AAS BALTA

Annual Report for 2014 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*
David Hill	Chairman of the Council (until 24.07.2014)
Kaido Kepp	Member of the Council (until 24.07.2014)
Roger Hilton Hodgkiss	Member of the Council (until 24.07.2014)
Laurence Michael Loughnane	Member of the Council (until 24.07.2014)
Przemyslaw Dabrowski	Chairman of the Council (from 24.07.2014, until 28.10.2014); Deputy of Chairman of the Council (from 28.10.2014)
Rafal Miroslaw Grodzicki	Member of the Council (from 24.07.2014, until 28.10.2014); Chairman of the Council (from 28.10.2014)
Bogdan Benczak	Member of the Council (from 24.07.2014, until 28.10.2014)
Dominika Natalia Zbychorska	Member of the Council (from 24.07.2014, until 28.10.2014)
Slawomir Wlodzimierz Niemierka	Member of the Council (from 28.10.2014)
Wojciech Fraciszek Wroblewski	Member of the Council (from 28.10.2014)

Board

Name, Surname	*Position*
Sandis Šteins	Chairman of the Board (from 17.02.2014, until 28.10.2014)
Kestutis Serpytis	Chairman of the Board (from 01.02.2013, until 17.02.2014); Board Member (from 17.02.2014, until 03.07.2014)
Uldis Dzintars	Board Member
Dmitrij Nosko	Board Member
Uģis Vorons	Board Member
Veronika Linkuma	Board Member (until 03.07.2014)
Juozas Buitkus	Board Member (until 28.10.2014)
Ingus Savickis	Board Member
Juris Kipļuks	Board Member (until 06.02.2014)
Līga Abramoviča	Board Member (from 24.04.2014, until 28.10.2014)
Piotr Hubert Marczyk	Board Member (from 03.07.2014, until 28.10.2014)
Bogdan Benczak	Chairman of the Board (from 28.10.2014)
Deividas Raipa	Board Member (from 28.10.2014)
Rafal Piotr Rybkowski	Board Member (from 28.10.2014)

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

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

Responsible Certified Auditor:
Inga Lipšāne
Certified Auditor
Certificate No. 112

Report of the Council and the Board of Directors

Main developments

2014 has been a very intensive and successful year for the Company. The main developments and events in 2014 relate to the change of shareholders from RSA Group to PZU Group as of July 1st, 2014, increasing of BALTA's market share due to successful growth in current products and the introduction of new products, and improvements in the Company's operational efficiency started in 2014, which will continue to improve the Company's profitability and help to sustain outstanding financial stability position.

PZU Group is the largest general insurer in Central and Eastern Europe founded in early 19th century, based in Poland and operating in five countries. The change of the shareholder will give BALTA access to 200 years insurance operations experience in Eastern European market and ability to increase its market share by combining BALTA's and PZU Lietuva Latvian branch businesses in the Latvian market in 2015.

In 2014, BALTA managed to outperform the Latvian non-life market in growth by increasing gross written premiums by EUR 5.4m, or 11%, compared to 2013. The Company has managed to grow all its portfolios as well as introduced and developed such alternative products as consumer goods and payment protection insurance. In 2014, 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 a survey of insurance companies in Latvia, carried out by LETA and SKDS in 2014, BALTA was recognized as the country's most reliable insurer for the twelfth consecutive year. In 2014, BALTA was named the most trusted brand among insurers. According to Reputation Top 2014 conducted by *Nords Porter Novelli* and business newspaper *Dienas Bizness* BALTA is the reputation leader of Latvian insurance market and takes third place in best reputation ranking among the whole finance industry players in Latvia.

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 2014

Latvian domestic non-life insurance market has grown by around 14 million in 2014 reaching total market volume of EUR 240m. Growth compared to prior year has been around 6-7%, which is about the same as in 2013. Main contributors to the market growth have been Health insurance with EUR 4.2m or 12% of growth, Property – EUR 3.3m increase or 7% growth, and Motor Own Damage with EUR 2.6m or 4.4% growth.

