AAS BALTA

Annual Report for 2016 prepared in accordance
with the International Financial Reporting Standards
as adopted by the European Union and
Independent Auditors' Report

Contents

Information on the Company, Members of the Council and the Board of Directors, Independent Auditors

Information on the Company

Name of the Company	Insurance Joint Stock Company BALTA
Legal address of the Company	10 Raunas Street, Riga, LV-1039, Latvia
Number and date of registration	40003049409, registered on 28 January 1992, re-registered in the Commercial Register of the Republic of Latvia on 6 June 2002

Council

Name, Surname	*Position*
Maciej Bogdan Rapkiewicz	Member of the Council (from 29.04.2016 (registered in the Commercial Register of the Republic of Latvia (CR) 10.06.2016) until 14.07.2016 (CR 19.08.2016)); Chairman of the Council (from 14.07.2016 (CR 19.08.2016) until 13.02.2017*); Member of the Council (from 13.02.2017*)
Piotr Józef Kruszyński	Member of the Council (from 29.04.2016 (CR 10.06.2016) until 14.07.2016 (CR 19.08.2016); reappointed from 14.07.2016 (CR 19.08.2016) until 13.02.2017*; reappointed from 13.02.2017*
Tomasz Edward Czuba	Member of the Council (from 14.07.2016 (CR 19.08.2016) until 13.02.2017*; reappointed from 13.02.2017*)
Wacław Wojciech Szary	Member of the Council (from 14.07.2016 (CR 19.08.2016) until 13.02.2017*; reappointed from 13.02.2017*)
Krzysztof Mariusz Markowski	Member of the Council (from 14.07.2016 (CR 19.08.2016) until 13.02.2017*; reappointed from 13.02.2017*)
Agnieszka Ewa Karbowiak	Member of the Council (from 13.02.2017*)
Jacek Adrian Matusiak	Member of the Council (from 13.02.2017*)
Rafal Miroslaw Grodzicki	Chairman of the Council (resigned on 19.01.2016 (CR 10.06.2016))
Przemyslaw Dabrowski	Deputy of Chairman of the Council (until 29.04.2016 (CR 10.06.2016))
Slawomir Wlodzimierz Niemierka	Member of the Council (until 29.04.2016 (CR 10.06.2016); reappointed from 29.04.2016 (CR 10.06.2016) until 14.07.2016 (CR 19.08.2016))
Wojciech Fraciszek Wroblewski	Member of the Council (until 29.04.2016 (CR 10.06.2016))
Tomasz Tarkowski	Member of the Council (until 29.04.2016 (CR 10.06.2016))
Sebastian Klimek	Member of the Council (from 29.04.2016 (CR 10.06.2016) until 14.07.2016 (CR 19.08.2016))

* In accordance with the decision of the extraordinary Shareholders` meeting. As of the date of approval of these financial statements the changes have not yet been registered in the Commercial Register of the Republic of Latvia

Board

Name, Surname	*Position*
Bogdan Benczak	Chairman of the Board
Rafal Piotr Rybkowski	Board Member
Ingus Savickis	Board Member
Uldis Dzintars	Board Member
Dmitrij Nosko	Board Member (until 07.12.2016)
Mārtiņš Rozentāls	Board Member
Malgorzata Krystyna Piotrowska	Board Member
Marcin Tomasz Majerowski	Board Member (from 07.12.2016)

Name and address of the independent auditors and responsible Latvian certified auditor:

KPMG Baltics SIA	Responsible Latvian certified auditor:
Licence No. 55	Inga Lipšāne
Vesetas iela 7, Riga,	Latvian certified auditor
LV -1013, Latvia	Certificate No. 112

Report of the Council and the Board of Directors

Main developments

Growth in existing products and introduction of new products in 2016 have ensured the strengthening of BALTA leader position in the non-life insurance market. The business growth and continuous improvements in IT and operational efficiency have resulted in BALTA achieving Total comprehensive profit of 4.1 million EUR. The solid results continue to support the outstanding financial stability of the Company – the Solvency II ratio as at the year-end is well above the minimum requirements set by Financial and Capital Market Commission of the Republic of Latvia.

In 2016, BALTA managed to outperform the Latvian non-life insurers' market in growth by increasing gross written premiums by 8 million EUR, or 13%, compared to 2015, which resulted in increase in market share to 28%. The Company has managed to grow all its portfolios; majority above the market growth level. In 2016, BALTA has managed to conclude several new partnerships to widen the Company's distribution network.

The wide range of insurance products and focus on exploring and meeting customer needs enabled BALTA to retain a leading position in the market not only by volume, but also by reputation and recognition. According to the results of an independent survey of insurance companies in Latvia, carried out by LETA and SKDS in 2016, BALTA was recognized as the country's most honest insurer for the 14th consecutive year. In 2016, BALTA was named the most trusted brand among insurers. According to Reputation Top 2016, conducted by Nords Porter Novelli and business newspaper Dienas Bizness, BALTA is the reputation leader of Latvian insurance market and takes 4th place in best reputation ranking among the whole finance industry participants in Latvia.

According to the results of a survey of „Aon Best Employers" in 2016, BALTA was recognized as one of the Best Employers in Baltics for the second time.

Both the financial performance and the Company's client focus, supported by an excellent external and customer recognition in the Latvian market, ensures BALTA a leading position in the Latvian insurance market and gives it a strong platform for further growth and development.

Insurance market in 2016

In accordance with Financial and Capital Market Commission of the Republic of Latvia data the Latvian domestic non-life insurers' market has grown by 12 million EUR in 2016 reaching total market volume of 268 million EUR. Growth compared to prior year has been 5%, which is slightly lower than previous year. Non-life insurers' growth is affected by overall economy growth decline in Latvia. Main contributors to the market growth have been Health insurance with 5 million EUR or 12% of growth, Motor Own Damage with 3 million EUR or 4% growth, Property with 2 million EUR or 4% growth and Motor Third Party liability with 2 million EUR or 4% growth.

In spite of GWP growth, the level of non-life insurers' domestic market profitability remains weak. Insurance result combined ratio stays at 100% level which indicates no insurance profit for total market.

There is a positive trend in the growth of number of insurance customers especially in motor, property and accident lines. BALTA believes it is because of higher awareness about insurance value and increase of society's prosperity. However, there is still a way to go to reach the market size and penetration levels of other Baltic countries.

Risk management

Risk Management System supports the BALTA's Internal Control System and System of Governance. The Company's business strategy has ensured establishment of integrated, consistent and effective risk management system, reflecting Company's size, scope and complexity. All risks are identified upon the commencement of the process of developing an insurance product, upon an acquisition of a financial instrument, a change in an operational process and so on. Once identified, all risks are measured and assessed based on capital need or other quantitative or qualitative assessment criteria, both on at individual and at an aggregated level. Management actions are taken by operational units (first line of defence), the key functions (risk management function, actuarial function, compliance function and financial controlling function), Committees (in particular Risk Committee that considers the latest trends in risk development and changes to the risk appetite, risk profile, risk tolerance limits and other indicators of the material risks and assesses the impact of each of these changes and documents new risks identified in all operational areas of the Company) and the Management Board ensuring that risk levels have not exposed the Company to excessive level of risks determined by the Company.

Capital adequacy and solvency are under constant focus of BALTA. At the end of 2016, the capital of BALTA exceeded the capital required according to the rules of the Financial and Capital Market Commission of the Republic of Latvia. Stress tests are performed by BALTA each year to assess the impact of a number of adverse insurance and financial risks on the Company's solvency. It was demonstrated by modelling of several adverse scenarios that capital adequacy and solvency of BALTA was sufficient and the Company would be able to meet its liabilities towards customers and retain its financial stability also under unexpected adverse scenarios.

Customer service and payment of claims

In 2016, BALTA continued to improve the process of monthly customer feedback gathering and analysis by implementing a new system enabling the Company to introduce new customer oriented initiatives and improve

Report of the Council and the Board of Directors

customer service. Together with implementing several new products in 2016, innovative assistance services were introduced.
BALTA continues to maintain a high quality and convenient claims service – development of web claims solutions lead to more simplified and efficient claims notifications for customers. Also, these solutions resulted in faster MOD claims decisions. Customers of BALTA appreciate the speed and convenience of claims handling.

Working environment in the Company and professional development of staff

In 2016, BALTA continued the implementation of Company corporate values that encourage Innovations, Effectiveness and Fairness.

Similarly to year before, BALTA was focused on raising employee engagement, as well as competencies. Leadership development programme was finalised with the aim to strengthen leadership capabilities and develop future successors for managerial roles. There have been number of training activities also on specialist level in order to increase business knowledge, collaboration, raise aspirations and increase personal efficiency. All the efforts to increase employee engagement resulted in the second year in the row recognition from global consultancy company AON as one of Best Employers in Baltic countries.

BALTA continued the Work and Life Balance program, which supports employees with long service in the Company by assigning additional holidays, providing special support for mothers of young children and special benefit packages for employees with children, greetings to employees on important occasions etc. Our efforts in this area resulted with both internal and external recognition. Internally, we managed to improve employee engagement by 3 percentage points and externally we received award as a Family Friendly enterprise given by Ministry of Welfare of Republic of Latvia.

Corporate social responsibility

BALTA takes care about Corporate Social Responsibility. The ambition of the Company is to be an active and responsible member of Latvian society – a Good Corporate Citizen.

In 2015, BALTA introduced Voluntary Program for Employees and continued it in 2016. The Company's employees are able to receive grants for their activities in local community. BALTA also takes an active part in city festivals in cities and towns around Latvia.

In 2016, Balta received Gold Category Award in Sustainability Index from Institute of Corporate Sustainability and Responsibility.

Proposals regarding distribution of the Company's profit

The Board of Directors and the Council of BALTA do not recommend the payment of dividend.

Subsequent events

No events have taken place from the Statement of Financial Position date to the date of approval of these financial statements that could materially affect the annual performance, cash flows or the financial position or related disclosures of BALTA as at and for the year ended on the reporting date.

In the extraordinary Shareholders` meeting on 13 February 2017 the entire Supervisory Board of BALTA was re-elected for a new term of office and new Supervisory Board members were elected. As of the date of approval of these financial statements the changes have not yet been registered in the Commercial Register of the Republic of Latvia.

Maciej Bogdan Rapkiewicz
Member of the Council

Bogdan Benczak
Chairman of the Board

21 March 2017

Statement of the Management's Responsibility

The Council and the Board of Directors of AAS BALTA confirm that the financial statements for the year ended 31 December 2016 are prepared in accordance with the International Financial Reporting Standards as adopted by the EU and that appropriate accounting policies have been applied on a consistent basis. The Council and the Board of Directors of AAS BALTA are responsible for preparing these financial statements from the books of primary entry. The Council and the Board of Directors confirm that these financial statements for the year ended 31 December 2016 present fairly the financial position at the end of the reporting year, and the results of its operations and cash flows for the reporting year.

Prudent and reasonable judgments and estimates have been made by the Council and Board of Directors in the preparation of the financial statements for the year ended 31 December 2016.

The Council and the Board of Directors of AAS BALTA are responsible for the maintenance of proper accounting records, the safeguarding of the Company's assets and the prevention and detection of fraud and other irregularities in the Company. They are also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

Maciej Bogdan Rapkiewicz
Member of the Council

Bogdan Benczak
Chairman of the Board

21 March 2017

Statement of Comprehensive Income *(All amounts in euros)*

	Exhibit	2016	2015 (restated)
Insurance income			
Gross written premiums	4	75 610 261	67 172 561
Reinsurer's share in premiums	4	(2 432 335)	(2 452 435)
Net written premiums	4	73 177 926	64 720 126
Change in gross provision for unearned premiums	5	(3 712 350)	(4 147 078)
Change in provision for unearned premiums, reinsurers' share	5	164 411	218 123
Change in provision for unearned premiums	5	(3 547 939)	(3 928 955)
Net premiums earned		**69 629 987**	**60 791 171**
Other technical income	6	433 870	305 152
Total insurance income		**70 063 857**	**61 096 323**
Insurance expenses			
Gross claims paid to policyholders		(44 357 938)	(37 925 839)
Loss adjustment expenses		(3 276 158)	(2 912 530)
Recovered losses		3 083 873	2 624 305
Claims paid	7	(44 550 223)	(38 214 064)
Reinsurer's share	7	3 203 801	2 589 912
Net claims paid		(41 346 422)	(35 624 152)
Change in gross provision for claims	8	1 148 845	645 348
Change in provision for claims, reinsurers' share	8	(2 250 779)	(2 302 547)
Net incurred claims		**(42 448 356)**	**(37 281 351)**
Client acquisition costs	9	(12 392 496)	(9 643 818)
Administrative expenses	10	(10 974 270)	(13 180 051)
Other technical expenses	11	(19 502)	-
Total insurance expenses		**(65 834 624)**	**(60 105 220)**
Net result of insurance activities		**4 229 233**	**991 103**
Interest income	12	1 291 764	976 595
Net profit / (loss) on financial assets	13	(447 308)	(419 548)
Investment management expenses		(236 998)	(124 025)
Other finance income	14	210	4 964
Other finance expense	15	(130 541)	(79 225)
Other income	16	28 270	96 825
Other expenses	17	(3 669)	(26 847)
Profit / (loss) before tax		**4 730 961**	**1 419 842**
Changes in deferred tax asset	18, 26	(705 943)	(251 526)
Profit / (loss) for the year		**4 025 018**	**1 168 316**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Change in revaluation reserve	23	58 281	-
Deferred tax effect from change in revaluation reserve	23, 26	(8 742)	-
		49 539	**-**
Other comprehensive income for the period, net of tax		**49 539**	**-**
Total comprehensive profit for the reporting year		**4 074 557**	**1 168 316**

All profit is attributable to the owners of AAS BALTA.

