AAS BALTA

Annual Report for 2015 prepared in accordance
with the International Financial Reporting Standards
as adopted by the European Union and
Independent Auditor's Report

Contents

Members of the Council and the Board of Directors, Independent Auditors

Council

Name, Surname	*Position*
Rafal Miroslaw Grodzicki	Chairman of the Council (reappointed from 08.07.2015; resigned on 19.01.2016)
Przemyslaw Dabrowski	Deputy of Chairman of the Council (reappointed from 08.07.2015)
Slawomir Wlodzimierz Niemierka	Member of the Council (reappointed from 08.07.2015)
Wojciech Fraciszek Wroblewski	Member of the Council (reappointed from 08.07.2015)
Tomasz Tarkowski	Member of the Council (from 08.07.2015)

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
Mārtiņš Rozentāls	Board Member (from 08.07.2015)
Malgorzata Krystyna Piotrowska	Board Member (from 12.08.2015)
Deividas Raipa	Board Member (until 08.07.2015)
Uģis Vorons	Board Member (until 12.08.2015)

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

KPMG Baltics SIA
Licence No. 55
Vesetas iela 7
Riga, LV -1013
Latvia

Responsible Latvian certified auditor:
Inga Lipšāne
Latvian certified auditor
Certificate No. 112

Report of the Council and the Board of Directors

Main developments

2015 has continued to be a very intensive and also successful year for BALTA. The Company finalized full acquisition and integration of PZU Lithuania branch in Latvia insurance portfolio, assets and liabilities ensuring the strengthening of its leader position in the non-life insurance market. Growth in existing products, introduction of new products and significant improvements in the Company's IT and operational efficiency have resulted in BALTA achieving Total comprehensive profit of 1.2 million EUR, despite significant one-off costs in 2015 related to integration with the PZU Group and acquisition of PZU Lithuania branch in Latvia insurance portfolio, assets and liabilities. The solid results continue to support the outstanding financial stability of the Company.

In 2015, BALTA managed to outperform the Latvian non-life market in growth by increasing gross written premiums by 12 million EUR, or 22%, compared to 2014. The Company has managed to grow all its portfolios and take over and retain the portfolio of PZU Lithuania branch in Latvia. In 2015, 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 2015, BALTA was recognized as the country's most reliable insurer for the 13th consecutive year. In 2015, BALTA was named the most trusted brand among insurers. According to Reputation Top 2015, 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 2015, BALTA was recognized as the one of the best Employers in Baltics.

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 2015

Latvian domestic non-life insurance market has grown by ~17 million EUR in 2015 reaching total market volume of ~258 million EUR. Growth compared to prior year has been 6%-7%, which is about the same as in two previous years. Main contributors to the market growth have been Health insurance with ~5 million EUR or 12% of growth, Motor Own Damage with ~4 million EUR or 7% growth and Motor Third Party liability with ~3 million EUR or 5% growth.

In spite of GWP growth being twice of GDP growth, the level of non-life insurance domestic market profitability has decreased in 2015. Insurance result combined ratio has worsened to 100% in 2015. Also, in 2015 investment results have significantly declined in comparison with previous year. As a result, the net profit for industry has shrunk from 6.4 million EUR to 0.1 million EUR.

Regulatory environment in 2015 has been focused on the introduction of Solvency II in 2016. The new "Insurance and Reinsurance Law" was published where Solvency II Directive requirements are incorporated, as well as preparatory phase reporting requested from the insurers. The new regime comes with requirements of good governance and robust risk management system as well as new calculation rules for the required capital which is based on risk evaluation. Solvency II is going live from 01.01.2016, the first reports to the regulator will be submitted in May 2016 and will be done on quarterly basis. The first public disclosure will be available in May 2017.

Risk management

Pursuant to Latvian "Insurance and Reinsurance Law" covering the requirements of Solvency II Directive, BALTA has up-graded its risk management system that allows more effectively to identify, measure and assess, monitor and control, manage and report on a regular basis, the risks and their interdependencies, at individual and at an aggregated level. Risk management system is aligned with BALTA's long term strategic activities and is integral part of BALTA's organizational structure and decision making process. Risk management system supports BALTA's internal control system and system of governance. One of the key elements of risk management system is quarterly meetings of the 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; assesses the impact of each of these changes and documents new risks identified in all operational areas of the Company. During 2015, BALTA has taken appropriate steps in order to comply with Solvency II requirements, which came into effect on 1 January 2016.

Capital adequacy and solvency are under constant focus of BALTA. At the end of 2015, the capital of BALTA exceeded the solvency ratio 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 conditions.

Report of the Council and the Board of Directors

Customer service and payment of claims

In 2015, 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 customer service. For health insurance customers BALTA has more than doubled the cooperation with medical institutions where its magnetic cards are accepted. Company has widened its representation in international MTPL claims handling and now is representing also PZU SA.

BALTA continues to maintain high quality and convenient claims service – almost 40% of motor claims decisions were taken during the first contact (call) with customer, 70% of all health claims applications are submitted online ensuring a very prompt response and payment of health claims – these claims are serviced in 2 working-days' time. Our customers appreciate the speed and convenience of claims handling.

Working environment in the Company and professional development of staff

In 2015, BALTA introduced new Company values that encourage Innovations, Effectiveness and Fairness. These values are supported by defined skills and capabilities of employees and managers.

During the year, BALTA was focused on raising employee engagement, as well as competencies. Leadership development programme was launched with the aim to strengthen leadership capabilities and develop future successors for managerial roles. To further improve customer service in Claims function BALTA organized a customer oriented training program for Claims function's employees. Also, a new training framework for salesforce was developed.

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 young mothers and special benefit packages for employees with children, greetings to employees on important occasions, etc.

Corporate social responsibility

BALTA takes care about Corporate Social Responsibility. The ambition of the Company is to be an active member of Latvian society.

In 2015, BALTA introduced Voluntary Program for Employees in co-operation with PZU Foundation. 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.

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.

Przemysław Dabrowski
Deputy of Chairman of the Council

Bogdan Benczak
Chairman of the Board

21 March 2016

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 2015 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 2015 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 2015.

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.

Przemyslaw Dabrowski
Deputy of Chairman of the Council

Bogdan Benczak
Chairman of the Board

21 March 2016

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

	Exhibit	2015	2014
Insurance income			
Gross written premiums	4	67 172 561	55 059 318
Reinsurer's share in premiums	4	(2 452 435)	(1 776 401)
Mandatory deductions	4	(332 105)	(204 504)
Net written premiums	4	64 388 021	53 078 413
Change in gross provision for unearned premiums	5	(4 107 912)	(3 481 408)
Change in provision for unearned premiums, reinsurers' share	5	218 123	23 958
Change in provision for unearned premiums	5	(3 889 789)	(3 457 450)
Net premiums earned		**60 498 232**	**49 620 963**
Other technical income	6	305 152	221 183
Total insurance income		**60 803 384**	**49 842 146**
Insurance expenses			
Gross claims paid to policyholders		(37 925 839)	(31 674 004)
Loss adjustment expenses		(2 912 530)	(2 631 137)
Recovered losses		2 624 305	2 175 325
Claims paid	7	(38 214 064)	(32 129 816)
Reinsurer's share	7	2 589 912	2 802 324
Net claims paid		(35 624 152)	(29 327 492)
Change in gross provision for claims	8	645 348	(1 991 387)
Change in provision for claims, reinsurers' share	8	(2 302 547)	1 405 832
Net incurred claims		**(37 281 351)**	**(29 913 047)**
Client acquisition costs	9	(9 682 984)	(7 535 749)
Administrative expenses	10	(12 811 143)	(12 692 003)
Other technical expenses	11	-	(105 625)
Total insurance expenses		**(59 775 478)**	**(50 246 424)**
Net result of insurance activities		**1 027 906**	**(404 278)**
Interest income	12	976 595	663 715
Net profit / (loss) on financial assets	13	(419 548)	278 294
Investment management expenses		(124 025)	(100 222)
Other finance income	14	4 964	1 004
Other finance expense	15	(79 225)	(992)
Other income	16	96 825	140 573
Other expenses	17	(26 847)	(1 839 316)
Profit / (loss) before tax		**1 456 645**	**(1 261 222)**
Changes in deferred tax asset	18	(251 526)	223 299
Profit / (loss) for the year		**1 205 119**	**(1 037 923)**
Total comprehensive profit / (loss) for the reporting year		**1 205 119**	**(1 037 923)**

All profit / (loss) is attributable to the owners of AAS BALTA.