Regulatory environment in 2014 has been focused on the introduction of Solvency II in 2016. In 2014, the regulating authority issued recommendations on corporate governance system as required by Solvency II regulation, which has to be introduced by market players by 2016. In 2014, Latvian insurers participated in EIOPA (European Insurance and Occupational Pensions Authority) stress testing.

Other market developments relate to MTPL non-material compensation regulation. Since July 2014, new rules regarding pain and suffering compensation have been introduced to comply with EU directives. These propose higher recommended compensation limits for non-material damage for the victims, not specifying the upper limit of compensation. Due to this increase, the average non-material claim compensation may increase in the future. It is expected that this change should be reflected in MTPL prices at some point in time.

Another development in MTPL compensations relates to the Constitutional Court decision stating that pain and suffering claims regulations issued by the Cabinet of Ministers in 2005 were not compliant with the EU directives starting from the date of issue and thus were not in force.

AAS Balta's management taking into account the latest market developments with respect to above has assessed the potential impact on claim reserves. Viewing various scenarios it was concluded that reserves are sufficient in the event of the most likely scenarios.

Preparation for Solvency II regulatory regime will be another important focus of insurance companies in 2015. Due to economic slowdown, insurance market growth in 2015 could slow down; however, it should be exceeding GDP growth.

Risk management

BALTA has set up a risk management system to ensure timely identification, assessment, control, management and reporting of risks. One of the key elements of this risk management system are the quarterly meetings of the Risk Commission that considers the latest trends in risk development and changes to the profile of the key risks, assesses the impact of each of these changes and documents new risks identified in all operational areas of the Company. A risk management plan is drafted for each key risk. During 2014, BALTA continued improving its risk management system to move towards full compliance with Solvency II, which, according to the updated schedule, will be implemented in Latvia on 1 January 2016.

Report of the Council and the Board of Directors

Capital adequacy and solvency are under constant focus of BALTA. At the end of 2014, capital of BALTA exceeded the solvency ratio calculated 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 modeling of several adverse scenarios that capital adequacy and solvency of BALTA was sufficient and the Company would be able to honor its liabilities towards customers and retain its financial stability also under unexpected adverse conditions.

Customer service and payment of claims

In 2014, BALTA continued to improve the process of monthly customer feedback gathering and analysis enabling the Company to introduce new customer oriented initiatives. An important initiative to improve the customer satisfaction and BALTA claims service quality is the introduction of car repair service quality guarantee. For property damage customers BALTA has introduced the service of premises and furniture cleaning after the accident.

BALTA continues to maintain high quality and convenient claims service – 33% of motor claims decisions were taken during the first contact (call) with customer, 63% of all health claims applications are submitted online ensuring a very prompt response and payment of health claims. Our customers appreciate the speed and convenience of claims reporting.

Working environment in the Company and professional development of staff

During 2014, BALTA was focused on raising employee engagement and raising competencies in sales force who focus on selling insurance products to small and medium enterprises. BALTA introduced new sales talent development program, where the target was to develop new sales professionals with a special training program twice as fast as BALTA usually does. The sales talent development program goals were overachieved.

In 2014, BALTA has introduced 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.

As BALTA became part of PZU Group in 2014, it started to adapt PZU Group practices related to employees, their engagement and performance management processes.

Corporate social responsibility

In 2014, BALTA has continued previously started corporate social responsibility activities - supporting environment protection activities, safety and social integration, and started participation in a new corporate social responsibility area – supporting one of the national level sports –basketball.

One of the most important events related to safety and prevention was participation in Safety zone in Riga city days (August 16-17), where BALTA and PZU Group provided useful experience on road safety: a 5d movie, reaction tester stand, accident simulation and practical tips on fire extinguishing. In two days, approximately 5000 participants experienced a road accident and other simulations to gain experience of these situations.

In 2014, BALTA and its business partners carried out various corporate social responsibility projects and activities: educating the society on the principles of safe driving together with Safe Driving School; the competition for Latvian companies BALTA Annual Award to the Safest Car Fleet organized for third year.