Notes on pages 12 to 47 are an integral part of these financial statements.

Maciej Bogdan Rapkiewicz
Member of the Council

Bogdan Benczak
Chairman of the Board

21 March 2017

Statement of Financial Position *(All amounts in euros)*

	Exhibit	31.12.2016	31.12.2015 (restated)
ASSETS			
Intangible assets	19	**1 967 600**	**2 043 625**
Property and equipment	20	**2 845 326**	**3 026 280**
Financial investments at fair value through profit or loss	21	14 975 767	23 443 595
Held to maturity financial investments	22	22 873 783	23 253 305
Available for sale financial investments	23	14 735 714	-
Total investments		**52 585 264**	**46 696 900**
Receivables due from policyholders		12 918 375	10 938 920
Receivables due from intermediaries		649 271	558 506
Receivables from direct insurance operations	24	13 567 646	11 497 426
Reinsurance receivables	25	217 591	405 192
Other receivables	28	901 064	886 563
Total receivables		**14 686 301**	**12 789 181**
Reinsurers’ share in unearned premium reserve	5	815 846	651 435
Reinsurers’ share in reserve for outstanding claims	8	2 963 393	5 214 172
Reinsurers’ share of insurance contract liabilities		**3 779 239**	**5 865 607**
Deferred income tax asset	26	**276 108**	**990 793**
Deferred client acquisition costs	9	8 071 028	7 811 763
Other accrued income and deferred expenses	27	424 522	304 688
Accrued income and deferred expenses		**8 495 550**	**8 116 451**
Cash and cash equivalents	29	**8 688 012**	**6 001 972**
TOTAL ASSETS		**93 323 400**	**85 530 809**

Notes on pages 12 to 47 are an integral part of these financial statements.

Maciej Bogdan Rapkiewicz
Member of the Council

Bogdan Benczak
Chairman of the Board

21 March 2017

Statement of Financial Position *(All amounts in euros)*

	Exhibit	31.12.2016	31.12.2015 (restated)
EQUITY, RESERVES AND LIABILITIES			
EQUITY AND RESERVES			
Share capital	30	6 619 290	6 619 290
Share premium	30	1 595 511	1 595 511
Reserve capital and other reserves	30	4 357 130	4 357 130
Revaluation reserve		49 539	-
Retained earnings		9 603 946	5 578 928
TOTAL EQUITY AND RESERVES		**22 225 416**	**18 150 859**
LIABILITIES			
Unearned premium reserve	5	36 191 475	32 479 125
Outstanding claims reserve	8	22 458 748	23 607 593
Insurance contract liabilities		**58 650 223**	**56 086 718**
Subordinated loan	37	4 173 022	4 179 224
Direct insurance creditors		3 226 655	2 580 947
Reinsurance creditors		793 548	922 340
Taxes and the state compulsory social insurance contributions	31	481 142	464 933
Accrued expenses and deferred income	32	2 807 284	2 241 520
Other creditors	33	966 110	904 268
Total creditors		**12 447 761**	**11 293 232**
TOTAL LIABILITIES		**71 097 984**	**67 379 950**
TOTAL EQUITY, RESERVES AND LIABILITIES		**93 323 400**	**85 530 809**

Notes on pages 12 to 47 are an integral part of these financial statements.

Maciej Bogdan Rapkiewicz
Member of the Council

Bogdan Benczak
Chairman of the Board

21 March 2017

Statement of Changes in Shareholders' Equity *(All amounts in euros)*

	Share capital	Share premium	Reserve capital and other reserves	Revaluation reserve	Retained earnings	Total
Balance at 31 December 2014 (as reported previously)	**6 619 295**	**1 595 511**	**4 357 125**	**-**	**4 889 403**	**17 461 334**
Impact of change in accounting policy (see also note 20)	-	-	-	-	36 803	36 803
Balance at 31 December 2014 (restated)	**6 619 295**	**1 595 511**	**4 357 125**	**-**	**4 926 206**	**17 498 137**
Total comprehensive income for the year (restated)	**-**	**-**	**-**	**-**	**1 168 316**	**1 168 316**
Profit for the year (as reported previously)	-	-	-	-	1 205 119	1 205 119
Impact of change in accounting policy (see also note 20)	-	-	-	-	(36 803)	(36 803)
Transactions with shareholders recorded directly in equity						
Share capital translation to euro	(5)	-	5	-	-	-
Changes in ownership interests						
Taken over from PZU Lietuva Latvian branch (see Note 35 c)	-	-	-	-	(515 594)	(515 594)
Balance at 31 December 2015	**6 619 290**	**1 595 511**	**4 357 130**	**-**	**5 578 928**	**18 150 859**
Total comprehensive income for the year	**-**	**-**	**-**	**49 539**	**4 025 018**	**4 074 557**
Profit for the year	-	-	-	-	4 025 018	4 025 018
Other comprehensive income	**-**	**-**	**-**	**49 539**	**-**	**49 539**
Net change in revaluation reserve, net of deferred tax effect	-	-	-	49 539	-	49 539
Balance at 31 December 2016	**6 619 290**	**1 595 511**	**4 357 130**	**49 539**	**9 603 946**	**22 225 416**

Notes on pages 12 to 47 are an integral part of these financial statements.

Maciej Bogdan Rapkiewicz
Member of the Council

Bogdan Benczak
Chairman of the Board

21 March 2017

Statement of Cash Flows *(All amounts in euros)*

	Exhibit	2016	2015
Cash flows from operating activities			
Premiums received from direct insurance		74 435 153	66 110 979
Claims paid for direct insurance		(44 257 484)	(36 905 926)
Payments received from ceded reinsurance		3 132 089	842 221
Payments made for ceded reinsurance		(1 972 173)	(1 705 777)
Mandatory payments	35	(634 256)	(655 430)
Other expenses		(23 054 973)	(21 599 277)
Net cash from operating activities:		**7 648 356**	**6 086 790**
Cash flows from investing activities			
Disposal of investments		7 384 218	19 416 203
Acquisition of investments		(12 358 244)	(33 265 226)
Purchase of property and equipment and intangible assets		(1 045 872)	(1 408 339)
Interest received from term deposits with credit institutions		-	19 047
Interest received from debt securities		1 275 346	1 010 585
Cash acquired from PZU Lietuva Latvian branch, net of consideration paid		-	2 283 683
Other expenses		(80 669)	(61 366)
Net cash used in investing activities:		**(4 825 221)**	**(12 005 413)**
Cash flows from financing activities			
Received subordinated loan		-	4 100 000
Interest paid for subordinated loan		(135 505)	-
Net cash from / (used in) financing activities:		**(135 505)**	**4 100 000**
Result of foreign exchange rate fluctuations on cash and cash equivalents		**(1 590)**	**12 026**
Net increase / (decrease) in cash and cash equivalents		**2 686 040**	**(1 806 597)**
Cash and cash equivalents at the beginning of reporting year		6 001 972	7 808 569
Cash and cash equivalents at the end of reporting year	29	**8 688 012**	**6 001 972**

Notes on pages 12 to 47 are an integral part of these financial statements.

Maciej Bogdan Rapkiewicz
Member of the Council

Bogdan Benczak
Chairman of the Board

21 March 2017

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

AAS BALTA (hereinafter "the Company") is an insurance joint stock company which was registered in Riga, the Republic of Latvia in 1992. The Company was re-registered with the Commercial Register on 6 June 2002. The Company offers a wide range of non-life insurance services both to corporate clients and individuals. The Company has received licences in all non-life insurance types, in which it provides services. The licences have been issued by Financial and Capital Market Commission of the Republic of Latvia from 1996 to 1999 and re-registered in 2002.

Name of the Company:	Insurance Joint Stock Company BALTA
Legal address of the Company:	10 Raunas Street, Riga, LV-1039, Latvia
Phone, fax:	(+371) 6708 2333, (+371) 6708 2345
Tax payer’s code:	LV40003049409
State Revenue Service department:	Department of large tax payers
Majority shareholder:	POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A., a joint-stock company, Poland (99.99%)

The Company’s shares are not listed. The Company belongs to a group whose parent company trades its shares on the Warsaw Stock Exchange and whose main shareholder is the State Treasury of Poland owning more than 34% of the shares.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. Consistent accounting principles have been applied to the financial years presented in these financial statements, except as described below (Notes 2.2.3 and 2.2.4).

2.1 Basis of preparation

2.1.1 Statement of Compliance

These financial statements were prepared in accordance with International Financial Reporting Standards (hereinafter “IFRS”) as adopted by the European Union (hereinafter “EU”) and in accordance with the regulations issued by Financial and Capital Market Commission of the Republic of Latvia (hereinafter “FCMC”) applicable to insurance companies.

These financial statements have been authorised for issue by the Board of Directors on 21 March 2017. The shareholders have the power to reject the financial statements prepared and issued by management and the right to request that new financial statements be issued.

2.1.2 Functional and Presentation Currency

All amounts in the financial statements are shown in euro (EUR), the Company’s functional currency, unless otherwise stated.

2.1.3 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following captions that are stated at fair value: financial instruments carried at fair value through profit or loss and available-for-sale instruments.

2.1.4 Reporting year

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

2.1.5 Estimates

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where estimates and judgments are significant to the financial statements are disclosed in Note 3.

2.2 New standards and interpretations, reclassification of balances in the financial statements and changes in accounting policies

2.2.1 Standards and interpretations effective in the reporting period

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

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

(i) IFRS 11: Accounting for Acquisitions of Interests in Joint Operations

(ii) IAS 1 – Presentation of Financial Statements

(iii) IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets

(iv) IAS 19 – Defined Benefit Plans: Employee Contributions

(v) IAS 27 – Separate Financial Statements

(vi) Annual Improvements to IFRSs

2.2.2 New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements.

(i) IFRS 9 Financial Instruments (2014) (effective for annual periods beginning on or after 1 January 2018)

(ii) 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)

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

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

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

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

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

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

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

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

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

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

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since the classification and the measurement of the Entity’s financial instruments are expected to change.

The Company, as an insurance provider, is entitled to postpone the implementation of IFRS 9 standard until 1 January 2021, however, as PZU Group, to which the Company belongs to, is not allowed to exercise this exemption due to a significant share of banking activity in the Group, BALTA will not apply the exemption from adopting IFRS 9 and plans to adopt it until 1 January 2018 together with other Group companies. The IFRS 9 implementation project in the Group is managed by the Company’s parent company PZU S.A. At this stage, the impact from adopting IFRS 9 on the financial statements of the Company cannot be reliably estimated.

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

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

(v) Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018)

(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)

(vii) Amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017)

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

(ix) Amendments to IAS 40 Transfers of Investment Property

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

(xi) Annual Improvements to IFRSs

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

2.2.3 Reclassification of balances in the financial statements

In addition, certain balances for 2016 have been classified differently from the prior year, due to management's judgment. There is no impact on the financial result from these reclassifications. Prior year corresponding balances have been reclassified, where appropriate, to conform to current year presentation. The most significant reclassification is that OMTPL mandatory deductions are included in Administrative expenses, while in the financial statements for 2015 they were presented separately in the Statement of Comprehensive Income.

2.2.4 Changes in accounting policies

In 2016, the Company has changed its accounting policy for Land and Buildings from revaluation model to cost model. The effects on prior reporting periods have been calculated and the corresponding amounts in financial statements have been restated. See Note 20 for additional information.

2.3 Insurance contracts, reinsurance

a) Classification of contracts

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. All contracts concluded are classified as non-life insurance contracts.

Non-life insurance contracts generally have a term of one year. Exceptions include short-term travel insurance policies covering one trip, OMTPL policies with terms of 3, 6 and 9 months (as is stated in the Latvian Law on Obligatory Motor Vehicle Third Party Liability Insurance) where the term is shorter than one year. The policy term may exceed one year for construction liability insurance, although the proportion of these policies in the total portfolio is insignificant.

b) Ceded reinsurance

The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential 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 for ceded reinsurance contracts is not recognised for ceded reinsurance contracts as the reinsurance asset cannot be reliably measured.

Amounts recoverable from reinsurers are measured on the basis of the reserve for outstanding claims or the settled claims from policies falling within the scope of a reinsurance contract.

Reinsurance commissions include commissions received or receivable from reinsurers 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.

Unearned reinsurance commissions are included in the statement of financial position under item Accrued expenses and deferred income.

The main obligatory reinsurance contract forms in reinsurance are excess-of-loss treaties. For risks exceeding the limits of obligatory reinsurance treaties or falling outside their scope due to their nature facultative reinsurance is used.

c) Premiums

Written insurance premiums are insurance premiums for policies, which become effective during the year, irrespective of whether the premium has become due or not. Premiums underwritten are decreased by the premiums cancelled and terminated over the accounting year. Premiums are disclosed gross of commission payable to intermediaries.

The earned portion of premiums written is recognised as revenue. Premiums are recognised as earned on pro-rata basis over the term of the related policy coverage. The unearned portion of premiums is recognised as an unearned premium technical reserve. See section h).

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

d) Incurred claims

Claims incurred include claims attributable to the reporting year and loss adjustment expenses. Claims paid are decreased by the amount received from salvage or subrogation.

As at the end of reporting period, not settled claims are recognised as outstanding claim technical reserve. See section h).

e) Administrative expenses

Administrative expenses are related to the collection of premiums, management of portfolios, processing of bonuses and discounts and incoming and outgoing reinsurance. They include personnel expenses and depreciation to the extent they are not included in acquisition, claims handling or investing expenses.