Notes on pages 12 to 44 are an integral part of these financial statements.

Przemysław Dabrowski
Deputy of Chairman of the Council

Bogdan Benczak
Chairman of the Board

21 March 2016

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

	Exhibit	31.12.2015	31.12.2014
ASSETS			
Intangible assets	19	**2 043 625**	**2 706 114**
Property and equipment	20	**3 026 280**	**2 819 770**
Financial investments at fair value through profit or loss	21	23 443 595	19 034 959
Held to maturity financial investments	22	23 253 305	-
Term deposits with credit institutions		-	13 888 367
Total investments		**46 696 900**	**32 923 326**
Receivables due from policyholders		10 938 920	10 084 744
Receivables due from intermediaries		558 506	445 816
Receivables from direct insurance operations	23	11 497 426	10 530 560
Reinsurance receivables	24	405 192	109 670
Other receivables	27	886 563	831 828
Total receivables		**12 789 181**	**11 472 058**
Reinsurers' share in unearned premium reserve	5	651 435	384 265
Reinsurers' share in reserve for outstanding claims	8	5 214 172	7 491 163
Reinsurers' share of insurance contract liabilities		**5 865 607**	**7 875 428**
Deferred income tax asset	25	**990 793**	**1 242 319**
Deferred client acquisition costs	9	7 682 827	6 090 549
Other accrued income and deferred expenses	26	304 688	145 333
Accrued income and deferred expenses		**7 987 515**	**6 235 882**
Cash and cash equivalents	28	**6 001 972**	**7 808 569**
TOTAL ASSETS		**85 401 873**	**73 083 466**

Notes on pages 12 to 44 are an integral part of these financial statements.

Przemysław Dabrowski
Deputy of Chairman of the Council

21 March 2016

Bogdan Benczak
Chairman of the Board

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

	Exhibit	31.12.2015	31.12.2014
EQUITY, RESERVES AND LIABILITIES			
EQUITY AND RESERVES			
Share capital	29	6 619 290	6 619 295
Share premium	29	1 595 511	1 595 511
Reserve capital and other reserves	29	4 357 130	4 357 125
Retained earnings		5 578 928	4 889 403
TOTAL EQUITY AND RESERVES		**18 150 859**	**17 461 334**
LIABILITIES			
Unearned premium reserve	5	32 350 189	27 285 690
Outstanding claims reserve	8	23 607 593	22 443 458
Insurance contract liabilities		**55 957 782**	**49 729 148**
Subordinated loan	36	4 179 224	-
Direct insurance creditors		2 151 764	1 653 966
Reinsurance creditors		922 340	566 662
Taxes and the state compulsory social insurance contributions	30	464 933	358 004
Accrued expenses and deferred income	31	2 241 520	1 965 797
Other creditors	32	1 333 451	1 348 555
Total creditors		**11 293 232**	**5 892 984**
TOTAL LIABILITIES		**67 251 014**	**55 622 132**
TOTAL EQUITY, RESERVES AND LIABILITIES		**85 401 873**	**73 083 466**

Notes on pages 12 to 44 are an integral part of these financial statements.

Przemysław Dabrowski
Deputy of Chairman of the Council

Bogdan Benczak
Chairman of the Board

21 March 2016

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

	Share capital	Share premium	Reserve capital and other reserves	Retained earnings	Total
Balance at 31 December 2013	**6 619 295**	**1 595 511**	**4 357 125**	**5 927 326**	**18 499 257**
Loss for the year	-	-	-	(1 037 923)	(1 037 923)
Balance at 31 December 2014	**6 619 295**	**1 595 511**	**4 357 125**	**4 889 403**	**17 461 334**
Share capital translation to euro	(5)	-	5	-	-
Profit for the year	-	-	-	1 205 119	1 205 119
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**

Notes on pages 12 to 44 are an integral part of these financial statements.

Przemyslaw Dabrowski
Deputy of Chairman of the Council

Bogdan Benczak
Chairman of the Board

21 March 2016

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

	Exhibit	2015	2014
Cash flows from operating activities			
Premiums received from direct insurance		66 110 979	53 758 001
Claims paid for direct insurance		(36 905 926)	(27 271 311)
Payments received from ceded reinsurance		842 221	339 648
Payments made for ceded reinsurance		(1 705 777)	(934 334)
Mandatory payments	34	(655 430)	(534 736)
Other expenses		(21 599 277)	(20 274 835)
Net cash from / (used in) operating activities:		**6 086 790**	**5 082 433**
Cash flows from investing activities			
Disposal of investments		19 416 203	35 922 929
Acquisition of investments		(33 265 226)	(34 756 764)
Purchase of property and equipment and intangible assets		(1 408 339)	(1 549 663)
Proceeds from sale of property and equipment and intangible assets		-	211 151
Interest received from term deposits with credit institutions		19 047	37 301
Interest received from debt securities		1 010 585	898 520
Cash acquired from PZU Lietuva Latvian branch, net of consideration paid		2 283 683	-
Other expenses		(61 366)	-
Net cash generated from / (used in) investing activities:		**(12 005 413)**	**763 474**
Cash flows from financing activities			
Received subordinated loan		4 100 000	-
Net cash from / (used in) financing activities:		**4 100 000**	**-**
Result of foreign exchange rate fluctuations on cash and cash equivalents		**12 026**	**(1 627)**
Net increase / (decrease) in cash and cash equivalents		**(1 806 597)**	**5 844 280**
Cash and cash equivalents at the beginning of reporting year		7 808 569	1 964 289
Cash and cash equivalents at the end of reporting year	28	**6 001 972**	**7 808 569**

Notes on pages 12 to 44 are an integral part of these financial statements.

Przemyslaw Dabrowski
Deputy of Chairman of the Council

Bogdan Benczak
Chairman of the Board

21 March 2016

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.

Name of the Company:	Insurance Joint Stock Company BALTA
Legal address of the Company:	10/12 Raunas Street, Riga, LV-1039
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 35% 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 (Note 2.2.3).

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 2016. 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 investments carried at fair value through profit or loss and land and buildings, which are revalued on a regular basis.

2.1.4 Reporting year

The reporting period comprises the 12 months from 1 January 2015 to 31 December 2015.

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

2.2.1 Standards and interpretations effective in the reporting period and changes in accounting policies

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 2015.

The following guidance with effective date of 1 January 2015 did not have any impact on these financial statements:

(i) IFRIC 21 guidance on a levy imposed by government

(ii) 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 2015, and have not been applied in preparing these financial statements.

(i) IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016)

(ii) IAS 1 – Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2016)

(iii) IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets (effective for annual periods beginning on or after 1 January 2016)

(iv) IAS 16 – Property, Plant and Equipment and IAS 41 – Agriculture (effective for annual periods beginning on or after 1 January 2016)

(v) IAS 19 – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2015)

(vi) IAS 27 – Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016)

(vii) 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 2015 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 reclassifications are that: 1) OMTPL mandatory deductions are presented separately in the Statement of Comprehensive Income, while in the financial statements for 2014 they were included in Gross written premiums; 2) the presentation of Changes in provisions for overdue debts, net as Other technical income and Other technical expenses, while in the financial statements for 2014 they were presented as Other expenses; 3) that Investment management expenses are presented separately in the Statement of Comprehensive Income, while in the financial statements for 2014 they were included in Administrative expenses.

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 and the Company does not conclude any investment 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 and exclude taxes and levies based on premiums.

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 a 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 gross amounts of reserves, i.e., the effect of reinsurance is not taken into account. Refer to Note 38.

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 direct 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 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 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.

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. 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. 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 or unquoted financial assets classified as held to maturity.

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.

Notes to the Financial Statements (All amounts in euros)

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

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent appraisers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is adjusted to the revaluated amount of the asset.

The fair values are based on discounted cash flow method, being the sum of the estimated net cash flows generated by the property and discounted as at the valuation date.