The employees of BALTA are active in participating in social events like Blood donor days and Big Clean Up day in the whole country.

Dividend payment

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

Subsequent events

Balta and PZU Lietuva are in the process of completing the business transfer of PZU Lietuva Latvian branch from PZU Lietuva to Balta. The Board of Directors and Supervisory Council of Balta has approved the decision of business transfer and business transfer agreement between Balta and PZU Lietuva has been signed. Still approval from Lithuania State Bank is required and it is expected that the deal will be completed in Q2 2015. No other 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.

Rafal Miroslaw Grodzicki	Bogdan Benczak
Chairman of the Council	Chairman of the Board

19 March 2015

Statement of Management Responsibility

The Council and the Board of Directors of AAS BALTA confirm that the financial statements for the year ended 31 December 2014 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 2014 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 2014.

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.

Rafal Miroslaw Grodzicki
Chairman of the Council

Bogdan Benczak
Chairman of the Board

19 March 2015

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

	Exhibit	2014	2013
Insurance income			
Gross written premiums		54 854 814	49 458 246
Reinsurer's share in premiums		(1 776 401)	(1 828 799)
Net written premiums	4	53 078 413	47 629 447
Change in gross provision for unearned premiums		(3 481 408)	(2 908 717)
Change in provision for unearned premiums, reinsurers' share		23 958	75 005
Change in provision for unearned premiums	5	(3 457 450)	(2 833 712)
Net premiums earned		**49 620 963**	**44 795 735**
Other technical income	6	221 183	205 305
Total insurance income		**49 842 146**	**45 001 040**
Insurance expenses			
Gross claims paid to policyholders		(31 674 004)	(25 388 938)
Loss adjustment expenses		(2 631 137)	(2 670 701)
Recovered losses		2 175 325	2 605 062
Claims paid	7	(32 129 816)	(25 454 577)
Reinsurer's share	7	2 802 324	300 874
Net claims paid		(29 327 492)	(25 153 703)
Change in gross provision for claims	8	(1 991 387)	(15 636)
Change in provision for claims, reinsurers' share	8	1 405 832	(494 162)
Net incurred claims		**(29 913 047)**	**(25 663 501)**
Client acquisition costs	9	(7 535 749)	(6 939 672)
Administrative expenses	10	(12 792 225)	(13 917 981)
Total insurance expenses		**(50 241 021)**	**(46 521 154)**
Net result of insurance activities		**(398 875)**	**(1 520 114)**
Interest income	11	663 715	920 480
Net profit / (loss) on financial assets at fair value through profit or loss	12	278 294	(613 608)
Other finance income	13	1 004	43 207
Other finance expense	14	(992)	-
Other income	15	140 573	485 392
Other expenses	16	(1 944 941)	(1 759 007)
Loss before tax		**(1 261 222)**	**(2 443 650)**
Changes in deferred tax asset	17	223 299	215 812
Loss for the year		**(1 037 923)**	**(2 227 838)**
Other comprehensive losses for the reporting year			
Revaluation reserve, net of deferred income tax		-	-
Total comprehensive losses for the reporting year		**(1 037 923)**	**(2 227 838)**

All loss is attributable to the owners of AAS Balta.