Administrative expenses that are not directly related to a specific type of insurance are divided by type of insurance proportionally to the amount of gross written premiums, net earned premiums and insured objects.

f) Client acquisition costs

Acquisition costs of insurance contracts arise from the conclusion of insurance contracts and consists of direct costs such as commissions and indirect expenses incurred related to the conclusion of contracts.

g) Deferred client acquisition costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as assets. All other client acquisition costs are recognised as expenses when incurred. Deferred client acquisition cost assets are attributed to profit or loss over the terms of the policies as premium is earned on pro-rata basis.

h) Insurance contract liabilities

Unearned premium reserve comprises written gross premium related to period from the balance sheet date to the expiry of insurance agreement to cover all claims and expenses in accordance with insurance agreements in force.

Unexpired risk reserve 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 premium reserve in relation to such policies after the deduction of any deferred acquisition costs.

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 setting additional unexpired risk reserve. The test is performed on a “whole insurance portfolio” basis and the test is applied to the net amounts of reserves. Refer to Note 39.

Outstanding claims reserve is an amount provided at the end of the reporting year in respect of estimated losses incurred but not yet paid. Outstanding claims reserve includes provisions for reported but not settled claims and provision for incurred but not reported claims. The claims reserve is also created for loss adjustment expenses that will be necessary in order to regulate the claims incurred during the reporting and previous years. Estimated future proceeds from salvage and subrogation related to claims incurred in the reporting and prior years have been deducted from claims reserve.

i) Fronting insurance

As a part of regular business operations, the Company insures risks, which it fully cedes to reinsurers, not keeping the insurance risk or taking full risks to ourselves. Assets, liabilities, as well as income and expenses, which arise from the fronting reinsurance agreements, are presented in Statement of Financial Position of Company, as full ceding of the insurance risk does not release the Company from the direct liabilities to the insurance policy holder.

2.4 Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. Interest income includes coupons earned on fixed income debt securities, interest on bank deposits and other loans and accrued discounts and premiums on discounted instruments.

2.5 Financial instruments

The Company classifies its financial assets in the following categories: loans and receivables, held to maturity, available for sale and at fair value through profit or loss. The Company classifies all its financial liabilities as liabilities measured using amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are classified as Loans, Term deposits with banks, Insurance and Reinsurance debtors and Other debtors in the statement of financial position. See accounting policy on Receivables from direct insurance operations. Loans and receivables are measured at amortized cost using the effective interest rate method.

b) Financial liabilities

Financial liabilities classified as liabilities measured using amortized cost are measured at amortized cost using the effective interest rate method.

c) Other financial instruments

The Company's investments in securities are classified as financial assets either held to maturity, available for sale or at fair value through profit or loss. The Company's overall investment objective is to maximize its total return (i.e. interest or dividends and changes in fair value) given a low to medium level of risk and within the given restrictions for the whole portfolio. Accordingly, the Company manages and evaluates the investment portfolio performance on a total return basis.

Financial instruments at fair value through profit or loss are financial assets that are upon initial recognition designated by the entity as at fair value through the profit or loss.

Held-to-maturity instruments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity, and which are not designated at fair value through profit or loss, or available for sale.

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

Purchases and sales of financial assets are recognised on the settlement date – the date on which the Company received or delivered the asset. Loans and receivables and held-to-maturity instruments are initially recognised at fair value plus transaction costs. Available-for-sale instruments and financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale instruments and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity instruments are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are recognised in the profit or loss in the period in which they arise.

The fair values of quoted investments are based on current bid prices. The Company does not have investments in unquoted financial assets at fair value through profit or loss, unquoted financial assets classified as held to maturity or unquoted financial assets classified as available for sale.

Dividends are recognised in the income statement as part of Interest and dividend income. Dividends are recognised in the income statement when the Company's right to receive payments is established.

2.6 Receivables from direct insurance operations

When amounts due from policyholders and intermediaries become overdue the policy is cancelled and respective amounts are reversed against premium written. No impairment allowances are made with respect to amounts that have not yet become due and, accordingly, no portion of the premium is taken to income.

2.7 Intangible assets and property and equipment

All property and equipment and intangible assets (including internally developed software) are stated at historical cost less accumulated depreciation and amortisation and impairment. Land is not depreciated. Depreciation and amortisation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful life using the following rates set by the management:

Buildings	2% per year

Notes to the Financial Statements (All amounts in euros)

Office equipment	20% per year
Computer equipment	25% per year
Internally developed software	20% per year
Vehicles	20% per year
Software	25% per year

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted, if necessary.

The carrying amounts of property and equipment and intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized and the asset's carrying amount is written down to its recoverable amount immediately if the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses are recognized in profit or loss.

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Leasehold improvements are written down on a straight line basis during leasehold period, but not longer than 5 years.

Profit or loss from disposal of property and equipment is calculated as the difference between the book value of the property and equipment and income generated from sale, and charged to the profit and loss statement as incurred.

2.8 Foreign currency revaluation

Foreign currency transactions are translated into euro applying the euro foreign exchange reference rate published by the European Central Bank at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the reporting date foreign exchange reference rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement of the respective period.

	31.12.2016	**31.12.2015**
1 USD	EUR 1.05410	EUR 1.08870
1 GBP	EUR 0.85618	EUR 0.73395

2.9 Corporate income tax

Corporate income tax expenses are included in the financial statements based on management calculations performed in line with the Latvian legislation.

Deferred income tax is provided for, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax calculations are based on the tax rates effective on the balance sheet date expected to be effective in the periods when the Company will realize the deferred tax asset or settle deferred tax liabilities. The principal temporary differences arise from different property and equipment depreciation rates, as well as from accrued expenses, provisions for doubtful debts and tax losses carried forward.

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

Deferred tax assets and liabilities are not discounted.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Statement of cash flows is prepared using the direct method.

2.11 Accruals for unused employee vacations

The amount of accruals is determined by multiplying average daily salary for the last six months by the amount of accrued vacation days at the end of the year plus related social tax.

2.12 Administration expense by types of insurance

Other expenses and income, which relate to Company administration and are not directly attributable to a particular unit of the Company, are divided as follows:

- total indirect costs are attributed against total earned premiums in period and thus average indirect costs coefficient is obtained;
- multiplying earned premium by type of customer (legal entity or individual) in each type of insurance with average indirect costs coefficient, hence obtaining the total for indirect costs, which are attributable to corresponding type of insurance.

2.13 Employee benefits

Short-term employee benefits, including salaries and social security contributions, bonuses and vacation benefits, are included in Administrative expenses on accrual basis. The Company calculates annual bonuses for personnel based on previous year financial results and achievement of personal goals. The accruals for personnel bonuses represent the amount accrued as at the year end.

The Company pays social security contributions to the State Social Security Fund (the Fund) on behalf of its employees in accordance with local legal requirements. The Company is required to pay fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions relating to employee service in the current and prior period. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

2.14 Share capital and dividend distribution.

Ordinary shares are classified as equity.

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

2.15 Impairment

a) Financial assets

At each reporting date the Company assesses whether there is objective evidence that financial assets not carried at fair value 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.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or receivable by the Company on terms that the Group would not otherwise consider, indications that a borrower will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of issuers in a group, or economic conditions that correlate with defaults in a group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company considers evidence of impairment for loans and receivables at both a specific asset and collective level. All term deposits with credit institutions are assessed for specific impairment.

All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment incurred.

Refer to policy on Receivables from direct insurance operations.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

b) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only 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 recognized.

3. USE OF JUDGEMENTS AND ESTIMATES

Management makes judgments, estimates and assumptions that are applied in the process of preparation of financial statements affect 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.

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate.

The provisions for reported but not settled claims (RBNS) are based on claims handler estimate for each individual claim. In cases when a claim is reported but the estimate is not prepared yet, the average claim amount in the corresponding business line is used as an initial reserve.

The provision for incurred but not reported claims (IBNR) is calculated using Bornhuetter - Ferguson method, except for specific insurance portfolios as described below. Obligatory Motor TPL insurers receive recourse claims requests from State Social Insurance Agency (SSIA). Those recourses are reported to insurance companies with the delay of one to two years from accident date to claims recourse reporting date. Recourses are requested for benefits and pensions already paid by SSIA. Company claims handlers assess the potential for long-term claim payments and establish a reserve for future payments based on their estimate. The reserve for not yet reported recourses is calculated using the expected claim severity and frequency method which was recommended as the best practice by the Latvian Actuarial Association in 2010 and assessed by the Company as the most appropriate to date. Due to insufficient historical data, IBNR provision for guarantees insurance portfolio and for insurance portfolio taken over from PZU Lietuva Latvian branch in 2015 is calculated using the ultimate loss ratio method where the provision is estimated based on the expected loss ratio for each accident period.

Claims handling reserve is calculated on the basis of average amount for one claim settling transaction and total number of claim transactions estimated for future. The average amount for one claim settling transaction is calculated using historical actual claim administration expense data. Due to insufficient historical data, claims handling reserves for guarantees insurance portfolio and for insurance portfolio taken over from PZU Lietuva Latvian branch in 2015 is calculated using the ultimate loss ratio method where the provision is estimated based on the expected loss ratio for each accident period.

Reserves for recoverable amounts from subrogation and salvage are calculated applying triangle method, i.e., subrogation and salvage amounts are arranged by the periods of accidents and transactions of recovered amounts. Reserves for recoverable amounts from subrogation and salvage are calculated only for those lines of business where regular income is received due to claims specifics therefore probability of recovery is evaluated as high.

Other areas where assumptions and estimation uncertainties are involved are impairment, valuation of deferred acquisition costs. Further information about the assumptions made on those areas are included in the following notes:

- Impairment: Note 2.15
- Deferred acquisition costs: Note 39 about liability adequacy tests performed

As indicated in Note 2.5, all financial assets measured at fair value are quoted. In a fair value hierarchy, based on inputs used in the valuation techniques, these fair values as at 31.12.2016 and as at 31.12.2015 are categorised into Level 1: unadjusted quoted prices in active markets for identical assets.

Notes to the Financial Statements (All amounts in euros)

4. NET WRITTEN PREMIUMS

	2016			2015		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
Personal accident	1 866 857	(11 078)	1 855 779	1 428 184	(19 247)	1 408 937
Health	14 097 920	-	14 097 920	11 208 391	-	11 208 391
Motor own damage	23 012 076	(403 367)	22 608 709	20 638 781	(278 578)	20 360 203
Marine	29 934	(1 099)	28 835	20 555	(3 010)	17 545
Cargo	950 302	(68 067)	882 235	866 162	(89 807)	776 355
Property	18 040 588	(885 616)	17 154 972	17 022 521	(923 723)	16 098 798
Credit insurance	75 767	-	75 767	79 551	-	79 551
General TPL	3 461 468	(207 009)	3 254 459	3 408 184	(192 623)	3 215 561
Guarantees	1 162 337	(422 642)	739 695	1 342 608	(505 966)	836 642
Financial risks	390 760	(137 026)	253 734	389 123	(165 218)	223 905
Travel accident	2 437 379	(6 790)	2 430 589	1 462 114	(11 796)	1 450 318
Obligatory Motor TPL	10 084 873	(289 641)	9 795 232	9 306 387	(262 467)	9 043 920
	75 610 261	**(2 432 335)**	**73 177 926**	**67 172 561**	**(2 452 435)**	**64 720 126**

All policies are issued to clients residing in Latvia.

Premiums earned

	2016			2015		
	Gross premiums earned	**Reinsurers' share**	**Net premiums earned**	**Gross premiums earned**	**Reinsurers' share**	**Net premiums earned**
Motor own damage	21 918 466	(314 237)	21 604 229	19 330 760	(247 442)	19 083 318
Property	17 507 325	(867 567)	16 639 758	16 161 551	(932 696)	15 228 855
Health	13 236 464	-	13 236 464	11 033 771	-	11 033 771
Obligatory Motor TPL	9 823 234	(282 801)	9 540 433	8 908 922	(261 422)	8 647 500
Other	9 412 422	(803 319)	8 609 103	7 590 479	(792 752)	6 797 727
TOTAL	**71 897 911**	**(2 267 924)**	**69 629 987**	**63 025 483**	**(2 234 312)**	**60 791 171**

5. UNEARNED PREMIUM RESERVE

a) Movement in unearned premium reserve

	Gross amount	**Reinsurers' share**	**Net amount**
Balance at 31 December 2014	**27 375 460**	**(384 265)**	**26 991 195**
Taken over from PZU Lietuva Latvian branch (see Note 37)	956 587	(49 047)	907 540
Written premiums	67 172 561	(2 452 435)	64 720 126
Earned premiums	(63 025 483)	2 234 312	(60 791 171)
Total change for the year	4 147 078	(218 123)	3 928 955
Balance at 31 December 2015	**32 479 125**	**(651 435)**	**31 827 690**
Written premiums	75 610 261	(2 432 335)	73 177 926
Earned premiums	(71 897 911)	2 267 924	(69 629 987)
Total change for the year	3 712 350	(164 411)	3 547 939
Balance at 31 December 2016	**36 191 475**	**(815 846)**	**35 375 629**

Notes to the Financial Statements *(All amounts in euros)*

b) Changes in unearned premium reserve and distribution by type of insurance for the year 2016:

	Gross amount	Reinsurers' share	Net amount
Personal accident	310 989	-	310 989
Health	861 456	-	861 456
Motor own damage	1 093 610	(89 130)	1 004 480
Marine	3 909	-	3 909
Cargo	23 881	450	24 331
Property	533 263	(18 049)	515 214
Credit insurance	(8 368)	-	(8 368)
General TPL	174 159	3 412	177 571
Guarantees	235 566	(57 783)	177 783
Financial risks	12 747	3 529	16 276
Travel accident	209 499	-	209 499
Obligatory Motor TPL	261 639	(6 840)	254 799
	3 712 350	**(164 411)**	**3 547 939**

c) Changes in unearned premium reserve and distribution by type of insurance for the year 2015:

	Gross amount	Reinsurers' share	Net amount
Personal accident	41 191	-	41 191
Health	174 620	-	174 620
Motor own damage	1 308 021	(31 136)	1 276 885
Marine	(2 710)	-	(2 710)
Cargo	(7 016)	(1 791)	(8 807)
Property	860 970	8 973	869 943
Credit insurance	(15 650)	-	(15 650)
General TPL	460 381	(1 205)	459 176
Guarantees	701 504	(185 543)	515 961
Financial risks	40 575	(6 376)	34 199
Travel accident	187 727	-	187 727
Obligatory Motor TPL	397 465	(1 045)	396 420
	4 147 078	**(218 123)**	**3 928 955**

d) Gross unearned premium reserve as at end of year:

	31.12.2016	31.12.2015
Personal accident	1 042 459	731 470
Health	5 407 264	4 545 808
Motor own damage	12 082 555	10 988 945
Marine	13 522	9 613
Cargo	269 191	245 310
Property	9 582 720	9 049 457
Credit insurance	22 976	31 344
General TPL	1 854 729	1 680 570
Guarantees	1 249 651	1 014 085
Financial risks	173 642	160 895
Travel accident	499 524	290 025
Obligatory Motor TPL	3 993 242	3 731 603
	36 191 475	**32 479 125**

Notes to the Financial Statements (All amounts in euros)

6. OTHER TECHNICAL INCOME

	2016	2015
Reinsurance commission income (see Note 36)	209 272	128 308
Income from cancellation of policies	80 678	71 436
Expertise income	79 824	49 225
Income of agreement penalties	30 057	8 697
Commission income from fronting insurance	15 162	27 268
Changes in provisions for overdue debts, net	-	12 067
Other income	18 877	8 151
	433 870	**305 152**

7. CLAIMS PAID

	2016			2015		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
Personal accident	(533 856)	-	(533 856)	(473 472)	-	(473 472)
Health	(9 230 800)	-	(9 230 800)	(7 858 498)	-	(7 858 498)
Motor own damage	(14 561 119)	198 349	(14 362 770)	(12 508 916)	128 248	(12 380 668)
Marine	(30 071)	-	(30 071)	(2 653)	-	(2 653)
Cargo	(310 958)	-	(310 958)	(527 658)	-	(527 658)
Property	(11 301 759)	2 868 488	(8 433 271)	(8 600 330)	1 112 489	(7 487 841)
Credit insurance	(16 729)	-	(16 729)	(7 861)	-	(7 861)
General TPL	(688 627)	-	(688 627)	(873 454)	-	(873454)
Guarantees	(66 948)	19 513	(47 435)	(1 802)	-	(1 802)
Financial risks	(58 707)	-	(58 707)	(3 167)	-	(3 167)
Travel accident	(463 278)	-	(463 278)	(285 503)	-	(285 503)
Obligatory Motor TPL	(7 287 371)	117 451	(7 169 920)	(7 070 750)	1 349 175	(5 721 575)
	(44 550 223)	**3 203 801**	**(41 346 422)**	**(38 214 064)**	**2 589 912**	**(35 624 152)**

8. CLAIM RESERVES

a) Movement in outstanding claims reserve:

	2016			2015		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
At beginning of year						
Notified claims	18 018 901	(5 214 172)	12 804 729	18 884 083	(7 491 163)	11 392 920
Incurred, but not reported	5 588 692	-	5 588 692	3 559 375	-	3 559 375
Total at beginning of year	**23 607 593**	**(5 214 172)**	**18 393 421**	**22 443 458**	**(7 491 163)**	**14 952 295**
Taken over from PZU Lietuva Latvian branch (see Note 37)	-	-	-	1 809 483	(25 556)	1 783 927
Cash paid for claims notified in prior years	(9 527 220)	2 944 935	(6 582 285)	(8 777 367)	2 390 374	(6 386 993)
Changes in liabilities arising from current and prior year claims	8 378 375	(694 156)	7 684 219	8 132 019	(87 827)	8 044 192
Total change in year	(1 148 845)	2 250 779	1 101 934	(645 348)	2 302 547	1 657 199
Total at end of year	**22 458 748**	**(2 963 393)**	**19 495 355**	**23 607 593**	**(5 214 172)**	**18 393 421**
Notified claims	15 916 507	(2 963 393)	12 953 114	18 018 901	(5 214 172)	12 804 729
Incurred, but not reported	6 542 241	-	6 542 241	5 588 692	-	5 588 692
Total at end of year	**22 458 748**	**(2 963 393)**	**19 495 355**	**23 607 593**	**(5 214 172)**	**18 393 421**

Notes to the Financial Statements (All amounts in euros)

b) Change in outstanding claims reserve and distribution by type of insurance for the year 2016:

	Gross amount	Reinsurers' share	Net amount
Personal accident	27 961	-	27 961
Health	94 374	-	94 374
Motor own damage	465 004	(72 451)	392 553
Marine	12 918	-	12 918
Cargo	578 025	-	578 025
Property	(2 459 884)	2 402 129	(57 755)
Credit insurance	2 884	-	2 884
General TPL	226 134	-	226 134
Guarantees	242 088	8 430	250 518
Financial risks	964	-	964
Travel accident	18 294	-	18 294
Obligatory Motor TPL	(357 607)	(87 329)	(444 936)
	(1 148 845)	**2 250 779**	**1 101 934**

c) Change in outstanding claims reserve and distribution by type of insurance for the year 2015:

	Gross amount	Reinsurers' share	Net amount
Personal accident	6 628	-	6 628
Health	280 545	-	280 545
Motor own damage	145 140	(27 916)	117 224
Marine	707	-	707
Cargo	(209 746)	-	(209 746)
Property	(1 212 441)	1 008 835	(203 606)
Credit insurance	(1 569)	-	(1 569)
General TPL	511 327	-	511 327
Guarantees	179 436	(6 142)	173 294
Financial risks	16 308	-	16 308
Travel accident	(43 036)	-	(43 036)
Obligatory Motor TPL	(318 647)	1 327 770	1 009 123
	(645 348)	**2 302 547**	**(1 657 199)**

d) Gross outstanding claims reserve as at end of year:

	31.12.2016	31.12.2015
Personal accident	160 399	132 438
Health	969 192	874 818
Motor own damage	2 875 523	2 410 519
Marine	15 874	2 956
Cargo	840 026	262 001
Property	4 340 347	6 800 231
Credit insurance	5 784	2 900
General TPL	2 622 900	2 396 766
Guarantees	542 920	300 832
Financial risks	35 017	34 053
Travel accident	139 145	120 851
Obligatory Motor TPL	9 911 621	10 269 228
	22 458 748	**23 607 593**

Notes to the Financial Statements (All amounts in euros)

9. CLIENT ACQUISITION COSTS

	2016	2015
Commissions to brokers and other intermediaries	(6 666 745)	(5 410 376)
Commissions and other agent related expense	(4 982 184)	(4 762 399)
Compulsory state social security contributions related to agents' remuneration	(1 002 597)	(969 704)
Change in deferred client acquisition costs	259 265	1 499 004
Other acquisition expenses	(235)	(343)
	(12 392 496)	**(9 643 818)**

Sales costs included in the deferred acquisition costs (DAC) calculation amounting to EUR 4 012 432 (2015: EUR 4 404 299) are represented under Administrative expenses. Refer to Note 10.

Deferred client acquisition costs

As at 31 December 2014	**6 180 319**
Taken over from PZU Lietuva Latvian branch (see Note 37)	132 440
Deferred client acquisition costs	15 547 121
Amortisation of deferred acquisition cost	(14 048 117)
As at 31 December 2015	**7 811 763**
Deferred client acquisition costs	16 664 193
Amortisation of deferred acquisition cost	(16 404 928)
As at 31 December 2016	**8 071 028**

10. ADMINISTRATIVE EXPENSES

	2016	2015 (restated)
Wages and salaries:		
- salaries to staff	(4 711 699)	(5 253 199)
- state compulsory social insurance contributions	(1 031 479)	(1 063 268)
Depreciation and amortization costs	(1 291 127)	(1 285 108)
Advertisement and public relations	(1 119 101)	(1 076 237)
Information technology and communication expense	(785 885)	(2 206 999)
Premises utility, maintenance and repair expense	(513 205)	(553 463)
Payments to Motor Insurers Bureau (OMTPL mandatory deductions)	(414 153)	(332 105)
Rent of premises	(272 578)	(322 523)
Payments to Foundation of Insured Interests Protection	-	(215 403)
Payments to Financial and Capital Market Commission	(191 673)	(152 688)
Professional services	(140 393)	(138 008)
Office expenses	(105 786)	(127 575)
Transport	(62 583)	(65 539)
Administration expenses related to Loss adjustment expenses *	469 224	421 537
Other administrative costs	(803 832)	(809 473)
	(10 974 270)	**(13 180 051)**

* – reclassified to and included in Loss adjustment expenses.

In accordance with the requirements of the legislation of the Republic of Latvia payments to Finance and Capital Market Commission have to be made in amount of 0.20% from gross premiums collected in Obligatory Motor Third Party Liability (OMTPL) insurance and in amount of 0.283% from gross premiums collected in other types of insurance. Payments to Foundation of Insured Interests Protection amount to 1.000% of premiums collected from individuals in voluntary types of insurance. In 2016, in accordance with applicable legislation, no payments have been made as the total assets of Foundation of Insured Interests Protection exceeds EUR 11 million.

According to the law "On Obligatory Motor Third Party Liability Insurance" and related regulations of the Cabinet of Ministers of the Republic of Latvia, the Company has to make the following mandatory deductions from Obligatory Motor Third Party Liability insurance gross premiums:

Notes to the Financial Statements (All amounts in euros)

- OMTPL Guarantees Foundation fixed sum for certain type of vehicle; in 2015, no payments were made as the total assets of OMTPL Guarantees Fund exceeded EUR 20 million; payments were resumed starting from October 2016.
- State Traffic Security Foundation 2% from signed insurance premium during the accounting period.
- Motor Insurers` Bureau of Latvia - variable sum EUR 0.50 (2015: EUR 0.50) per contract and fixed sum EUR 28 080 per year (2015: EUR 28 080) or EUR 2 340 per month (2015: EUR 2 340).

In 2016, OMTPL mandatory deductions amounted to EUR 414 153 (2015: EUR 332 105).

At the end of year 2016, the Company employed 308 employees (2015: 280) and 278 agents (2015: 279).

Administrative expenses include client acquisition costs amounting to EUR 4 012 432 (2015: EUR 4 404 299) that were included in the calculation of deferred acquisition costs. Such administrative expenses include fixed and variable costs that are related with acquiring new clients and signing policies. Please refer to Note 9.

The remuneration paid to the commercial company of sworn auditors KPMG Baltics SIA for the audit of the financial statements is included in the administrative expenses, and for 2016 amounts to the following: audit of annual financial statements EUR 36 905 (2015: 38 115).

Distribution of administrative expense by type of insurance, based on management allocation, is as follows:

	2016	**2015 (restated)**
Personal accident	(349 899)	(333 928)
Health	(1 786 381)	(2 149 006)
Motor own damage	(3 114 551)	(3 848 787)
Marine	(3 572)	(4 123)
Cargo	(107 067)	(136 756)
Property	(2 625 461)	(3 332 997)
Credit insurance	(12 564)	(18 433)
General TPL	(452 219)	(588 075)
Guarantees	(84 450)	(83 104)
Financial risks	(28 360)	(34 870)
Travel accident	(451 489)	(326 074)
Obligatory Motor TPL	(1 958 257)	(2 323 898)
	(10 974 270)	**(13 180 051)**

11. OTHER TECHNICAL EXPENSES

	2016	**2015**
Changes in provisions for overdue debts, net	7 484	-
Other expenses	12 018	-
	19 502	**-**

12. INTEREST INCOME

	2016	**2015**
From financial investments at fair value through profit or loss:		
Government bonds	465 131	568 205
Corporate bonds	31 494	43 842
Investment funds	12 668	5 012
From financial investments held to maturity:		
Government bonds	554 997	337 263
Corporate bonds	85 321	13 688
From financial investments available for sale		
Government bonds	141 759	-
Corporate bonds	286	-
Investment funds	108	-
From loans and receivables:		
Term deposits with credit institutions	-	8 585
	1 291 764	**976 595**

Notes to the Financial Statements (All amounts in euros)

13. NET PROFIT / (LOSS) ON FINANCIAL ASSETS

	2016	2015
Government bonds	(646 407)	(349 664)
Corporate bonds	(62 122)	(25 612)
Investment funds	261 221	(44 272)
	(447 308)	**(419 548)**

	2016	2015
Realised gains / (losses):		
Government bonds	(56 193)	(79 131)
Corporate bonds	-	(11 767)
Investment funds	182 712	-
Unrealised gains / (losses):		
Government bonds	(590 214)	(270 534)
Corporate bonds	(62 122)	(13 844)
Investment funds	78 509	(44 272)
	(447 308)	**(419 548)**

14. FINANCE INCOME

	2016	2015
Gain from foreign currency fluctuations, net	-	4 907
Interest on cash and cash equivalents	210	57
	210	**4 964**

15. FINANCE EXPENSES

	2016	2015
Accrued interest and amortisation for subordinated loan	(129 303)	(79 225)
Losses from foreign currency fluctuations, net	(1 238)	-
	(130 541)	**(79 225)**

16. OTHER INCOME

	2016	2015
Income from rent	21 034	62 330
Other income	2 256	-
Income from recalculation of social security contributions and VAT	4 980	10 191
Recalculation of FCMC financing	-	24 304
	28 270	**96 825**

17. OTHER EXPENSES

	2016	2015
Released receivables from prior years	(2 690)	(25 823)
Expenses from recalculation of PIT	(979)	-
Other expenses	-	(1 024)
	(3 669)	**(26 847)**

18. CORPORATE INCOME TAX EXPENSES

	2016	2015
Corporate income tax for the reporting year	-	-
Change in deferred income tax balances (see Note 26)	(705 943)	(251 526)

Notes to the Financial Statements (All amounts in euros)

Total income tax expense	**(705 943)**	**(251 526)**

Corporate income tax is different from the theoretically calculated amount of tax to be paid if the Company's profit was taxed at the statutory rate:

	2016	2015 (restated)
Profit before tax	**4 730 961**	**1 419 842**
Theoretically calculated tax at a tax rate of 15%	709 644	212 976
Effect of non-deductible expenses and non-taxable income, net	(3 701)	33 029
Unrecognized temporary differences	-	5 521
Total tax	**705 943**	**251 526**

Effective corporate income tax rate in 2016 is 14.92 % (2015: 17.27%).