If the fair value of land and buildings used for operating activities (own use) at the reporting period end date is higher than their book value, they are re-measured at the higher value. The increase of value resulting from revaluation is recognized under "Revaluation reserve" in other comprehensive income as a component of equity. Revaluation reserve for land and buildings is transferred directly to retained earnings when the asset is derecognized.

If the fair value of land and buildings used for operating activities (own use) at the reporting period end date is lower than their book value, they are re-measured at the lower value. The decrease of value resulting from revaluation is first used to reverse the revaluation reserve of the same asset previously recognised in "Revaluation reserve" and only if in excess of it, the revaluation decrease is recognized in profit or loss.

Increases in the carrying amount arising on revaluation of land and buildings are credited to the revaluation surplus in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement.

As at 31.12.2015 and 31.12.2014, the Company has not recognized a revaluation reserve as the revaluations recognized in previous years have resulted in a net loss, which has been recognized in Statement of Profit or Loss.

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

Buildings	2% per year
Office equipment	20% per year
Computer equipment	25% per year
Internally developed software	20% per year
Vehicles	20% per year
Software	25% per year

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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. When revaluated assets are sold, the amounts included in the revaluation surplus are transferred to income statement.

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.

	31.12.2015	**31.12.2014**
1 USD	EUR 1.08870	EUR 1.21410
1 GBP	EUR 0.73395	EUR 0.77890
1 LTL	-	EUR 3.45280

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 Provisions for unused employee vacations

The amount of accruals is determined by multiplying average daily salary for the last 6 month 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 through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

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 land and buildings presented under property, and 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.

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. 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 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.

Reserves for recoverable amounts 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 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 land and buildings and valuation of deferred acquisition costs. Further information about the assumptions made on those areas are included in the following notes:

- Impairment: Note 2.15
- Land and buildings: Note 2.7 and Note 20
- Deferred acquisition costs: Note 38 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 31.12.2015 and as at 31.12.2014 are categorised into Level 1: unadjusted quoted prices in active markets for identical assets. Fair value for land and buildings is categorised into Level 3: inputs for the asset that are not based on observable market data.

Notes to the Financial Statements (All amounts in euros)

4. NET WRITTEN PREMIUMS

	2015 Gross amount	2015 Reinsurers' share	2015 Net amount	2014 Gross amount	2014 Reinsurers' share	2014 Net amount
Personal accident	1 428 184	(19 247)	1 408 937	1 366 325	(10 958)	1 355 367
Health	11 208 391	-	11 208 391	9 779 502	-	9 779 502
Motor own damage	20 638 781	(278 578)	20 360 203	17 526 331	(225 222)	17 301 109
Marine	20 555	(3 010)	17 545	26 970	(344)	26 626
Cargo	866 162	(89 807)	776 355	900 628	(11 804)	888 824
Property	17 022 521	(923 723)	16 098 798	15 251 561	(1 026 802)	14 224 759
Credit insurance	79 551	-	79 551	69 907	-	69 907
General TPL	3 408 184	(192 623)	3 215 561	2 251 016	(96 111)	2 154 905
Guarantees	1 342 608	(505 966)	836 642	166 971	(100 263)	66 708
Financial risks	389 123	(165 218)	223 905	293 554	(134 872)	158 682
Travel accident	1 462 114	(11 796)	1 450 318	739 142	(6 716)	732 426
Obligatory Motor TPL	9 306 387	(262 467)	9 043 920	6 687 411	(163 309)	6 524 102
	67 172 561	**(2 452 435)**	**64 720 126**	**55 059 318**	**(1 776 401)**	**53 282 917**
OMTPL mandatory deductions	(332 105)	-	(332 105)	(204 504)	-	(204 504)
	66 840 456	**(2 452 435)**	**64 388 021**	**54 854 814**	**(1 776 401)**	**53 078 413**

All policies are issued to clients residing in Latvia.

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:

- OMTPL Guarantees Foundation fixed sum for certain type of vehicle; in 2015 (and 2014) no payments have been made as the total assets of OMTPL Guarantees Fund exceeded EUR 20 million.
- State Traffic Security Foundation 2% from signed insurance premium during the accounting period.
- Motor Insurers` Bureau of Latvia - variable sum EUR 0.50 (2014: EUR 0.31) per contract and fixed sum EUR 28 080 in year (2014: EUR 17 501.28) or EUR 2 340.00 in a month (2014: EUR 1 458.44).

In 2015, OMTPL mandatory deductions amounted to EUR 332 105 (2014: EUR 204 504).

Other mandatory payments that the legislation requires from an insurer are disclosed as expenses. Refer to Note 10.

Premiums earned

	2015 Gross premiums earned	2015 Reinsurers' share	2015 Net premiums earned	2014 Gross premiums earned	2014 Reinsurers' share	2014 Net premiums earned
Motor own damage	19 330 760	(247 442)	19 083 318	16 405 079	(207 861)	16 197 218
Property	16 161 551	(932 696)	15 228 855	14 943 083	(1 037 449)	13 905 634
Health	11 033 771	-	11 033 771	8 418 776	-	8 418 776
Obligatory Motor TPL	8 615 983	(261 422)	8 354 561	6 090 980	(159 489)	5 931 491
Other	7 590 479	(792 752)	6 797 727	5 515 488	(347 644)	5 167 844
TOTAL	**62 732 544**	**(2 234 312)**	**60 498 232**	**51 373 406**	**(1 752 443)**	**49 620 963**

5. UNEARNED PREMIUM RESERVE

a) Movement in unearned premium reserve

	Gross amount	Reinsurers' share	Net amount
Balance at 31 December 2013	**23 804 282**	**(360 307)**	**23 443 975**
Written premiums	54 854 814	(1 776 401)	53 078 413
Earned premiums	(51 373 406)	1 752 443	(49 620 963)
Total change for the year	3 481 408	(23 958)	3 457 450
Balance at 31 December 2014	**27 285 690**	**(384 265)**	**26 901 425**
Taken over from PZU Lietuva Latvian branch (see Note 36)	956 587	(49 047)	907 540
Written premiums	66 840 454	(2 452 435)	64 388 019
Earned premiums	(62 732 542)	2 234 312	(60 498 230)
Total change for the year	4 107 912	(218 123)	3 889 789
Balance at 31 December 2015	**32 350 189**	**(651 435)**	**31 698 754**

Notes to the Financial Statements (All amounts in euros)

b) 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
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
Credit insurance	(15 650)	-	(15 650)
Obligatory Motor TPL	358 299	(1 045)	357 254
	4 107 912	**(218 123)**	**3 889 789**

c) Changes in unearned premium reserve and distribution by type of insurance for the year 2014:

	Gross amount	Reinsurers' share	Net amount
Personal accident	56 061	-	56 061
Health	1 360 726	-	1 360 726
Motor own damage	1 121 252	(17 361)	1 103 891
Marine	39	-	39
Cargo	(98 132)	31	(98 101)
Property	308 478	10 647	319 125
General TPL	238 171	8 769	246 940
Guarantees	39 781	(27 891)	11 890
Financial risks	7 680	5 667	13 347
Travel accident	8 431	-	8 431
Credit insurance	46 994	-	46 994
Obligatory Motor TPL	391 927	(3 820)	388 107
	3 481 408	**(23 958)**	**3 457 450**

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

	31.12.2015	31.12.2014
Personal accident	731 470	690 279
Health	4 545 808	4 371 188
Motor own damage	10 988 945	9 554 264
Marine	9 613	12 323
Cargo	245 310	252 326
Property	9 049 457	8 019 257
General TPL	1 680 570	1 154 201
Guarantees	1 014 085	152 851
Financial risks	160 895	120 320
Travel accident	290 025	29 185
Credit insurance	31 344	46 994
Obligatory Motor TPL	3 602 667	2 882 502
	32 350 189	**27 285 690**

Notes to the Financial Statements (All amounts in euros)

6. OTHER TECHNICAL INCOME

	2015	2014
Reinsurance commission income (see Note 35)	128 308	93 358
Income from cancellation of policies	71 436	65 096
Expertise income	49 225	26 806
Commission income from fronting insurance	27 268	26 696
Changes in provisions for overdue debts, net	12 067	-
Income of agreement penalties	8 697	1 756
Other income	8 151	7 471
	305 152	**221 183**

