴ Receivables from direct insurance and Reinsurance activities are short term financial assets whose carrying amount approximates the fair value.

⁵ The item includes short term receivables whose carrying amount approximates the fair value.

⁶ Direct insurance and Reinsurance creditors are short term financial liabilities whose carrying amount approximates the fair value.

⁷ 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 2015	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Financial assets					
Cash and cash equivalents	-	-	-	19 776	19 776
Mortgage loans	-	-	4 080	4 080	4 241
Other loans	-	-	4 297	4 297	4 397
Deposits with banks ⁸	-	-	1 213	1 213	1 213
Receivables from direct insurance	-	-	4 255	4 255	4 255
Receivables from reinsurance	-	-	447	447	447
Other receivables ¹⁰	-	-	588	588	588
Financial liabilities					
Direct insurance creditors ¹¹	-	-	802	802	802
Reinsurance creditors ¹⁰	-	-	1 701	1 701	1 701
Other creditors ¹²	-	-	1 373	1 373	1 373

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).

⁸ Deposits with banks are highly liquid assets; thus their carrying amount approximates the fair value.

⁹ Receivables from direct insurance and Reinsurance activities are short term financial assets whose carrying amount approximates the fair value.

¹⁰ The item includes short term receivables whose carrying amount approximates the fair value.

¹¹ Direct insurance and Reinsurance creditors are short term financial liabilities whose carrying amount approximates the fair value.

¹² The item includes short term payables whose carrying amount approximates their fair value.

Notes to the Financial Statements

(50) Subsequent events

On 14 December 2016 the Company signed a transfer agreement on legal Companies motor third party liability insurance portfolio with Compensa Vienna Insurance Group UADB (Lithuania). The Company has agreed to purchase the motor third party liability insurance portfolio and to complete transaction of the portfolio transfer during year 2017. 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 will be finalised after the completing regulatory requirements related to insurance company branch opening in Lithuania.

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



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Independent Auditors' Report

To the shareholders of Balcia Insurance SE

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 79 of the accompanying Annual Report, which comprise:

- the statement of financial position as at 31 December 2016,
- the statement of comprehensive income for the year then ended,
- the statement of changes in shareholders' equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Balcia Insurance SE as at 31 December 2016, 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.

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,
- the Management Report, as set out on page 4 to 6 of the accompanying Annual Report,
- the Statement on 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* 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

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 regulation No 201 "Regulations for the Preparation of Annual Accounts and Consolidated Annual Accounts of Insurance and Reinsurance Companies and Branch Offices of Non-Member State Insurers".

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 regulation No 201 "Regulations for the Preparation of Annual Accounts and Consolidated Annual Accounts of Insurance and Reinsurance Companies and Branch Offices of Non-Member State Insurers".

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.

KPMG Baltics SIA
Licence No. 55

A handwritten signature in blue ink, appearing to read 'Armine'.

Armine Movsisjana
Chairperson of the Board
Latvian Certified Auditor
Certificate No. 178
Riga, Latvia
31 March 2017