19. INTANGIBLE ASSETS

	Software	Advance payments for software	Total
As at 31 December 2014			
Historical cost	10 462 923	90 706	10 553 629
Accumulated amortization	(7 847 515)	-	(7 847 515)
Net book amount	**2 615 408**	**90 706**	**2 706 114**
In 2015			
Additions arising from internal development	36 992	380 630	417 622
Additions arising from external development	102 341	-	102 341
Reclassified	233 150	(233 150)	-
Written-off	-	(187 476)	(187 476)
Depreciation for intangible assets written off	-	-	-
Amortisation charge	(994 976)	-	(994 976)
Closing net book amount	**1 992 915**	**50 710**	**2 043 625**
As at 31 December 2015			
Historical cost	10 835 406	50 710	10 886 116
Accumulated amortization	(8 842 491)	-	(8 842 491)
Net book amount	**1 992 915**	**50 710**	**2 043 625**
In 2016			
Additions arising from internal development	161 593	555 854	717 447
Additions arising from external development	177 403	-	177 403
Reclassified	574 631	(574 631)	-
Written-off	(164 160)	-	(164 160)
Depreciation for intangible assets written off	164 138	-	164 138
Amortisation charge	(970 853)	-	(970 853)
Closing net book amount	**1 935 667**	**31 933**	**1 967 600**
As at 31 December 2016			
Historical cost	11 584 873	31 933	11 616 806
Accumulated amortization	(9 649 206)	-	(9 649 206)
Net book amount	**1 935 667**	**31 933**	**1 967 600**

Notes to the Financial Statements (All amounts in euros)

20. PROPERTY AND EQUIPMENT

	Land and Buildings (restated)	Leasehold improve-ments	Transport vehicles	Computers	Office equipment	Total (restated)
As at 31 December 2014						
Cost	5 991 592	191 282	62 094	1 301 133	825 486	8 371 587
Accumulated depreciation	(1 473 599)	(108 391)	(46 189)	(1 192 635)	(696 374)	(3 517 188)
Accumulated impairment	(1 997 825)	-	-	-	-	(1 997 825)
Net book amount	**2 520 168**	**82 891**	**15 905**	**108 498**	**129 112**	**2 856 574**
In 2015						
Additions	7 804	56 826	-	400 256	9 099	473 985
Taken over from PZU Lietuva Latvian branch (see Note 37)	-	-	-	7 119	-	7 119
Disposals	-	(67 513)	-	(47 717)	(146 768)	(261 998)
Depreciation charge	(142 613)	(25 908)	(6 446)	(80 292)	(41 164)	(296 423)
Depreciation on disposed assets	-	62 464	-	41 563	142 996	247 023
Closing net book amount	2 385 359	108 760	9 459	429 427	93 275	3 026 280
As at 31 December 2015						
Cost	5 999 396	180 595	62 094	1 660 791	687 817	8 590 693
Accumulated depreciation	(1 616 212)	(71 835)	(52 635)	(1 231 364)	(594 542)	(3 566 588)
Accumulated impairment	(1 997 825)	-	-	-	-	(1 997 825)
Net book amount	**2 385 359**	**108 760**	**9 459**	**429 427**	**93 275**	**3 026 280**
In 2016						
Additions	-	-	-	126 858	24 164	151 022
Disposals	-	-	-	(503 414)	(73 395)	(576 809)
Depreciation charge	(107 736)	(33 046)	(6 310)	(143 936)	(40 207)	(331 235)
Depreciation on disposed assets	-	-	-	503 414	72 654	576 068
Closing net book amount	2 277 623	75 714	3 149	412 349	76 491	2 845 326
As at 31 December 2016						
Cost	5 999 396	180 595	62 094	1 284 235	638 586	8 164 906
Accumulated depreciation	(1 723 948)	(104 881)	(58 945)	(871 886)	(562 095)	(3 321 755)
Accumulated impairment	(1 997 825)	-	-	-	-	(1 997 825)
Net book amount	**2 277 623**	**75 714**	**3 149**	**412 349**	**76 491**	**2 845 326**

All land and buildings, and other property and equipment are used in the operating activities of the Company.

In 2016, the Company has changed the accounting policy for land and buildings from revaluation method to cost method (carrying land and buildings at cost less accumulated depreciation and any accumulated impairment losses). The change in policy was applied retrospectively with values of land and buildings rolled-back to year 2008, when the Company previously used the cost model for land and buildings, which means that all of the fair value changes, both increases and decreases, which were recognized until year 2015, were reversed, the accumulated depreciation was recalculated.

Based on the Company management's judgement, impairment of land and buildings was recognized in previous years based on the impairment indications, including decrease of fair value, identified in the corresponding previous reporting periods. The accumulated impairment as at 31 December 2016 amounts to EUR 1 997 825 (2015: EUR 1 997 825).

As the cost model is more stable over a longer period of time, in the Company management's opinion, the change in the accounting policy will provide a more reliable financial information, as well as avoid volatility in the Company's financial performance from the fluctuations in the real estate market.

If the Company had continued to account for land and buildings using revaluation method, the net book amount of land and buildings as at 31 December 2016 would amount to EUR 2 277 637 (2015: EUR 2 385 359).

Notes to the Financial Statements *(All amounts in euros)*

Due to the change in the accounting policy the corresponding amounts in financial statements have been restated:

	2015 (as reported previously) EUR	Correction EUR	2015 (restated) EUR
Statement of Comprehensive Income for 2015			
Net written premiums	**64 388 021**	**332 105**	**64 720 126**
Reclassification of Payments to Motor Insurers Bureau (OMTPL mandatory deductions) compared to 2015 (see also Note 2.2.3 and Note 10)		332 105	
Administrative expenses	**(12 811 143)**	**(368 908)**	**(13 180 051)**
Correction of depreciation due to change in accounting policy		(36 803)	
Reclassification of Payments to Motor Insurers Bureau (OMTPL mandatory deductions) compared to 2015 (see also Note 2.2.3 and Note 10)		(332 105)	
Net effect on Statement of Comprehensive Income		**(36 803)**	
Statement of Financial position as at 31 December 2015			
Assets			
Property and equipment	3 026 280	-	3 026 280
Net effect on Assets		**-**	
Equity and reserves			
Retained earnings	5 578 928	-	5 578 928
Net effect on Equity and reserves		**-**	
Statement of Financial position as at 31 December 2014			
Assets			
Property and equipment	2 819 771	36 803	2 856 574
Net effect on Assets		**36 803**	
Equity and reserves			
Retained earnings	4 889 403	36 803	4 926 206
Net effect on Equity and reserves		**36 803**	

21. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2016 Fair value	Cost	31.12.2015 Fair value	Cost
Latvian government debt securities	10 534 919	9 673 208	14 010 393	12 965 175
Ireland government debt	1 551 588	1 618 500	1 602 005	1 618 500
Corporate bonds	853 914	866 882	875 469	866 882
Investment funds	2 035 346	2 000 000	6 955 728	7 000 000
	14 975 767		**23 443 595**	

The split between current and non-current financial investments at fair value through profit or loss is included in Note 40. Financial investments at fair value through profit or loss in total EUR 14.98 million are in Level 1 fair value hierarchy in accordance with IFRS 7 definitions.

Notes to the Financial Statements (All amounts in euros)

22. HELD TO MATURITY FINANCIAL INVESTMENTS

	31.12.2016 Amortized value	Cost	31.12.2016 Fair value	31.12.2015 Amortized value	Cost	31.12.2015 Fair value
Latvian government debt securities	4 089 370	4 165 003	4 006 855	4 167 179	4 165 003	3 982 379
Bulgarian government debt securities	633 140	633 014	655 662	636 395	633 014	621 414
Croatian government debt securities	399 833	396 082	402 911	402 607	396 082	374 456
Hungarian government debt securities	623 391	646 514	614 250	644 072	646 514	636 150
Lithuanian government debt securities	7 273 306	7 355 071	7 175 750	7 387 359	7 355 071	7 097 940
Polish government debt securities	3 291 468	3 302 628	3 292 036	3 351 091	3 302 628	3 310 558
Slovenian government debt securities	645 903	666 284	630 810	668 264	666 284	650 850
Romanian government debt securities	1 465 129	1 511 728	1 503 515	1 503 747	1 511 728	1 509 625
Corporate bonds	4 452 243	4 396 361	4 513 825	4 492 591	4 396 361	4 360 254
	22 873 783		**22 795 614**	**23 253 305**		**22 543 626**

The split between current and non-current held to maturity financial investments is included in Note 40. Held to maturity financial investments in total EUR 22.87 million are in Level 1 fair value hierarchy in accordance with IFRS 7 definitions.

23. AVAILABLE FOR SALE FINANCIAL INVESTMENTS

	31.12.2016 Fair value	Cost	31.12.2015 Fair value	Cost
Bulgaria government debt securities	2 444 079	2 351 370	-	-
Croatia government debt securities	2 029 807	2 004 155	-	-
Hungary government debt securities	1 620 240	1 577 216	-	-
Poland government debt securities	3 680 660	3 558 503	-	-
Romania government debt securities	1 103 568	1 117 000	-	-
Corporate bonds	1 044 774	1 045 403	-	-
Investment funds	2 812 586	2 805 954	-	-
	14 735 714		**-**	

The split between current and non-current financial investments at fair value through profit or loss is included in Note 40. Financial investments at fair value through profit or loss in total EUR 14.74 million are in Level 1 fair value hierarchy in accordance with IFRS 7 definitions.

The movement of revaluation reserve in respect of available for sale financial investments:

As at 31 December 2015	**-**
Net change in fair value	58 281
Deferred tax effect	(8 742)
As at 31 December 2016	**49 539**

24. RECEIVABLES FROM DIRECT INSURANCE OPERATIONS

	31.12.2016	31.12.2015

Gross receivables from direct insurance operations	13 633 744	11 556 040
Doubtful debt allowances for receivables from direct insurance operations	(66 098)	(58 614)
	13 567 646	**11 497 426**

The ageing of receivables from direct insurance operations at the reporting date was as follows:

	Gross 31.12.2016	Impairment 31.12.2016	Gross 31.12.2015	Impairment 31.12.2015
Not past due	13 317 993	-	11 334 659	-
Past due 0-30 days	241 612	-	150 472	-
Past due 31-60 days	8 041	-	12 295	-
More than 60 days	66 098	(66 098)	58 614	(58 614)
	13 633 744	**(66 098)**	**11 556 040**	**(58 614)**

The management believes that the amounts that are past due by more than 30 days are still collectible in full, based on historic payment behaviour and analysis of customer credit risk.
The movement in the allowance for impairment in respect of receivables from direct insurance operations during the year was as follows:

As at 31 December 2014	**69 075**
Additional allowances	16 716
Recovered debts	(27 177)
As at 31 December 2015	**58 614**
Additional allowances	8 363
Recovered debts	(879)
As at 31 December 2016	**66 098**

25. REINSURANCE RECEIVABLES

	31.12.2016	31.12.2015
Gross receivables from reinsurance operations	217 591	405 192
Doubtful debt allowances for receivables from reinsurance operations	-	-
	217 591	**405 192**

26. DEFERRED TAX ASSETS

	2016	2015
Deferred income tax asset as at the beginning of the reporting year	(990 793)	(1 242 319)
Deferred income tax changes recognised to the income statement (see Note 18)	705 943	251 526
Deferred income tax changes recognised to equity (see Note 23)	8 742	-
Deferred income tax asset as at the end of the reporting year	**(276 108)**	**(990 793)**

Deferred income tax is calculated from the following temporary differences between the carrying amounts of assets and liabilities and their values for the purpose of the calculations of corporate income tax:

	31.12.2016	31.12.2015
Temporary difference on depreciation of property and equipment	387 137	395 498
Temporary difference for accrued expenses	(351 183)	(313 007)
Tax loss carry-forwards	(295 128)	(1 044 019)
Temporary difference for impairment for overdue debtors	(25 676)	(29 265)
Temporary difference for revaluation reserve of available for sale financial investments	8 742	-
Deferred income tax asset as at the end of the reporting year	**(276 108)**	**(990 793)**

Notes to the Financial Statements *(All amounts in euros)*

Under the current legislation, tax losses in the amount of EUR 1 967 523 have an unlimited carry forward period. Temporary differences do not expire under current tax legislation.