7. CLAIMS PAID

	2015			2014		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
Personal accident	(473 472)	-	(473 472)	(434 989)	-	(434 989)
Health	(7 858 498)	-	(7 858 498)	(5 751 853)	-	(5 751 853)
Motor own damage	(12 508 916)	128 248	(12 380 668)	(10 381 681)	172 959	(10 208 722)
Marine	(2 653)	-	(2 653)	(8 199)	-	(8 199)
Cargo	(527 658)	-	(527 658)	(1 462 420)	-	(1 462 420)
Property	(8 600 330)	1 112 489	(7 487 841)	(6 720 205)	315 001	(6 405 204)
General TPL	(873 454)	-	(873454)	(434 420)	4 845	(429 575)
Guarantees	(1 802)	-	(1 802)	(38)	-	(38)
Financial risks	(3 167)	-	(3 167)	(10 398)	-	(10 398)
Travel accident	(285 503)	-	(285 503)	(209 766)	-	(209 766)
Credit insurance	(7 861)	-	(7 861)	(132)		(132)
Obligatory Motor TPL	(7 070 750)	1 349 175	(5 721 575)	(6 715 715)	2 309 519	(4 406 196)
	(38 214 064)	**2 589 912**	**(35 624 152)**	**(32 129 816)**	**2 802 324**	**(29 327 492)**

8. CLAIM RESERVES

a) Movement in outstanding claims reserve:

	2015			2014		
	Gross amount	**Reinsurer's share**	**Net amount**	**Gross amount**	**Reinsurer's share**	**Net amount**
At beginning of year						
Notified claims	18 884 083	(7 491 163)	11 392 920	17 580 719	(6 085 331)	11 495 388
Incurred, but not reported	3 559 375	-	3 559 375	2 871 352	-	2 871 352
Total at beginning of year	**22 443 458**	**(7 491 163)**	**14 952 295**	**20 452 071**	**(6 085 331)**	**14 366 740**
Taken over from PZU Lietuva Latvian branch (see Note 36)	1 809 483	(25 556)	1 783 927	-	-	-
Cash paid for claims notified in prior years	(8 777 367)	2 390 374	(6 386 993)	(9 784 779)	2 620 888	(7 163 891)
Changes in liabilities arising from current and prior year claims	8 132 019	(87 827)	8 044 192	11 776 166	(4 026 720)	7 749 446
Total change in year	(645 348)	2 302 547	1 657 199	1 991 387	(1 405 832)	585 555
Total at end of year	**23 607 593**	**(5 214 172)**	**18 393 421**	**22 443 458**	**(7 491 163)**	**14 952 295**
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 end of year	**23 607 593**	**(5 214 172)**	**18 393 421**	**22 443 458**	**(7 491 163)**	**14 952 295**

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

b) 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)
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)
Credit insurance	(1 569)	-	(1 569)
Obligatory Motor TPL	(318 647)	1 327 770	1 009 123
	(645 348)	**2 302 547**	**1 657 199**

c) Change in outstanding claims reserve and distribution by type of insurance for the year 2014:

	Gross amount	Reinsurers' share	Net amount
Personal accident	17 729	-	17 729
Health	124 853	-	124 853
Motor own damage	147 096	(3 287)	143 809
Marine	539	-	539
Cargo	(700 233)	-	(700 233)
Property	3 719 853	(3 466 358)	253 495
General TPL	510 662	-	510 662
Guarantees	1 601	-	1 601
Financial risks	8 379	-	8 379
Travel accident	62 841	-	62 841
Credit insurance	4 469	-	4 469
Obligatory Motor TPL	(1 906 402)	2 063 813	157 411
	1 991 387	**(1 405 832)**	**585 555**

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

	31.12.2015	31.12.2014
Personal accident	132 438	125 810
Health	874 818	594 273
Motor own damage	2 410 519	2 139 114
Marine	2 956	2 248
Cargo	262 001	471 747
Property	6 800 231	7 710 368
General TPL	2 396 766	1 608 233
Guarantees	300 832	3 012
Financial risks	34 053	17 746
Travel accident	120 851	97 044
Credit insurance	2 900	4 469
Obligatory Motor TPL	10 269 228	9 669 394
	23 607 593	**22 443 458**

Notes to the Financial Statements (All amounts in euros)

9. CLIENT ACQUISITION COSTS

	2015	2014
Commissions to brokers and other intermediaries	(5 410 376)	(3 861 410)
Commissions and other agent related expense	(4 762 399)	(3 272 770)
Compulsory state social security contributions related to agents' remuneration	(969 704)	(670 590)
Change in deferred client acquisition costs	1 459 838	271 450
Other acquisition expenses	(343)	(2 429)
	(9 682 984)	**(7 535 749)**

Sales costs included in the deferred acquisition costs (DAC) calculation amounting to EUR 4 275 363 (2014: 4 346 149) are represented under Administrative expenses. Refer to Note 10.

Deferred client acquisition costs

As at 31 December 2013	**5 819 099**
Deferred client acquisition costs	12 153 348
Amortisation of deferred acquisition cost	(11 881 898)
As at 31 December 2014	**6 090 549**
Taken over from PZU Lietuva Latvian branch (see Note 36)	132 440
Deferred client acquisition costs	15 418 185
Amortisation of deferred acquisition cost	(13 958 347)
As at 31 December 2015	**7 682 827**

10. ADMINISTRATIVE EXPENSES

	2015	2014
Wages and salaries:		
- salaries to staff	(5 253 199)	(5 405 402)
- state compulsory social insurance contributions	(1 063 268)	(1 104 883)
Information technology and communication expense	(2 206 999)	(2 414 722)
Depreciation and amortization costs	(1 248 305)	(1 266 744)
Advertisement and public relations	(1 076 237)	(548 834)
Premises utility, maintenance and repair expense	(553 463)	(475 252)
Rent of premises	(322 523)	(331 279)
Payments to Foundation of Insured Interests Protection	(215 403)	(190 208)
Payments to Financial and Capital Market Commission	(152 688)	(150 785)
Professional services	(138 008)	(559 390)
Office expenses	(127 575)	(101 963)
Transport	(65 539)	(212 186)
Administration expenses related to Loss adjustment expenses *	421 537	506 268
Other administrative costs	(809 473)	(436 623)
	(12 811 143)	**(12 692 003)**

* – 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 0.236% 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.

At the end of year 2015, the Company employed 280 employees (2014: 266) and 279 agents (2014: 285).

Administrative expenses include client acquisition costs amounting to EUR 4 275 363 (2014: 4 346 149) 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.

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

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

	2015	**2014**
Personal accident	(332 983)	(383 190)
Health	(2 142 748)	(2 079 065)
Motor own damage	(3 837 865)	(3 790 382)
Marine	(4 111)	(5 529)
Cargo	(136 359)	(207 370)
Property	(3 323 556)	(3 648 506)
General TPL	(586 377)	(502 337)
Guarantees	(82 866)	(23 255)
Financial risks	(34 769)	(32 797)
Travel accident	(325 156)	(267 254)
Credit insurance	(18 379)	(6 613)
Obligatory Motor TPL	(1 985 974)	(1 745 705)
	(12 811 143)	**(12 692 003)**

11. OTHER TECHNICAL EXPENSES

	2015	**2014**
Changes in provisions for overdue debts, net	-	(105 625)
	-	**(105 625)**

12. INTEREST INCOME

	2015	**2014**
From financial investments at fair value through profit or loss:		
Government bonds	568 205	554 385
Corporate bonds	43 842	62 943
Investment funds	5 012	
From financial investments held to maturity:		
Government bonds	337 263	-
Corporate bonds	13 688	-
From loans and receivables:		
Term deposits with credit institutions	8 585	46 387
	976 595	**663 715**

13. NET PROFIT / (LOSS) ON FINANCIAL ASSETS

	2015	**2014**
Government bonds	(349 664)	311 127
Corporate bonds	(25 612)	(32 833)
Investment funds	(44 272)	-
	(419 548)	**278 294**

	2015	**2014**
Realised gains / (losses):		
Government bonds	(79 131)	(461 826)
Corporate bonds	(11 767)	(51 996)
Unrealised gains / (losses):		
Government bonds	(270 534)	772 953
Corporate bonds	(13 844)	19 163
Investment funds	(44 272)	-
	(419 548)	**278 294**

Notes to the Financial Statements (All amounts in euros)

14. FINANCE INCOME

	2015	2014
Gain from foreign currency fluctuations, net	4 907	-
Interest on cash and cash equivalents	57	1 004
	4 964	**1 004**

15. FINANCE EXPENSES

	2015	2014
Accrued interest and amortisation for subordinated loan	(79 225)	-
Losses from foreign currency fluctuations, net	-	(992)
	(79 225)	**(992)**

16. OTHER INCOME

	2015	2014
Income from rent	62 330	20 857
Recalculation of FCMC financing	24 304	-
Income from recalculation of social security contributions and VAT	10 191	-
Net result from sale of property and equipment	-	110 251
Other income	-	9 465
	96 825	**140 573**

17. OTHER EXPENSES

	2015	2014
Released receivables from prior years	(25 823)	(50 899)
Other expenses	(1 024)	(24 185)
Write-off of IT services received and penalties *	-	(1 760 159)
Expenses from recalculation of VAT	-	(4 073)
	(26 847)	**(1 839 316)**

* The scope of the cooperation agreement with IBM was reduced in 2013 and fully terminated in 2014, as a result of which the remaining carrying amount of the payment for the initial Transition & Transformation services was fully recognised in expenses in 2014.