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

Rafal Miroslaw Grodzicki
Chairman of the Council

Bogdan Benczak
Chairman of the Board

19 March 2015

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

	Exhibit	31.12.2014	31.12.2013
ASSETS			
Intangible assets	18	**2 706 114**	**3 018 139**
Property and equipment	19	**2 819 770**	**2 996 009**
Financial investments at fair value through profit or loss	20	19 034 959	21 901 169
Term deposits with credit institutions		13 888 367	13 120 221
Total investments		**32 923 326**	**35 021 390**
Receivables due from policyholders		10 084 744	8 385 871
Receivables due from intermediaries		445 816	328 543
Receivables from direct insurance operations	21	10 530 560	8 714 414
Reinsurance receivables	22	109 670	318 656
Other receivables	25	831 828	1 202 665
Total receivables		**11 472 058**	**10 235 735**
Reinsurers’ share in unearned premium reserve	5	384 265	360 307
Reinsurers’ share in reserve for outstanding claims	8	7 491 163	6 085 331
Reinsurers’ share of insurance contract liabilities		**7 875 428**	**6 445 638**
Deferred income tax asset	23	**1 242 319**	**1 019 020**
Current income tax asset	17	**-**	**29 802**
Deferred client acquisition costs	9	6 090 549	5 819 099
Other accrued income and deferred expenses	24	145 333	2 044 648
Accrued income and deferred expenses		**6 235 882**	**7 863 747**
Cash and cash equivalents	26	**7 808 569**	**1 964 289**
TOTAL ASSETS		**73 083 466**	**68 593 769**

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

Rafal Miroslaw Grodzicki
Chairman of the Council

Bogdan Benczak
Chairman of the Board

19 March 2015

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

	Exhibit	31.12.2014	31.12.2013
EQUITY, RESERVES AND LIABILITIES			
EQUITY AND RESERVES			
Share capital	27	6 619 295	6 619 295
Share premium	27	1 595 511	1 595 511
Reserve capital and other reserves	27	4 357 125	4 357 125
Retained earnings		4 889 403	5 927 326
TOTAL EQUITY AND RESERVES		**17 461 334**	**18 499 257**
LIABILITIES			
Unearned premium reserve	5	27 285 690	23 804 282
Outstanding claims reserve	8	22 443 458	20 452 071
Insurance contract liabilities		**49 729 148**	**44 256 353**
Direct insurance creditors		1 653 966	1 324 823
Reinsurance creditors		566 662	493 698
Taxes and the state compulsory social insurance contributions	28	358 004	397 667
Accrued expenses and deferred income	29	1 965 797	2 153 316
Other creditors	30	1 348 555	1 468 655
Total creditors		**5 892 984**	**5 838 159**
TOTAL LIABILITIES		**55 622 132**	**50 094 512**
TOTAL EQUITY, RESERVES AND LIABILITIES		**73 083 466**	**68 593 769**

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

Rafal Miroslaw Grodzicki
Chairman of the Council

Bogdan Benczak
Chairman of the Board

19 March 2015

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

	Share capital	Share premium	Reserve capital and other reserves	Retained earnings	Total
Balance at 31 December 2012	**6 619 295**	**1 595 511**	**4 357 125**	**8 155 164**	**20 727 095**
Loss for the year	-	-	-	(2 227 838)	(2 227 838)
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**

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

Rafal Miroslaw Grodzicki
Chairman of the Council

Bogdan Benczak
Chairman of the Board

19 March 2015

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

	Exhibit	2014	2013
Cash flows from operating activities			
Premiums received from direct insurance		53 758 001	49 298 460
Claims paid for direct insurance		(27 271 311)	(25 399 046)
Payments received from ceded reinsurance		339 648	614 383
Payments made for ceded reinsurance		(934 334)	(1 721 817)
Mandatory payments	32	(534 736)	(537 807)
Other expenses		(20 274 835)	(21 204 818)
Net cash from (used in) operating activities:		**5 082 433**	**1 049 355**
Cash flows from investing activities			
Disposal of investments		35 922 929	20 944 111
Acquisition of investments		(34 756 764)	(22 281 559)
Purchase of property and equipment and intangible assets		(1 549 663)	(949 932)
Proceeds from sale of property and equipment and intangible assets		211 151	66 512
Interest received from term deposits with credit institutions		37 301	50 606
Interest received from debt securities		898 520	1 040 479
Net cash generated from / (used in) investing activities:		**763 474**	**(1 129 783)**
Cash flows from financing activities			
Dividends paid		-	(85)
Net cash used in financing activities		**-**	**(85)**
Result of foreign exchange rate fluctuations on cash and cash equivalents		**(1 627)**	**(16 693)**
Net increase / (decrease) in cash and cash equivalents		**5 844 280**	**(97 206)**
Cash and cash equivalents at the beginning of reporting year		1 964 289	2 061 495
Cash and cash equivalents at the end of reporting year	26	**7 808 569**	**1 964 289**