Notes to the Financial Statements (All amounts in euros)

Movement in deferred tax balances

	Net balance 1 January 2016	Recognized in profit or loss	Recognized in OCI	Net balance 31 December 2016	31 December 2016 Deferred tax asset	31 December 2016 Deferred tax liability
Property and equipment	395 498	(8 361)	-	387 137	-	387 137
Trade and other receivables	(29 265)	3 589	-	(25 676)	(25 676)	-
Accrued expenses	(313 007)	(38 176)	-	(351 183)	(351 183)	-
Tax loss carry-forwards	(1 044 019)	748 891	-	(295 128)	(295 128)	-
Available for sale financial investments	-	-	8 742	8 742	-	8 742
Deferred tax (assets) / liabilities before set-off		**705 943**	**8 742**		**(671 987)**	**395 879**
Set off of tax					395 879	(395 879)
Net deferred tax (assets) / liabilities					**(276 108)**	**-**

	Net balance 1 January 2015	Recognized in profit or loss	Recognized in OCI	Net balance 31 December 2015	31 December 2015 Deferred tax asset	31 December 2015 Deferred tax liability
Property and equipment	424 116	(28 618)	-	395 498	-	395 498
Trade and other receivables	(36 586)	7 321	-	(29 265)	(29 265)	-
Accrued expenses	(232 485)	(80 522)	-	(313 007)	(313 007)	-
Tax loss carry-forwards	(1 397 364)	353 345	-	(1 044 019)	(1 044 019)	-
Available for sale financial investments	-	-	-	-	-	-
Deferred tax (assets) / liabilities before set-off		**251 526**	**-**		**(1 386 291)**	**395 498**
Set off of tax					395 498	(395 498)
Net deferred tax (assets) / liabilities					**(990 793)**	**-**

27. OTHER ACCRUED INCOME AND DEFERRED EXPENSES

	31.12.2016	31.12.2015
Prepayments for software maintenance	281 960	199 836
Prepayments for rent	30 575	29 358
Insurance payments	3 585	2 079
Other deferred expenses	108 402	73 415
	424 522	**304 688**

28. OTHER RECEIVABLES

	31.12.2016	31.12.2015
Financial other receivables		
Receivables for salvage transactions	732 661	785 426
Impairment of overdue salvage settlements	(135 764)	(166 771)
Receivables from other insurance companies	195 072	130 304
Receivables from related parties	12 124	14 806
Receivables for claims regulation	12 114	12 114
Receivables from agents	7 344	4 490
Receivables from the Motor Insurers' Bureau of Latvia	5 585	5 725
Receivables from suitable scrap buyers	5 122	11 122
Other receivables	207 624	256 698
Impairment of other overdue receivables	(140 818)	(167 351)
Total Financial other receivables	**901 064**	**886 563**

Notes to the Financial Statements (All amounts in euros)

Other receivables are due within 12 months from the Statement of Financial Position date and carry no interest.

The movement in the allowance for impairment in respect of other receivables during the year was as follows:

As at 31 December 2014	**377 117**
Additional allowances	-
Recovered debts	(42 995)
As at 31 December 2015	**334 122**
Additional allowances	-
Recovered debts	(57 540)
As at 31 December 2016	**276 582**

29. CASH AND CASH EQUIVALENTS

	31.12.2016	**31.12.2015**
Cash in current accounts	8 688 012	6 001 972
	8 688 012	**6 001 972**

30. SHARE CAPITAL AND RESERVES

a) Issued and fully paid share capital

The total authorised number of ordinary shares is 4 728 064 (31.12.2015: 4 728 064). The nominal value of one share as at 31.12.2016 is EUR 1.4 (31.12.2015: EUR 1.4). All issued shares are fully paid. The share capital of the Company as at
31 December 2016 is EUR 6 619 290 (31.12.2015: EUR 6 619 290).

In accordance with the Latvian legislation, on 8 July 2015, the share capital of the Company was re-registered at the official currency exchange rate of LVL 0,702804 to EUR 1, due to which changes in the total authorised number and nominal value of ordinary shares were registered. The difference of EUR 5 that resulted from the change in denomination is recognized in the Company's Reserve capital and other reserves.

The Company’s shares are not listed.

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 to participate in Company’s residual assets.

b) The largest shareholder

As at 31.12.2016, the largest shareholder of the Company with 4 727 821 or 99.99% shares (31.12.2015: 4 727 821 shares or 99.99%) is POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A., a joint-stock company.

c) Share premium

During the increase of share capital in the previous years, according to the share issue rules a share premium was set in addition to the nominal value of the shares.

d) Reserve capital and other reserves

The reserves have been created by transferring profit from retained earnings to these reserves during the previous years in accordance with the applicable past Latvian legislation requirements and shareholders’ decisions.

These reserves are available to shareholders, and there are no restrictions on those reserves.

31. TAX AND SOCIAL INSURANCE

	31.12.2016	**31.12.2015**
Compulsory state social security contributions and solidarity tax	298 207	265 954
Personal income tax	151 946	165 400
Value added tax	30 776	33 374
Business risk state duty	213	205
Liabilities	**481 142**	**464 933**

Notes to the Financial Statements (All amounts in euros)

During the reporting year, the following tax payments were made:

	2016	2015
Compulsory state social security contributions and solidarity tax	3 457 866	3 232 850
Personal income tax	1 986 185	1 951 852
Value added tax	324 643	259 592
Property tax	32 296	29 421
Business risk state duty	2 499	2 418
Tax withheld from payments to non-residents	111	-
	5 803 600	**5 476 133**

32. ACCRUED EXPENSES AND DEFERRED INCOME

	31.12.2016	31.12.2015
Financial accrued expenses		
Accruals for personnel bonuses	1 066 095	1 019 018
Accrued expenses on unused annual vacations	545 617	516 580
Accruals for IT services	-	41 019
Accruals for intermediary commissions	115 054	85 908
Accruals for consulting services	53 305	67 355
Accruals for rent and utilities services	23 966	24 266
Accruals for audit expenses	18 150	18 150
Accruals for transport expenses	11 772	9 100
Accruals for other expenses	507 263	305 316
Total financial accrued expenses	**2 341 222**	**2 086 712**
Non-financial accrued expenses and deferred income		
Next period written premiums for long-term policies, net of commissions	293 655	-
Unearned reinsurance commission	171 453	135 976
Other deferred income	954	18 832
Total non-financial accrued expenses and deferred income	**466 062**	**154 808**
	2 807 284	**2 241 520**

	Accruals for personnel bonuses	Accrued expenses on unused annual vacations	Other accrued expenses	Total
As at 31 December 2015	**1 019 018**	**516 580**	**705 922**	**2 241 520**
Additions	1 018 353	950 883	1 350 380	3 319 616
Used	(695 283)	(921 846)	(843 295)	(2 460 424)
Reversed	(275 993)	-	(17 435)	(293 428)
As at 31 December 2016	**1 066 095**	**545 617**	**1 195 572**	**2 807 284**
Long-term part	**-**	**-**	**102 211**	**102 211**
Short-term part	**1 066 095**	**545 617**	**1 093 361**	**2 705 073**

	Accruals for personnel bonuses	Accrued expenses on unused annual vacations	Other accrued expenses	Total
As at 31 December 2014	**687 142**	**430 854**	**847 801**	**1 965 797**
Additions	1 019 018	888 191	705 922	2 613 131
Used	(546 779)	(802 465)	(737 480)	(2 086 724)
Reversed	(140 363)	-	(110 321)	(250 684)
As at 31 December 2015	**1 019 018**	**516 580**	**705 922**	**2 241 520**
Long-term part	**-**	**-**	**-**	**-**
Short-term part	**1 019 018**	**516 580**	**705 922**	**2 241 520**

Notes to the Financial Statements (All amounts in euros)

33. OTHER CREDITORS

	31.12.2016	31.12.2015
Financial other creditors		
Commission payables	454 147	480 184
Due to personnel	177 816	159 459
Payables to Group entities	79 456	-
Other liabilities	123 225	104 731
Total financial other creditors	**834 644**	**744 374**
Non-financial other creditors		
Due to the Motor Insurers' Bureau of Latvia	80 194	61 805
Due to the Financial and Capital Market Commission	51 272	98 089
Total non-financial other creditors	**131 466**	**159 894**
	966 110	**904 268**

34. DIVIDENDS PER SHARE

No dividend distribution is planned to be proposed at the Annual Shareholders' Meeting. Dividends were not distributed to the shareholders of AAS BALTA in 2016 and 2015.

35. MANDATORY PAYMENTS

Types of mandatory payments made during the reporting year:

	2016	2015
Motor Insurers' Bureau of Latvia	395 766	319 454
Financial and Capital Market Commission	238 490	335 976
	634 256	**655 430**

36. RESULT OF CEDED REINSURANCE

	2016	2015
Reinsurers' share in written premiums (see Note 4)	(2 432 335)	(2 452 435)
Reinsurers' share in changes in unearned premiums (see Note 5)	(164 411)	(218 123)
Reinsurers' share in claims (see Note 7)	3 203 801	2 589 912
Reinsurers' share in changes in provisions for claims (see Note 8)	2 250 779	2 302 547
Reinsurance commission income (see Note 6)	209 272	128 308
Net result of ceded reinsurance activities:	**3 067 106**	**2 350 209**

37. TRANSACTIONS AND PAYMENTS TO RELATED PARTIES

Related parties represent both legal entities and private individuals related to the Company in accordance with the following rules:

a) A person or a close member of that person's family is related to a Company if that person:
   i) has control or joint control over the Company;
   ii) has significant influence over the Company; or
   iii) is a member of the key management personnel of the Company or of a parent of the Company.

b) An entity is related to a Company if any of the following conditions applies:
   i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   iii) Both entities are joint ventures of the same third party.
   iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
   v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.
   vi) The entity is controlled, or jointly controlled by a person identified in (a).

Notes to the Financial Statements (All amounts in euros)

vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

The parent company of the Company is POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (Poland).

Lietuvos Draudimas AB is a subsidiary of POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A.

PZU Lietuva UAB DK (Lithuania), including its Latvian branch, was a subsidiary of POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. until 30.09.2015.

During the reporting year, the following transactions were carried out with related parties:

a) Transactions with related parties

Reinsurance and fronting insurance

	2016	2015
POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU):		
Reinsurance Premiums ceded	(1 549 250)	(1 661 777)
Change of reinsurance unearned premium reserve	94 324	256 189
Reinsurance claims	2 834 683	1 035 600
Change of reinsurance claim reserve	(2 417 101)	(1 029 559)
Reinsurance Commissions	76 778	-
	(960 566)	**(1 399 547)**

	2016	2015
Lietuvos Draudimas AB:		
Fronting insurance premiums	(263 705)	(292 269)
Commissions from insurance policies fronting	13 723	17 192
Fronting insurance claims	78 152	23 599
Change of fronting insurance unearned premium reserve	(23 491)	83 399
Change of fronting insurance deferred client acquisition costs	(3 469)	17 192
Change of fronting insurance claim reserve	23 629	20 223
	(175 161)	**(130 664)**

Other transactions

	2016	2015
Lietuvos Draudimas AB:		
Investment portfolio management services	(79 456)	-
	(79 456)	**-**

	2016	2015
POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU):		
Accrued interest and amortisation for subordinated loan	(129 303)	(79 224)
	(129 303)	**(79 224)**

	2016	01.01.2015 – 30.09.2015
PZU Lietuva UAB DK, including its Latvian branch:		
Consideration paid for assets and liabilities taken over	-	(289 000)
	-	**(289 000)**

Notes to the Financial Statements (All amounts in euros)

Balances with related parties

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

	31.12.2016	31.12.2015
Fronting insurance reinsurer's share in claims reserves with Lietuvos Draudimas	43 852	20 223
Fronting insurance receivables from Lietuvos Draudimas	72 401	41 204
Fronting insurance payables to Lietuvos Draudimas	(96 154)	(114 796)
Fronting insurance reinsurer's share in unearned premium reserves with Lietuvos Draudimas	59 848	83 399
Receivables from Lietuvos Draudimas	21 505	9 144
Payables to Lietuvos Draudimas	(79 456)	-
Subordinated loan from PZU	(4 173 022)	(4 179 224)
Receivables from PZU	82 039	25 111
Reinsurer's share in claims reserves with PZU	53 350	2 470 441
Reinsurer's share in unearned premium reserves with PZU	350 527	256 189
Reinsurance payables to PZU	(210 742)	(428 870)
Reinsurance receivables from PZU	16 843	264 322
	(3 859 009)	**(1 552 857)**

The subordinated loan from PZU has been received on 21 May 2015 for an indefinite period with the principal amount of EUR 4 100 000 and a variable interest rate of 3 months EURIBOR + a margin determined on an arm's length basis. The loan is subordinated to all other Company's liabilities. The loan is repayable by the Company no earlier than five years after receiving a repayment notice from the lender, however, the Company also has the right to repay the whole or any part of the loan at any time, subject to providing prior notice and obtaining necessary approvals.

b) Management remuneration

In 2016, the Company paid remuneration, including compulsory state social security contributions, to the Board of Directors in the amount of EUR 902 thousand (2015: EUR 810 thousand) and to the Council in the amount of EUR 56 thousand (2015: EUR 0)

c) Business transfer of PZU Lietuva Latvian branch

In 2015, the Company and PZU Lietuva completed the business transfer of PZU Lietuva Latvian branch from PZU Lietuva to the Company acquiring its insurance portfolio, assets and liabilities. The Company applied the common control scope rule under IFRS 3 and accounted for the assets acquired and liabilities assumed using their book values.