18. CORPORATE INCOME TAX EXPENSES

	2015	2014
Corporate income tax for the reporting year	-	-
Change in deferred income tax balances (see Note 25)	(251 526)	223 299
Total income tax expense	**(251 526)**	**223 299**

Corporate income tax is different from the theoretically calculated amount of tax to be paid if the Company’s losses were taxed at the statutory rate:

	2015	2014
Profit / (loss) before tax	**1 456 645**	**(1 261 222)**
Theoretically calculated tax at a tax rate of 15%	218 497	(189 183)
Effect of non-deductible expenses and non-taxable income, net	33 029	(34 116)
Total tax	**251 526**	**(223 299)**

Effective corporate income tax rate in 2015 is 17.27 % (2014: 17.70%).

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

19. INTANGIBLE ASSETS

	Software	Advance payments for software	Total
As at 31 December 2013			
Historical cost	9 758 836	348 312	10 107 148
Accumulated amortization	(7 089 009)	-	(7 089 009)
Net book amount	**2 669 827**	**348 312**	**3 018 139**
In 2014			
Additions arising from internal development	106 318	435 514	541 832
Additions arising from external development	131 667	-	131 667
Reclassified	693 120	(693 120)	-
Written-off	(227 018)	-	(227 018)
Depreciation for intangible assets written off	202 268	-	202 268
Amortisation charge	(960 774)	-	(960 774)
Closing net book amount	**2 615 408**	**90 706**	**2 706 114**
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**

Notes to the Financial Statements (All amounts in euros)

20. PROPERTY AND EQUIPMENT

	Land and Building	Leasehold improve-ments	Transport vehicles	Computers	Office equipment	Total
As at 31 December 2013						
Cost or valuation	3 650 820	183 762	998 938	1 558 360	946 139	7 338 019
Accumulated depreciation	(1 084 326)	(130 382)	(883 173)	(1 425 798)	(818 331)	(4 342 010)
Net book amount	**2 566 494**	**53 380**	**115 765**	**132 562**	**127 808**	**2 996 009**
In 2014						
Additions	23 181	50 059	-	59 073	50 735	183 048
Disposals	-	(42 539)	(936 844)	(316 300)	(171 388)	(1 467 071)
Depreciation charge	(106 310)	(20 548)	(26 333)	(82 609)	(47 337)	(283 137)
Depreciation on disposed assets	-	42 539	863 317	315 771	169 294	1 390 921
Closing net book amount	2 483 365	82 891	15 905	108 497	129 112	2 819 770
As at 31 December 2014						
Cost or valuation	3 674 001	191 282	62 094	1 301 133	825 486	6 053 996
Accumulated depreciation	(1 190 636)	(108 391)	(46 189)	(1 192 636)	(696 374)	(3 234 226)
Net book amount	**2 483 365**	**82 891**	**15 905**	**108 497**	**129 112**	**2 819 770**
In 2015						
Additions	7 804	56 826	-	400 256	9 099	473 985
Taken over from PZU Lietuva Latvian branch (see Note 36)	-	-	-	7 119	-	7 119
Disposals	-	(67 513)	-	(47 717)	(146 768)	(261 998)
Depreciation charge	(105 810)	(25 908)	(6 446)	(80 292)	(41 164)	(259 620)
Depreciation on disposed assets	-	62 464	-	41 564	142 996	247 024
Closing net book amount	2 385 359	108 760	9 459	429 427	93 275	3 026 280
As at 31 December 2015						
Cost or valuation	3 681 805	180 595	62 094	1 660 791	687 817	6 273 102
Accumulated depreciation	(1 296 446)	(71 835)	(52 635)	(1 231 364)	(594 542)	(3 246 822)
Net book amount	**2 385 359**	**108 760**	**9 459**	**429 427**	**93 275**	**3 026 280**

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

Land and buildings of the Company are carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

As at 31 December 2015, additional external valuation was not performed as per the Company's management the carrying amount as at 31 December 2015 does not differ materially from the value, which would be determined using fair value as at the end of the reporting period. The management decision is supported by a stable property market and no significant changes in the property market in 2015.

If land and buildings were stated on a historical cost basis, the amounts would be as follows:

	31.12.2015	**31.12.2014**
Cost	5 999 396	5 991 592
Accumulated depreciation	(1 613 410)	(1 458 857)
Balance	**4 385 986**	**4 532 735**

Notes to the Financial Statements (All amounts in euros)

21. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2015 Fair value	Cost	31.12.2014 Fair value	Cost
Latvian government debt securities	14 010 393	12 965 175	16 382 143	15 355 833
Ireland government debt	1 602 005	1 618 500	825 973	847 354
Corporate bonds	875 469	866 882	1 826 843	1 849 030
Investment funds	6 955 728	7 000 000	-	-
	23 443 595		**19 034 959**	

The split between current and non-current financial investments at fair value through profit or loss is included in Note 38. Financial investments at fair value through profit or loss in total EUR 23.44 million are in Level 1 fair value hierarchy in accordance with IFRS 7 definitions.

22. HELD TO MATURITY FINANCIAL INVESTMENTS

	31.12.2015 Amortized value	Cost	31.12.2015 Fair value	31.12.2014 Amortized value	Cost	31.12.2014 Fair value
Latvian government debt securities	4 167 179	4 165 003	3 981 383	-	-	-
Bulgarian government debt securities	636 395	633 014	621 750	-	-	-
Croatian government debt securities	402 607	396 082	374 220	-	-	-
Hungarian government debt securities	644 072	646 514	632 220	-	-	-
Lithuanian government debt securities	7 387 359	7 355 071	7 089 500	-	-	-
Polish government debt securities	3 351 091	3 302 628	3 308 992	-	-	-
Slovenian government debt securities	668 264	666 284	655 290	-	-	-
Romanian government debt securities	1 503 747	1 511 728	1 510 119	-	-	-
Corporate bonds	4 492 591	4 396 361	4 368 751	-	-	-
	23 253 305		**22 542 225**	**-**		**-**

The split between current and non-current held to maturity financial investments is included in Note 38. Held to maturity financial investments in total EUR 23.25 million are in Level 1 fair value hierarchy in accordance with IFRS 7 definitions.

23. RECEIVABLES FROM DIRECT INSURANCE OPERATIONS

	31.12.2015	31.12.2014
Gross receivables from direct insurance operations	11 556 040	10 599 635
Doubtful debt allowances for receivables from direct insurance operations	(58 614)	(69 075)
	11 497 426	**10 530 560**

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

	Gross 2015	Impairment 2015	Gross 2014	Impairment 2014
Not past due	11 334 659	-	10 256 952	-
Past due 0-30 days	150 472	-	254 051	-
Past due 31-60 days	12 295	-	19 557	-
More than 60 days	58 614	(58 614)	69 075	(69 075)
	11 556 040	**(58 614)**	**10 599 635**	**(69 075)**

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.