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

Rafal Miroslaw Grodzicki
Chairman of the Council

Bogdan Benczak
Chairman of the Board

19 March 2015

Statement of Cash Flows (All amounts in euros)

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
SRS department:	Department of large tax payers
The majority shareholder:	POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A., a joint-stock company (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 majority 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 2.2.1).

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 19 March 2015. 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

In connection with the change of the official currency of the Republic of Latvia, as from 1 January 2014 the Company's functional and presentation currency is the euro, which replaced the national currency Latvian lat. Prior period financial information that was presented in Latvian lats has been translated to euros in accordance with the official currency conversion rate set at 0.702804 lats per 1 euro. As the Latvian lat was previously pegged to the euro at the same exchange rate, the change in the functional and presentation currency had no effect on the Company's financial position, financial performance or cash flows.

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 2014 to 31 December 2014.

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

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 2014.

(i) IFRS 10 Consolidated Financial Statements (2011)

The Company concluded that there are no changes in control assessment as a consequence of new rules introduced by IFRS 10 (2011) and this change is not applicable to the Company.

(ii) IFRS 11 Joint Arrangements

Under IFRS 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting.

The Company is not a party to any joint arrangements and these changes are not applicable to the Company.

(iii) IFRS 12: Disclosure of Interests in Other Entities

IFRS 12 brings together into a single standard all the disclosure requirements about an entity’s interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

The Company does not have any interest in subsidiaries, joint arrangements, associates or unconsolidated structured entities.

(iv) Other amendments to standards

The following amendments to standards with effective date of 1 January 2014 did not have any impact on these financial statements:

- Amendments to IAS 32 on Offsetting Financial Assets and Financial Liabilities
- Amendments to IAS 36 on Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to IAS 39 on Novation of Derivatives and Continuation of Hedge Accounting

In addition, certain balances for 2014 have been classified differently from the prior year, due to management’s judgment. There is no impact on the financial result from these reclassifications. Prior year corresponding balances have been reclassified, where appropriate, to conform to current year presentation. The most significant reclassification is that income from sold salvages from damaged cars are classified as decreased of claims paid. In the financial statements for 2013 they were disclosed under “Other technical income”.

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 2014, and have not been applied in preparing these financial statements.

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

(ii) IFRIC 21 Levies (effective for annual periods beginning on or after 17 June 2014)

(iii) 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.

2.3 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 terms of policy exceeds 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. Risks exceeding the limits of obligatory reinsurance treaties or falling outside their scope due to their nature are reinsured facultatively.

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.

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 36

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 Investments

The Company classifies its financial assets in the following categories: loans and receivables and at fair value through profit or loss. 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 investments at fair value through profit or loss

All the Company's investments in securities are classified as financial assets 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 and financial instruments are designated as at fair value through profit or loss.

Purchases and sales of financial assets are recognised on the settlement date – the date on which the Company received or delivered the asset. Loans and receivables 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 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.

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.

Statement of Cash Flows (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.

All other property and equipment and intangible assets (including internally developed software) are stated at historical cost less accumulated depreciation and amortisation. 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.

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.

	31.12.2014	**31.12.2013**
1 USD	EUR 1.214100	EUR 1.379100
1 GBP	EUR 0.778900	EUR 0.833700
1 LTL	EUR 3.452800	EUR 3.452800
1 LVL	EUR -	EUR 0.702804

2.9 Corporate income taxes

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 interest 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 made judgments, estimates and assumption 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 insurance receives recourse claims requests from State Social Insurance Agency (SSIA). Those recourses are reported to insurance companies with average delay of more than 2.5 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 reserve for future payments based on their estimate. Taking into account uncertainties and potential reserving difficulties the Latvian Actuarial Association has developed a recommended method (expected claim severity and frequency method) for those claim cases. The Company has adopted this method.