The difference between the consideration paid and the net assets taken over in the amount of EUR 515 594 was recognized in retained earnings.

The following assets and liabilities were taken over as of 31.05.2015:

	31.05.2015
Unearned premium reserve, gross (see Note 5)	(956 587)
Unearned premium reserve, reinsurers' share (see Note 5)	49 047
Claims reserves, gross (see Note 8)	(1 809 483)
Claims reserves, reinsurers' share (see Note 8)	25 556
Deferred client acquisition costs, gross (see Note 9)	132 440
Property and equipment (see Note 20)	7 119
Other receivables	195 686
Other payables	(426 539)
Net assets acquired and liabilities assumed	**(2 799 277)**
Consideration paid	(289 000)
Cash acquired	2 572 683
Difference recognized in retained earnings	**(515 594)**

38. CONTINGENT LIABILITIES AND COMMITMENTS

a) General claims

In the normal course of business, the Company constantly receives requests for claim payments. Such claims have been reviewed by the Company's management who is of the opinion that no material unprovided losses will be incurred.

b) Litigation

The Company, like other insurers, is subject to litigation in the normal course of its business. As at 31 December 2016 there were 32 (31.12.2015: 35) pending cases of litigation versus the Company for a total of EUR 2 519 thousand (31.12.2015: EUR 2 873 thousand). The management is of the opinion that no material unrecognized losses will be incurred.

c) Capital commitments

The Company does not have any capital commitments as at 31 December 2016.

The Company does not have any non-cancellable operating leases as at 31 December 2016, other than the rent of premises that usually can be terminated at one to six months' notice. Total minimal commitment for rent payments as at 31 December 2016 amounts to EUR 42 thousand (31.12.2015: EUR 40 thousand).

d) Tax contingencies

The local tax authorities have the power to examine the tax position of the Company for the previous 3 years (5 years for transfer pricing). The Company's management believes that the outcome of tax authority's examination would not result in a material impact on the Company's results and operations or its financial position.

39. INSURANCE RISK MANAGEMENT

The Company issues contracts that transfer insurance risk. This section summarises these risks and the way the Company manages them.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims is greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The frequency and severity of claims can be affected by several factors. The most significant are the increasing level of awards for the damage suffered, and the increase in the number of claim cases. Estimated inflation is also a significant factor due to increased increment rate of inflation.

The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

<u>Types of insurance contracts</u>

Motor third party liability insurance

It is a compulsory insurance type, whose policy conditions and indemnification rules are prescribed by the Motor Third Party Liability Insurance Act and other related legislation. Insurance premiums for motor third party liability are determined individually for each customer based on both customer as well as vehicle based risk criteria. In Latvia, a unified criterion for evaluating the road traffic accident history of a particular vehicle owner – the bonus malus system – is also available.

Most of motor third party liability insurance indemnities are made up of indemnities for property damage and lump sum personal injuries mostly medical treatment costs and temporary incapacity for work benefits. However, long-term indemnities may also be possible, such as pensions and permanent incapacity for work benefits which may be paid out over decades.

Accident insurance

The accident insurance is a money compensation for the death, permanent incapacity for work or trauma arising from an accident. Also refund of costs for medical treatment as well as medical expenses, caused by injury. In addition it is possible to get daily allowances for time spend in hospital and having medical treatment. The insurance amounts are set out on the insurance policy and generally they are not more than 36 thousands euros for death or permanent incapacity for work and 9 euros per day for daily allowances. Typical losses are generally small and they are indemnified as lump sums.

Death events rarely occur on the basis of accident insurance contracts.

Travel insurance

The travel insurance indemnifies for the medical treatment costs incurred during a trip if such costs are caused by an illness or an accident started during the trip. It is also possible to insure a baggage, to purchase insurance against trip cancellations, travel interruptions and delays as well as General Third Party Liability (GTPL) or personal accident coverage. The indemnity limit for the medical treatment and repatriation costs of passenger is limited to 142 thousand euros. A larger risk is related to potential natural disasters in holiday areas or transport crashes, where the number of injured is large. The reinsurance program covers indemnities for losses exceeding 100 thousands euros per occurrence.

Typical losses are generally small and they are indemnified as lump sums. The amount of an indemnity depends on the location of the loss occurrence and the number of claims depends on the season.

Casco insurance

The insurance indemnifies for losses which arise from damage to the vehicle, destruction, theft or robbery of it. Several additional insurance covers may also be purchased which are related to insured vehicle. Insurance premiums are determined individually for each customer based on both customer as well as vehicle based risk criteria. Product package can contain several additional insurance covers – road assistance and replacement car, for instance. Value of insured vehicles commonly does not exceed 71 thousands euros. More than two thirds of losses by amount accumulate from the damage to vehicles sustained in road traffic accidents.

Property insurance, business interruption insurance and building risks insurance

Property insurance covers losses arisen because of fire, weather, leakage of liquid or steam, explosion, malicious acts by third parties (robbery, burglary) or collision. There is a possibility for individuals (private persons) to insure their contents (property) and civil third party liability additionally to private property insurance.

Business interruption insurance covers lost business profits and fixed costs incurred, which arise from the realisation of any risk covered by property insurance of a company.

The largest losses arise from fire risks, which in turn give rise to indemnification for business interruptions. The loss is particularly large if the property (buildings and structures with movables in them) insured to a full extent is destroyed and this leads to a business interruption indemnity until the production object is again put in operation.

The most frequently realised risks for private property include leakage of liquid or steam, fire and weather losses (storm, snowing and flood). The largest losses usually are because of fire.

General liability insurance

This insurance provides coverage for bodily injury and property damage caused to a third party by an insured person, due to its activity or inactivity. In respect of property damages only direct loses are covered, but in respect of bodily injuries direct as well as consequential loses are covered, such as unearned income because of temporary or permanent inability and allowances for dependents. Upon the assessment/ selection of liability insurance risks, it is particularly important to take into account the specifics of customer’s commercial activity and customer’s turnover.

Health

The health insurance product is offered to companies who purchase health insurance for their employees. The risk covers health insurance indemnities like expenses for doctor visits, hospital expenses, medicaments.

Due to the type of a mass product and large number of small indemnifies along with proper management the risk from this product is small.

Concentration by industry

The concentration of insurance risks by industry do not exceed 20% for an industry, therefore we do consider the risk concentration is at the acceptable level.

Reinsurance contract assets

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets.

These assets consist of short-term balances due from reinsurers as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Company assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement.

Sensitivity to insurance risk

Based on the fact that the Company provides non-life insurance, only the accounting estimates and assumptions for provision for incurred but not reported claims, as disclosed in Note 3, are assessed by the Company to have a material effect on the timing and uncertainty of the insurer’s future cash flows.

The Company performs sensitivity testing of IBNR claim’s provisions by detailed analysis of the results calculated by using several statistical methods to ensure that the currently used method gives the best estimate of provisions for IBNR recognized.

Sensitivity analysis for claims provisions at 31.12.2016:

	Impact if loss ratio 5 percent points higher than used in IBNR estimates	Impact if loss ratio 5 percent points lower than used in IBNR estimates	Impact if claims handling expenses 5% higher than used in reserve estimates	Impact if claims handling expenses 5% lower than used in reserve estimates
Obligatory Motor TPL	722 640	(641 451)	19 080	(19 080)
Property	95 378	(77 390)	6 165	(6 165)
Motor own damage	18 268	(18 268)	8 080	(8 080)
General TPL	59 657	(41 432)	3 723	(3 723)
Health	65 350	(65 350)	1 738	(1 738)

Concentration by territory

All insurance contracts have been issued in Latvia. The insured risk territorial coverage is mainly Latvia except travel policies and OMTPL policies in cases of abroad insurance accidents.

Geographical concentration of financial assets, financial liabilities and claims reserves as at the reporting date (all amounts in thousands of EUR):

Year 2016	**Latvia**	**Other OECD countries**	**Other countries**	**Total**
Financial assets and reinsurers' share of claims reserves				
Financial investments at fair value through profit or loss	10 843	4 133	-	14 976
Held to maturity financial investments	5 099	8 004	9 771	22 874
Available for sale financial investments	-	9 159	5 577	14 736
Insurance and reinsurance debtors	13 567	146	72	13 785
Reinsurers' share of outstanding claims reserves	-	2 919	44	2 963
Cash and cash equivalents	8 688	-	-	8 688
Other debtors	879	-	22	901
Total financial assets and reinsurers' share of claims reserves	**39 076**	**24 361**	**15 486**	**78 923**
Financial liabilities and claims reserves				
Outstanding claims reserves	(22 459)	-	-	(22 459)
Financial liabilities	(6 245)	(4 900)	(224)	(11 369)
Total financial liabilities and claims reserves	**(28 704)**	**(4 900)**	**(224)**	**(33 828)**
Net position as at 31 December 2016	**10 372**	**19 461**	**15 262**	**45 095**

Year 2015	**Latvia**	**OECD countries**	**Other countries**	**Total**
Financial assets and reinsurers' share of claims reserves				
Financial investments at fair value through profit or loss	14 323	9 121	-	23 444
Held to maturity financial investments	5 176	8 147	9 930	23 253
Insurance and reinsurance debtors	11 498	390	15	11 903
Reinsurers' share of outstanding claims reserves	-	5 214	-	5 214
Cash and cash equivalents	6 002	-	-	6 002
Other debtors	887	-	-	887
Total financial assets and reinsurers' share of claims reserves	**37 886**	**22 872**	**9 945**	**70 703**
Financial liabilities and claims reserves			-	
Outstanding claims reserves	(23 608)	-		(23 608)
Financial liabilities	(5 412)	(5 102)	-	(10 514)
Total financial liabilities and claims reserves	**(29 020)**	**(5 102)**	**-**	**(34 122)**

Notes to the Financial Statements (All amounts in euros)

Net position as at 31 December 2015	**8 866**	**17 770**	**9 945**	**36 581**

Reinsurance coverage

The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Company for each insurance risk has following own retention:

Maximum own retention:

	2016	**2015**
Personal accident & Travel medical expense	93 864	100 000
Motor own damage	no limit	no limit
Cargo insurance	350 000	200 000
Hull, CMR Property	350 000	200 000
Property insurance	703 977	702 049
General TPL insurance	351 989	351 025
Bonds and guarantees	469 318	500 000

Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs (DAC) assets. In performing these tests, current best estimates of future contractual cash flows are used. Any deficiency is immediately charged to income statement initially by writing off DAC assets and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

Liability adequacy tests as at 31.12.2016 and 31.12.2015 did not identify any impairment of DAC assets.

40. FINANCIAL RISK MANAGEMENT

Risk management framework:

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board monitors the Company's risk management policies which are established to identify and analyse and manage the risks faced by the Company. Policies aim to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products offered and emerging best practice.

The operations of the Company and investment management activities in particular expose it to a variety of financial risks, including credit risk, liquidity risks and market risks, which include interest rate risks, currency risks, as well as fair value risks. The Company's management seeks to minimise potential adverse effects of financial risks on the financial performance of the Company by placing limits on the level of exposure that can be taken.

40.1 Credit risk

The Company takes on exposure to credit risk which is the risk that 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 on a revolving basis and subject to an annual or more frequent review. Actual exposures against limits are monitored regularly.

Exposure to credit risk is managed through 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.

Notes to the Financial Statements (All amounts in euros)

a) Maximum credit exposure

	31.12.2016	31.12.2015
Latvian government debt securities	14 624 288	18 177 572
Lithuanian government debt securities	7 273 306	7 387 358
Polish government debt securities	6 972 127	3 351 091
Irish government debt securities	1 551 588	1 602 005
Romanian government debt securities	2 568 697	1 503 747
Slovenian government debt securities	645 903	668 264
Hungarian government debt securities	2 243 631	644 072
Bulgarian government debt securities	3 077 220	636 395
Croatian government debt securities	2 429 640	402 607
Corporate bonds	6 350 931	5 368 061
Investment funds	4 847 933	6 955 728
Cash and cash equivalents	8 688 012	6 001 972
	61 273 276	**52 698 872**
Reinsurers' share in unearned premium reserves	815 846	651 435
Outstanding claims reserve, reinsurers' share	2 963 393	5 214 172
Reinsurance debtors	217 591	405 192
Receivables due from policyholders	12 918 375	10 938 920
Receivables due from intermediaries	649 271	558 506
Other receivables	901 064	886 563
	18 465 540	**18 654 788**
Maximum credit exposure, total	**79 738 816**	**71 353 660**

b) Reinsurance risk breakdown by key counterparties

Reinsurer	**31.12.2016** Assets related to reinsurance	**S&P Rating**	**31.12.2015** Assets related to reinsurance	**S&P Rating**
Swiss Re Group	867 438	**AA-**	818 974	**AA-**
Munich Re Group	572 934	**AA-**	517 375	**AA-**
ALD Re	543 761	**NR**	321 968	**NR**
PZU	420 720	**A-**	2 990 966	**A-**
Hannover Re	341 898	**AA-**	321 354	**AA-**
GeneralCologne Re	294 464	**AA+**	314 946	**AA+**
SCOR Global P&C	189 019	**AA-**	184 971	**AA-**
Lietuvas Draudimas	176 101	**NR**	144 766	**NR**
Caisse Centrale de Reassurances	150 046	**AA**	109 687	**AA**
Odyssey America Reinsurance Corporation	86 744	**A-**	81 897	**A-**
Liberty Syndicate, Cologne	79 128	**A**	97 263	**A**
ACE Tempest Re Europe	79 128	**AA**	69 474	**AA**
R + V	75 758	**AA-**	77 176	**AA-**
RSA	55 171	**A**	111 059	**A**
Sirius International Insurance Corporation	29 499	**A-**	29 499	**A-**
Atradius Reinsurance Limited	18 569	**NR**	64 168	**NR**
Novae Re	4 745	**A+**	690	**A+**
Transatlantic Reinsurance Company	3 507	**A+**	510	**A+**
Catlin Insurance Company	3 095	**A+**	450	**A+**
Nationale Borg Reinsurance N.V.	2 615	**A-**	6 772	**A-**
Polish Reinsurance Company	2 490	**NR**	6 834	**NR**
Reinsurance risk	**3 996 830**		**6 270 799**	

c) Investment breakdown by ratings as at the reporting date (all amounts in thousands of EUR):

Year 2016	**Rated AAA**	**AA**	**A**	**BB**	**BBB**	**Total**
Government bonds	-	-	24 095	7 750	9 541	41 386
Corporate bonds	-	-	546	1 881	3 924	6 351
Investment funds	-	-	1 015	-	3 833	4 848
Total investment assets	**-**	**-**	**25 656**	**9 631**	**17 298**	**52 585**

Year 2015	**Rated AAA**	**AA**	**A**	**BB**	**BBB**	**Total**
Government bonds	-	-	31 186	1 683	1 503	34 372
Corporate bonds	-	-	564	2 198	2 606	5 368
Investment funds	-	3 024	979	-	2 954	6 957
Total investment assets	**-**	**3 024**	**32 729**	**3 881**	**7 063**	**46 697**

40.2 Liquidity risk

The Company is exposed to regular calls on its available cash resources from claims settlements. The Board sets the minimum level of cash resources, which must be available to meet such claims.