Notes to the Financial Statements (All amounts in euros)

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 2013	**106 631**
Additional allowances	10 017
Recovered debts	(47 573)
As at 31 December 2014	**69 075**
Additional allowances	16 716
Recovered debts	(27 177)
As at 31 December 2015	**58 614**

24. REINSURANCE RECEIVABLES

	31.12.2015	31.12.2014
Gross receivables from reinsurance operations	405 192	109 670
Doubtful debt allowances for receivables from reinsurance operations	-	-
	405 192	**109 670**

25. DEFERRED TAX ASSETS

	2015	2014
Deferred income tax asset as at the beginning of the reporting year	(1 242 319)	(1 019 020)
Deferred income tax changes recognised to the income statement (see Note 18)	251 526	(223 299)
Deferred income tax asset as at the end of the reporting year	**(990 793)**	**(1 242 319)**

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:

	31.12.2015	31.12.2014
Temporary difference on depreciation of property and equipment	395 498	424 116
Temporary difference for accrued expenses	(313 007)	(232 485)
Tax loss carry-forwards	(1 044 019)	(1 397 364)
Temporary difference for impairment for overdue debtors	(29 265)	(36 586)
Deferred income tax asset as at the end of the reporting year	**(990 793)**	**(1 242 319)**

Under the current legislation, tax losses in the amount of EUR 6 960 135 have an unlimited carry forward period. Temporary differences do not expire under current tax legislation.

Movement in deferred tax balances

	Net balance 1 January 2015	Recognized in profit or loss	Recognized in OCI	Net balance 31 December 2015	31 December 2015	
					Deferred tax asset	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)	-
Deferred tax (assets) / liabilities before set-off					**(1 386 291)**	**395 498**
Set off of tax					395 498	(395 498)
Net deferred tax (assets) / liabilities					**(990 793)**	**-**

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

	Net balance 1 January 2014	Recognized in profit or loss	Recognized in OCI	Net balance 31 December 2014	31 December 2014 Deferred tax asset	31 December 2014 Deferred tax liability
Property and equipment	397 526	26 590	-	424 116	-	424 116
Trade and other receivables	(41 667)	5 081	-	(36 586)	(36 586)	-
Accrued expenses	(316 411)	83 926	-	(232 485)	(232 485)	-
Tax loss carry-forwards	(1 058 468)	(338 896)	-	(1 397 364)	(1 397 364)	-
Deferred tax (assets) / liabilities before set-off					**(1 666 435)**	**424 116**
Set off of tax					424 116	(424 116)
Net deferred tax (assets) / liabilities					**(1 242 319)**	**-**

26. OTHER ACCRUED INCOME AND DEFERRED EXPENSES

	31.12.2015	31.12.2014
Prepayments for software maintenance	199 836	81 773
Prepayments for rent	29 358	32 119
Insurance payments	2 079	1 478
Other deferred expenses	73 415	29 963
	304 688	**145 333**

27. OTHER RECEIVABLES

	31.12.2015	31.12.2014
Financial other receivables		
Receivables for salvage transactions	785 426	853 150
Impairment of overdue salvage settlements	(166 771)	(208 161)
Receivables from related parties	14 806	-
Receivables from suitable scrap buyers	11 122	11 122
Receivables from other insurance companies	130 304	125 270
Receivables from agents	4 490	7 145
Receivables for claims regulation	12 114	12 114
Receivables from the Motor Insurers' Bureau of Latvia	5 725	5 378
Other receivables	256 698	194 766
Impairment of other overdue receivables	(167 351)	(168 956)
Total Financial other receivables	**886 563**	**831 828**

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 2013	**236 031**
Additional allowances	143 253
Recovered debts	(2 167)
As at 31 December 2014	**377 117**
Additional allowances	-
Recovered debts	(42 995)
As at 31 December 2015	**334 122**

Notes to the Financial Statements (All amounts in euros)

28. CASH AND CASH EQUIVALENTS

	31.12.2015	31.12.2014
Cash in current accounts	6 001 972	6 508 549
Bank deposits with original maturity of three months or less	-	1 300 020
	6 001 972	**7 808 569**

In 2015, the Company did not have any term deposits with credit institutions. The average interest rate in 2014 for term deposits with credit institutions with original maturity of three months or less was 0.06% and the average term was 14 days.

29. SHARE CAPITAL AND RESERVES

a) Issued and fully paid share capital

The total authorised number of ordinary shares is 4 728 064 (31.12.2014: 4 652 067). The nominal value of one share as at 31.12.2015 is EUR 1.4 (31.12.2014: LVL 1). All issued shares are fully paid. The share capital of the Company as at 31 December 2015 is EUR 6 619 290 (31.12.2014: EUR 6 619 295, which has been obtained recalculating the registered share capital of LVL 4 652 067 using the official currency exchange rate of LVL 0,702804 to EUR 1).

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 31.12.2015, the largest shareholder of the Company with 4 727 821 or 99.99% shares (31.12.2014: 4 651 825 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.

30. TAX AND SOCIAL INSURANCE

	31.12.2015	31.12.2014
Compulsory state social security contributions	265 954	203 016
Personal income tax	165 400	146 721
Value added tax	33 374	8 068
Business risk state duty	205	199
Liabilities	**464 933**	**358 004**

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

	2015	2014
Compulsory state social security contributions	3 232 850	3 004 063
Personal income tax	1 951 852	1 886 869
Value added tax	259 592	335 236
Corporate income tax	-	-
Property tax	29 421	28 254
Business risk state duty	2 418	2 428
	5 476 133	**5 256 850**

Notes to the Financial Statements (All amounts in euros)

31. ACCRUED EXPENSES AND DEFERRED INCOME

	31.12.2015	31.12.2014
Financial accrued expenses		
Accruals for personnel bonuses	1 019 018	687 142
Accrued expenses on unused annual vacations	516 580	430 854
Accruals for IT services	41 019	73 429
Accruals for intermediary commissions	85 908	32 448
Accruals for consulting services	67 355	27 000
Accruals for rent and utilities services	24 266	24 053
Accruals for audit expenses	18 150	15 772
Accruals for transport expenses	9 100	9 000
Accruals for other expenses	305 316	606 199
Total financial accrued expenses	**2 086 712**	**1 905 897**
Non-financial accrued expenses and deferred income		
Unearned reinsurance commission	135 976	52 653
Other deferred income	18 832	7 247
Total non-financial accrued expenses and deferred income	**154 808**	**59 900**
	2 241 520	**1 965 797**

	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**

	Accruals for personnel bonuses	Accrued expenses on unused annual vacations	Other accrued expenses	Total
As at 31 December 2013	**499 855**	**457 238**	**1 196 223**	**2 153 316**
Additions	629 904	457 238	847 801	1 934 943
Used	(343 962)	(483 622)	(1 135 364)	(1 962 948)
Reversed	(98 655)	-	(60 859)	(159 514)
As at 31 December 2014	**687 142**	**430 854**	**847 801**	**1 965 797**
Long-term part	-	-	-	-
Short-term part	**687 142**	**430 854**	**847 801**	**1 965 797**

Notes to the Financial Statements (All amounts in euros)

32. OTHER CREDITORS

	31.12.2015	31.12.2014
Financial other creditors		
Commission payables	588 642	543 374
Due to personnel	480 184	441 347
Payables to Group entities	-	129 883
Straight payable	-	10 210
Other liabilities	104 731	85 826
Total financial other creditors	**1 173 557**	**1 210 640**
Non-financial other creditors		
Due to the Financial and Capital Market Commission	98 089	91 101
Due to the Motor Insurers' Bureau of Latvia	61 805	46 814
Total non-financial other creditors	**159 894**	**137 915**
	1 333 451	**1 348 555**

33. 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 2015 and 2014.

34. MANDATORY PAYMENTS

Types of mandatory payments made during the reporting year:

	2015	2014
Motor Insurers' Bureau of Latvia	319 454	194 239
Financial and Capital Market Commission	335 976	340 497
	655 430	**534 736**

35. RESULT OF CEDED REINSURANCE

	2015	2014
Reinsurers' share in written premiums (see Note 4)	(2 452 435)	(1 776 401)
Reinsurers' share in changes in unearned premiums (see Note 5)	(218 123)	(23 958)
Reinsurers' share in claims (see Note 7)	2 589 912	2 802 324
Reinsurers' share in changes in provisions for claims (see Note 8)	2 302 547	(1 405 832)
Reinsurance commission income (see Note 6)	128 308	93 358
Net result of ceded reinsurance activities:	**2 350 209**	**(310 509)**

36. 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.