There has been the following distinction of financial assets, financial liabilities and claims reserves by their remaining maturities as at the reporting date (all amounts in thousands of EUR):

Year 2016	**Non-fixed term**	**up to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial assets and reinsurers' share of claims reserves					
Financial investments at fair value through profit or loss	2 035	2 238	6 225	4 478	14 976
Held to maturity financial investments	-	623	6 056	16 195	22 874
Available for sale financial investments	2 813	-	3 449	8 474	14 736
Insurance and reinsurance debtors	-	13 785	-	-	13 785
Reinsurers' share of outstanding claims reserves	-	1 624	975	364	2 963
Cash and cash equivalents	8 688	-	-	-	8 688
Other debtors	-	882	19	-	901
Total financial assets and reinsurers' share of claims reserves	**13 536**	**19 152**	**16 724**	**29 511**	**78 923**
Financial liabilities and claims reserves					
Outstanding claims reserves	-	(13 707)	(6 251)	(2 501)	(22 459)
Financial liabilities	-	(6 922)	(4 447)	-	(11 369)
Total financial liabilities and claims reserves	**-**	**(20 629)**	**(10 698)**	**(2 501)**	**(33 828)**
Net position as at 31 December 2016	**13 536**	**(1 477)**	**6 026**	**27 010**	**45 095**

Notes to the Financial Statements (All amounts in euros)

Year 2015	Non-fixed term	up to 12 months	1 to 5 years	Over 5 years	Total
Financial assets and reinsurers' share of claims reserves					
Financial investments at fair value through profit or loss	6 956	3 367	8 147	4 974	23 444
Held to maturity financial investments	-	-	4 942	18 311	23 253
Insurance and reinsurance debtors	-	11 903	-	-	11 903
Reinsurers' share of outstanding claims reserves	-	5 092	122	-	5 214
Cash and cash equivalents	6 002	-	-	-	6 002
Other debtors	-	887	-	-	887
Total financial assets and reinsurers' share of claims reserves	**12 958**	**21 249**	**13 211**	**23 285**	**70 703**
Financial liabilities and claims reserves					
Outstanding claims reserves	-	(21 064)	(1 592)	(952)	(23 608)
Financial liabilities	-	(6 335)	(4 179)	-	(10 514)
Total financial liabilities and claims reserves	**-**	**(27 399)**	**(5 771)**	**(952)**	**(34 122)**
Net position as at 31 December 2015	**12 958**	**(6 150)**	**7 440**	**22 333**	**36 581**

40.3 Market risk

The Company takes on exposure to market risks, which include interest rate risks, currency risks, as well as fair value risks. Market risks arise from open positions in interest rate, share price and currency instruments, all of which are exposed to general and specific market movements. The management sets limits on the value of risk that may be accepted, which is monitored regularly.

a) Exposure to interest rate risk

The Company's exposure to interest rate risk is limited as significant part of liabilities are not bearing interest and dominant part of interest bearing financial instruments have fixed interest rates. Maturity dates are materially equal to reassessment dates on all interest bearing assets and liabilities. Weighted average effective interest rates, as applicable, for the interest bearing financial instruments, excluding insurance contracts, were as follows:

	2016	2015
Latvian government debt securities	0.33%	0.51%
Irish government debt securities	(0.06%)	0.01%
Bulgarian government debt securities	0.27%	0.06%
Croatian government debt securities	0.46%	0.05%
Hungarian government debt securities	0.03%	0.02%
Lithuanian government debt securities	0.24%	0.24%
Polish government debt securities	0.53%	0.18%
Slovenian government debt securities	0.01%	0.01%
Romanian government debt securities	0.17%	0.09%
Corporate bonds	0.63%	0.43%
Investment funds	1.89%	1.55%

Risk measurement is regularly analysed by applying back tests and comparing revaluation profit / (loss) from positions with the respective potential risk.

Change in investment value and effect on net result due to market interest rate changes has been as follows:

		2016 EUR	2015 EUR
Market interest rate and impact on fair value	+0.5 percent point	(1 106 462)	(980 037)
	-0.5 percent point	1 022 831	944 562

b) Fair value risk

Financial assets and financial liabilities other than those reflected at their fair value (see Note 21 and Note 23) and those classified as held to maturity (see Note 22), are receivables, cash and cash equivalents, payables and subordinated loan.

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

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

The subordinated loan carries interest in line with market circumstances and terms and conditions of the loan, including the increased risk due to subordination (see Note 37). Taking into account the above, and as there are no material transactions costs related to this loan, its fair value is deemed not to materially differ from its carrying amount.

c) Currency risk

The Company is not exposed to significant currency risk as the reinsurance coverage is provided in, and other transactions are, denominated in EUR. Management of the Company seeks to limit currency risk through an investment portfolio created in respective currencies in the amount equal to respective claims reserves and liabilities.

Split of financial assets, financial liabilities and claims reserves by currencies as at the reporting date (all amounts in thousands of EUR):

Year 2016	**USD**	**EUR**	**GBP**	**PLN**	**Other**	**Total**
Financial assets and reinsurers' share of claims reserves						
Financial investments at fair value through profit or loss	-	14 976	-	-	-	14 976
Held to maturity financial investments	-	22 874	-	-	-	22 874
Available for sale financial investments	-	14 736	-	-	-	14 736
Insurance and reinsurance debtors	16	13 769	-	-	-	13 785
Reinsurers' share of outstanding claims reserves	-	2 963	-	-	-	2 963
Cash and cash equivalents	55	8 612	-	8	13	8 688
Other debtors	-	901	-	-	-	901
Total financial assets and reinsurers' share of claims reserves	**71**	**78 831**	**-**	**8**	**13**	**78 923**
Financial liabilities and claims reserves						
Outstanding claims reserves	(73)	(22 158)	(119)	(55)	(54)	(22 459)
Financial liabilities	-	(11 369)	-	-	-	(11 369)
Total financial liabilities and claims reserves	**(73)**	**(33 527)**	**(119)**	**(55)**	**(54)**	**(33 828)**
Net position as at 31 December 2016	**(2)**	**45 304**	**(119)**	**(47)**	**(41)**	**45 095**

Year 2015	**USD**	**EUR**	**GBP**	**PLN**	**Other**	**Total**
Financial assets and reinsurers' share of claims reserves						
Financial investments at fair value through profit or loss	-	23 444	-	-	-	23 444
Held to maturity financial investments	-	23 253	-	-	-	23 253
Insurance and reinsurance debtors	-	11 903	-	-	-	11 903
Reinsurers' share of outstanding claims reserves	-	5 214	-	-	-	5 214
Cash and cash equivalents	85	5 873	3	33	8	6 002
Other debtors	-	887	-	-	-	887
Total financial assets and reinsurers' share of claims reserves	**85**	**70 574**	**3**	**33**	**8**	**70 703**
Financial liabilities and claims reserves						
Outstanding claims reserves	(86)	(23 130)	(313)	-	(79)	(23 608)
Financial liabilities	-	(10 514)	-	-	-	(10 514)
Total financial liabilities and claims reserves	**(86)**	**(33 644)**	**(313)**	**-**	**(79)**	**(34 122)**
Net position as at 31 December 2015	**(1)**	**36 930**	**(310)**	**33**	**(71)**	**36 581**

Changes in the exchange rates do not have a material impact on net position. The largest share of financial assets and liabilities is held in EUR, which is the functional currency starting from 01.01.2014.

41. CAPITAL RISK MANAGEMENT

Starting from 1 January 2016, the Solvency II regime has come into force. According to this, the Company has established a Capital and Dividend Policy that sets the minimum requirements for measurement, monitoring, controlling and reporting of capital position in order for the Management to take timely and necessary actions. The Company is obliged to achieve and continuously maintain a level of solvency appropriate to the risks the Company undertakes as part of its business activities. The Company anticipates the level of SCR (Solvency Capital requirement) coverage with own funds convincingly above the required minimum and acceptable in terms of the Company's Risk Appetite. With continuous growth surplus of assets over liabilities, which translates into financial security and stability, the Company expects a solid growth of solvency ratio in the future.

Until 1 January 2016, according to the requirements of the „Law on Insurance Companies and their Supervision" (in force until 1 January 2016) of Latvia, the Company should constantly have at its disposal own funds, which should be equal or larger than a determined solvency margin. The solvency margin is defined as the larger of the amounts calculated based on written premiums or claims paid and the result cannot be smaller than the adjusted solvency margin of the prior year. The Company had met this requirement and the Solvency ratio as at 31 December 2015 showed excess of capital held over the minimum required capital (all amounts in thousands of EUR):

	31.12.2015
Minimum required capital	7 228
Regulatory capital of the Company calculated according to FCMC regulations	11 653
Solvency ratio (minimum required is 100%)	**161%**

42. LOSS DEVELOPMENT TABLE

Loss development table illustrates the Company's estimate of ultimate claims outstanding for each accident year (all amounts in thousands of EUR):

	2006 and prior	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Net claims provisions at end of accident year and cumulative incurred claims in subsequent years												
At end of accident year	12 503	14 346	12 260	10 106	7 349	5 951	6 411	7 787	8 457	11 114*	10 896*	
1 year later	10 100	12 783	9 757	8 181	5 771	4 683	4 913	6 679	8 357*	9 115*		
2 years later	9 892	14 149	8 970	7 977	5 511	4 386	4 999	6 798*	8 189*			
3 years later	10 603	13 412	8 529	7 999	5 263	4 757	4 850	6 560*				
4 years later	10 847	12 892	8 775	7 971	5 418	4 804	4 745					
5 years later	10 179	12 694	8 142	8 019	5 452	4 510						
6 years later	9 064	12 771	8 025	7 879	5 132							
7 years later	8 647	12 538	8 087	7 871								
8 years later	8 736	12 495	8 060									
9 years later	8 641	12 446										
10 years later	8 638											
Net claims paid												
1 year later	6 863	10 595	6 414	5 945	3 933	3 546	3 772	4 880	5 888*	6 054*	-	
2 years later	725	500	342	359	77	279	390	238*	440*			
3 years later	453	157	269	426	67	411	104	208*				
4 years later	118	30	361	53	962	39	9					
5 years later	88	77	63	112	71	132						
6 years later	2	38	20	137	(26)							
7 years later	(39)	315	41	450								
8 years later	74	64	32									
9 years later	46	51										
10 years later	11											
Cumulative net claims paid	**8 341**	**11 827**	**7 542**	**7 482**	**5 084**	**4 407**	**4 275**	**5 326**	**6 328***	**6 054***	**-**	**66 667***
CY (deficiency) / redundancy	**3**	**49**	**27**	**8**	**320**	**294**	**105**	**238****	**168****	**1 999****	**-**	**3 211****

*) Net claims provisions and net claims paid starting from 2015 include insurance liabilities taken over from PZU Lietuva Latvian branch.

**) Current year (deficiency) / redundancy has been calculated taking into account the net claims provisions of PZU Lietuva Latvian branch as at the moment of business transfer.

43. SUBSEQUENT EVENTS

There are no subsequent events since the last day of the reporting year, which would have a significant effect on the financial statements of the Company as at and for the year ended 31 December 2016.

KPMG Baltics SIA
Vesetas iela 7
Riga, LV-1013
Latvia

Telephone +371 67038000
Telefax +371 67038002
kpmg.com/lv

Independent Auditors' Report

To the shareholders of AAS BALTA

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of AAS BALTA ("the Company") set out on pages 7 to 47 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 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 AAS BALTA 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:

- the Management Report, as set out on pages 4 to 5 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 6 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.

KPMG

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 regulations No. 201 - Regulations on the preparation of annual report and consolidated annual report of insurance and reinsurance undertakings and non-EU insurance affiliates.

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

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

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

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

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

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

Auditors' Responsibility for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

KPMG Baltics SIA
Licence No. 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
21 March 2017

Inga Lipšāne
Latvian Certified Auditor
Certificate No. 112