Notes to the Financial Statements (All amounts in euros)

vi) The entity is controlled, or jointly controlled by a person identified in (a).
vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
viii) The entity, or any member of a group 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 as of 30.06.2014 is POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (Poland).

Until 30.06.2014, the parent company of the Company was Royal &Sun Alliance Insurance PLC (UK).

Lietuvos Draudimas AB (Lithuania) was a subsidiary of Royal & Sun Alliance Insurance PLC until 31.10.2014. As of 31.10.2014, Lietuvos Draudimas AB is a subsidiary of POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. Due to the above, from 30.06.2014 until 31.10.2014, Lietuvos Draudimas AB was not considered a related party to the Company.

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

	2015	**01.01.2014 – 30.06.2014**
Royal & Sun Alliance Insurance PLC (RSA):		
Fronting insurance premiums	-	(339 770)
Reinsurance premiums ceded	-	(313 925)
Commissions from insurance policies fronting	-	22 646
Fronting insurance claims	-	12 519
Change of fronting insurance unearned premium reserve	-	119 573
Change of fronting insurance deferred client acquisition costs	-	187
Change of fronting insurance claim reserve	-	(3 607)
	-	**(502 377)**

	2015	**01.07.2014 – 31.12.2014**
POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU):		
Reinsurance Premiums ceded	(1 661 777)	(152 331)
Change of reinsurance unearned premium reserve	256 189	-
Reinsurance claims	1 035 600	-
Change of reinsurance claim reserve	(1 029 559)	3 500 000
	(1 399 547)	**3 347 669**

	2015	**01.01.2014 – 30.06.2014**
Lietuvos Draudimas AB:		
Fronting insurance premiums	(292 269)	-
Commissions from insurance policies fronting	17 192	-
Fronting insurance claims	23 599	-
Change of fronting insurance unearned premium reserve	83 399	-
Change of fronting insurance deferred client acquisition costs	17 192	-
Change of fronting insurance claim reserve	20 223	-
	(130 664)	**-**

Other transactions

	2015	**01.01.2014 – 30.06.2014**
Royal & Sun Alliance Insurance PLC (RSA):		
Management consulting services	-	(278 398)
IT consultation	-	(39 137)
Compensation of expenses	-	26 066
	-	**(291 469)**
Lietuvos Draudimas AB:		
Management consulting services	-	(26 122)
Compensation of expenses	-	633

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

	-	(25 489)
	2015	01.07.2014 – 31.12.2014
POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU):		
Accrued interest and amortisation for subordinated loan	(79 224)	-
	(79 224)	**-**

	01.01.2015 – 30.09.2015	**01.07.2014 – 31.12.2014**
PZU Lietuva UAB DK, including its Latvian branch:		
Consideration paid for assets and liabilities taken over	(289 000)	-
	(289 000)	**-**

Balances with related parties

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

	31.12.2015	31.12.2014
Fronting insurance reinsurer's share in claims reserves with Lietuvos Draudimas	20 223	-
Fronting insurance receivables from Lietuvos Draudimas	41 204	-
Fronting insurance payables to Lietuvos Draudimas	(114 796)	-
Fronting insurance reinsurer's share in unearned premium reserves with Lietuvos Draudimas	83 399	-
Receivables from Lietuvos Draudimas	9 144	-
Subordinated loan from PZU	(4 179 224)	-
Payables to PZU	-	(129 883)
Receivables from PZU	25 111	-
Reinsurer's share in claims reserves with PZU	2 470 441	3 500 000
Reinsurer's share in unearned premium reserves with PZU	256 189	-
Reinsurance payables to PZU	(428 870)	(51 885)
Reinsurance receivables from PZU	264 322	-
	(1 552 857)	**3 318 232**

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 2015, the Company paid remuneration, including compulsory state social security contributions, to the Board of Directors in the amount of EUR 810 thousand (2014: EUR 1 187 thousand).

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)**

37. 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 2015 there were 35 (31.12.2014: 34) pending cases of litigation versus the Company for a total of EUR 2 873 thousand (31.12.2014: EUR 2 573 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 2015.

The Company does not have any non-cancellable operating leases as at 31 December 2015, 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 2015 amounts to EUR 40 thousand (31.12.2014: EUR 65 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.

38. 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

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

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 31.12.2015:

	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	291 941	(291 343)	19 320	(19 320)
Property	90 173	(79 803)	4 921	(4 921)
Motor own damage	32 357	(22 741)	5 468	(5 468)
General TPL	84 912	(64 574)	2 244	(2 244)
Health	52 123	(53 144)	1 967	(1 967)

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 2015	**Latvia**	**OECD 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	18 077	23 253
Insurance and reinsurance debtors	11 498	405	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**	**32 817**	**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)**
Net position as at 31 December 2015	**8 866**	**27 715**	**36 581**

Year 2014	**Latvia**	**OECD countries**	**Total**
Financial assets and reinsurers' share of claims reserves			
Financial investments at fair value through profit or loss	16 382	2 653	19 035
Term deposits with credit institutions	13 888	-	13 888
Insurance and reinsurance debtors	10 530	110	10 640
Reinsurers' share of outstanding claims reserves	-	7 491	7 491
Cash and cash equivalents	7 809	-	7 809
Other debtors	796	36	832
Total financial assets and reinsurers' share of claims reserves	**49 405**	**10 290**	**59 695**
Financial liabilities and claims reserves			
Outstanding claims reserves	(22 443)	-	(22 443)
Financial liabilities	(4 640)	(697)	(5 337)
Total financial liabilities and claims reserves	**(27 083)**	**(697)**	**(27 780)**
Net position as at 31 December 2014	**22 322**	**9 593**	**31 915**

Notes to the Financial Statements (All amounts in euros)

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:

	2015	**2014**
Personal accident & Travel medical expense	100 000	100 000
Motor own damage	no limit	no limit
Cargo insurance	200 000	1 507 312
Hull, CMR Property	200 000	1 507 312
Property insurance	702 049	1 000 000
General TPL insurance	351 025	1 000 000
Bonds and guarantees	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 31.12.2015 and 31.12.2014 did not identify any impairment of DAC assets.

39. 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.

39.1 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.

a) Maximum credit exposure

	31.12.2015	**31.12.2014**
Latvian government debt securities	18 177 572	16 382 143
German government debt securities	-	825 973
Lithuanian government debt securities	7 387 358	-
Polish government debt securities	3 351 091	-
Irish government debt securities	1 602 005	-
Romanian government debt securities	1 503 747	-
Slovenian government debt securities	668 264	-
Hungarian government debt securities	644 072	-
Bulgarian government debt securities	636 395	-
Croatian government debt securities	402 607	-
Corporate bonds	5 368 061	1 826 843
Investment funds	6 955 728	-
Deposits with credit institutions	-	13 888 367
Cash and cash equivalents	6 001 972	7 808 569
Credit risk	**52 698 872**	**40 731 895**

Reinsurers' share in unearned premium reserves	651 435	384 265
Outstanding claims reserve, reinsurers' share	5 214 172	7 491 163
Reinsurance debtors	405 192	109 670
Receivables due from policyholders	10 938 920	10 084 744
Receivables due from intermediaries	558 506	445 816
Other receivables	886 563	831 828
	18 654 788	**19 347 486**
Maximum credit exposure, total	**71 353 660**	**60 079 381**

b) Reinsurance risk breakdown by key counterparties

Reinsurer	**31.12.2015** Assets related to reinsurance	**S&P Rating**	**31.12.2014** Assets related to reinsurance	**S&P Rating**
PZU	2 990 966	**A-**	3 500 000	**A-**
Swiss Re Group	818 974	**AA-**	1 232 707	**AA-**
Munich Re Group	517 375	**AA-**	915 134	**AA-**
ALD Re	321 968	**A-**	304 332	**A-**
Hannover Re	321 354	**AA-**	539 038	**AA-**
GeneralCologne Re	314 946	**AA+**	344 176	**AA+**
SCOR Global P&C	184 971	**A+**	248 908	**A+**
Lietuvas Draudimas	144 766	**NR**	-	**-**
RSA	111 059	**A**	116 479	**A**
Caisse Centrale de Reassurances	109 687	**AA**	231 150	**AA**
Liberty Syndicate, Cologne	97 263	**A-**	134 881	**A-**
Odyssey America Reinsurance Corporation	81 897	**A-**	123 269	**A-**
R + V	77 176	**AA-**	80 280	**AA-**
ACE Tempest Re Europe	69 474	**AA-**	134 881	**AA-**
Atradius Reinsurance Limited	64 168	**A**	-	**-**
Sirius International Insurance Corporation	29 499	**A-**	29 347	**A-**
Polish Reinsurance Company	6 834	**A-**	-	**-**
Nationale Borg Reinsurance N.V.	6 772	**A-**	-	**-**
Novae Re	690	**AA-**	21 125	**AA-**
Transatlantic Reinsurance Company	510	**A+**	15 614	**A+**
Catlin Insurance Company	450	**A**	13 777	**A**
Reinsurance risk	**6 270 799**		**7 985 098**	

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

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**

Year 2014	**Rated AAA**	**AA**	**A**	**BBB+**	**Without rating**	**Total**
Government bonds	826	-	16 382	-	-	17 208
Corporate bonds	-	939	573	315	-	1 827
Term deposits with banks *	-	3 603	10 285	-	-	13 888
Total investment assets	**826**	**4 542**	**27 240**	**315**	**-**	**32 923**

* For local banks without a credit rating, the parent company's credit rating is used.

39.2 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 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**

Year 2014	**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	-	5 699	8 460	4 876	19 035
Term deposits with credit institutions	-	13 888	-	-	13 888
Insurance and reinsurance debtors	-	10 640	-	-	10 640
Reinsurers' share of outstanding claims reserves	-	7 075	416	-	7 491
Cash and cash equivalents	6 509	1 300	-	-	7 809
Other debtors	-	644	188	-	832
Total financial assets and reinsurers' share of claims reserves	**6 509**	**39 246**	**9 064**	**4 876**	**59 695**
Financial liabilities and claims reserves					
Outstanding claims reserves	-	(19 130)	(2 311)	(1 002)	(22 443)
Financial liabilities	-	(5 337)	-	-	(5 337)
Total financial liabilities and claims reserves	**-**	**(24 467)**	**(2 311)**	**(1 002)**	**(27 780)**
Net position as at 31 December 2014	**6 509**	**14 779**	**6 753**	**3 874**	**31 915**

39.3 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:

	2015	**2014**
Latvian government debt securities	0.51%	0.8%
Irish government debt securities	0.01%	-
Bulgarian government debt securities	0.06%	-
Croatian government debt securities	0.05%	-
Hungarian government debt securities	0.02%	-
Lithuanian government debt securities	0.24%	-
Polish government debt securities	0.18%	-
Slovenian government debt securities	0.01%	-
Romanian government debt securities	0.09%	-
Other corporate debt securities	0.43%	0.1%
Deposits with credit institutions	-	0.3%
Investment funds	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:

		2015 EUR	**2014 EUR**
Market interest rate and impact on fair value	+0.5 percent point	(980 037)	(268 404)
	-0.5 percent point	944 562	263 668

b) Fair value risk

Financial assets and financial liabilities other than those reflected at their fair value (see Note 21) and those classified as held to maturity (see Note 22), are receivables, term deposits with credit institutions, 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.

Term deposits with credit institutions and 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 36). 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 was exposed to currency risk arising from various currency exposures primarily with respect to GBP and USD due to insurance coverage provided in GBP and USD by and due to transactions in GBP with the previous parent company RSA until 30 June 2014. From 1 July 2014 due to transactions with the new parent company PZU 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 2015	**USD**	**EUR**	**GBP**	**LTL**	**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**

Year 2014	**USD**	**EUR**	**GBP**	**LTL**	**PLN**	**Other**	**Total**
Financial assets and reinsurers' share of claims reserves							
Financial investments at fair value through profit or loss	-	19 035	-	-	-	-	19 035
Term deposits with credit institutions	-	13 888	-	-	-	-	13 888
Insurance and reinsurance debtors	27	10 613	-	-	-	-	10 640
Reinsurers' share of outstanding claims reserves	-	7 489	-	-	-	2	7 491
Cash and cash equivalents	191	7 614	4	-	-	-	7 809
Other debtors	-	832	-	-	-	-	832
Total financial assets and reinsurers' share of claims reserves	**218**	**59 471**	**4**	**-**	**-**	**2**	**59 695**
Financial liabilities and claims reserves							
Outstanding claims reserves	(109)	(21 930)	(297)	(6)	-	(101)	(22 443)
Financial liabilities	-	(5 337)	-	-	-	-	(5 337)
Total financial liabilities and claims reserves	**(109)**	**(27 267)**	**(297)**	**(6)**	**-**	**(101)**	**(27 780)**
Net position as at 31 December 2014	**109**	**32 204**	**(293)**	**(6)**	**-**	**(99)**	**31 915**

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.

40. CAPITAL RISK MANAGEMENT

According to the requirements of the „Law on Insurance Companies and their Supervision" 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.

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

The minimum required capital must be maintained at all times throughout the year. The Company has met this requirement as illustrated below.

The table below summarises the required capital and the regulatory capital held. Solvency ratio shows excess of capital held over minimum required capital (all amounts in thousands of EUR):

	31.12.2015	**31.12.2014**
Minimum required capital	7 228	9 382
Regulatory capital of the Company calculated according to FCMC regulations	11 653	14 634
Solvency ratio (minimum required is 100%)	**161%**	**156%**

Starting from 1 January 2016, the Solvency II regime comes 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.

41. 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):

	2005 and prior	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
Net claims provisions at end of accident year and cumulative incurred claims in subsequent years												
At end of accident year	7 217	10 578	14 346	12 260	10 106	7 349	5 951	6 411	7 787	8 457	11 114*	
1 year later	7 161	8 205	12 783	9 757	8 181	5 771	4 683	4 913	6 679	8 357*		
2 years later	7 131	7 863	14 149	8 970	7 977	5 511	4 386	4 999	6 798*			
3 years later	7 266	8 621	13 412	8 529	7 999	5 263	4 757	4 850				
4 years later	7 218	9 028	12 892	8 775	7 971	5 418	4 804					
5 years later	7 055	8 690	12 694	8 142	8 019	5 452						
6 years later	6 725	7 904	12 771	8 025	7 879							
7 years later	6 396	7 628	12 538	8 087								
8 years later	6 255	7 700	12 495									
9 years later	6 272	7 655										
10 years later	6 222											
Net claims paid												
1 year later	5 236	6 455	10 595	6 414	5 945	3 933	3 546	3 772	4 880	5 888*		
2 years later	408	468	500	342	359	77	279	390	238*			
3 years later	257	284	157	269	426	67	411	104				
4 years later	169	76	30	361	53	962	39					
5 years later	42	67	77	63	112	71						
6 years later	21	18	38	20	137							
7 years later	(16)	(20)	315	412								
8 years later	(18)	42	64									
9 years later	32	57										
10 years later	(13)											
Cumulative net claims paid	**6 118**	**7 447**	**11 776**	**7 881**	**7 032**	**5 110**	**4 275**	**4 266**	**5 118***	**5 888***		**64 911***
CY (deficiency) / redundancy	**50**	**45**	**43**	**(62)**	**140**	**(34)**	**(47)**	**149**	**9****	**837****		**1 130****

*) Net claims provisions and net claims paid for 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.

42. 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 2015.

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Independent Auditors' Report

To the shareholders of AAS BALTA

Report on the Financial Statements

We have audited the accompanying financial statements of AAS BALTA ("the Company"), which comprise the statement of financial position as at 31 December 2015, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes, as set out on pages 7 to 44.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether these financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of these financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Company's preparation and fair presentation of these financial statements 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 controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the Company management, as well as evaluating the overall presentation of the financial statements.

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

KPMG

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of AAS BALTA as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages 4 to 5, the preparation of which is the responsibility of management, is consistent with the financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the financial statements of the Company. In our opinion, the Management Report is consistent with the financial statements.

KPMG Baltics SIA
Licence No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
21 March 2016

Inga Lipšāne
Latvian certified auditor
Certificate No 112