Company`s analysis shows that adoption of other reserving methods (triangles etc.) for SSIA recourse claims would lead to a high risk on under-reserving.

Taking into account the latest market developments regarding questions about requesting moral hazard (non-material) compensations to insurers, i.e., new regulations issued in Latvia, EU court decisions and Constitutional Court decision, the potential impact on claim reserves was assessed. Viewing various scenarios it was concluded that reserves are sufficient in the event of the most likely scenarios. The scenarios included assessment of claim reserves under various assumptions – starting from scenarios with the possible effect on the past ten years to scenarios with the possible effect only from the moment the new rules come into force.

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 18
- Deferred acquisition costs: Note 36 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 31.12.2014 are categorised into Level 1: unadjusted quoted prices in active markets for identical assets. As at 31.12.2013, fair values for part of these assets were categorised into Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Fair value for buildings is categorised into Level 3: inputs for the asset that are not based on observable market data.

Statement of Cash Flows (All amounts in euros)

4. NET WRITTEN PREMIUMS

	2014			2013		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
Personal accident	1 366 325	(10 958)	1 355 367	1 249 740	(15 835)	1 233 905
Health	9 779 502	-	9 779 502	7 686 658	-	7 686 658
Motor own damage	17 526 331	(225 222)	17 301 109	15 858 071	(187 462)	15 670 609
Marine	26 970	(344)	26 626	27 134	(1 064)	26 070
Cargo	900 628	(11 804)	888 824	1 089 361	(4 789)	1 084 572
Property	15 251 561	(1 026 802)	14 224 759	14 484 348	(1 065 195)	13 419 153
Credit insurance	69 907	-	69 907	-	-	-
General TPL	2 251 016	(96 111)	2 154 905	1 857 055	(108 251)	1 748 804
Guarantees	166 971	(100 263)	66 708	131 389	(80 004)	51 385
Financial risks	293 554	(134 872)	158 682	293 732	(152 886)	140 846
Travel accident	739 142	(6 716)	732 426	678 701	(10 124)	668 577
Obligatory Motor TPL	6 482 907	(163 309)	6 319 598	6 102 057	(203 189)	5 898 868
	54 854 814	**(1 776 401)**	**53 078 413**	**49 458 246**	**(1 828 799)**	**47 629 447**

Almost 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 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 2014 (and 2013) 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 0.31 per contract and fixed sum EUR 17 501.28 in year or EUR 1 458.44 in a month.

In 2014, OMTPL mandatory deductions amounted to EUR 204 504 (2013: EUR 191 968). The gross premiums in OMTPL are shown above net of these mandatory deductions.

Premiums earned

	2014			2013		
	Gross premiums earned	**Reinsurers' share**	**Net premiums earned**	**Gross premiums earned**	**Reinsurers' share**	**Net premiums earned**
Motor own damage	16 405 079	(207 861)	16 197 218	15 063 591	(171 594)	14 891 997
Property	14 943 083	(1 037 449)	13 905 634	13 983 208	(1 051 931)	12 931 277
Health	8 418 776	-	8 418 776	7 006 339	-	7 006 339
Obligatory Motor TPL	6 090 980	(159 489)	5 931 491	5 527 197	(200 403)	5 326 794
Other	5 515 488	(347 644)	5 167 844	4 969 194	(329 866)	4 639 328
TOTAL	**51 373 406**	**(1 752 443)**	**49 620 963**	**46 549 529**	**(1 753 794)**	**44 795 735**

Statement of Cash Flows (All amounts in euros)

5. UNEARNED PREMIUM RESERVE

a) Movement in unearned premium reserve

	Gross amount	Reinsurers' share	Net amount
Balance at 31 December 2012	**20 895 565**	**(285 302)**	**20 610 263**
Written premiums	49 458 246	(1 828 799)	47 629 447
Earned premiums	(46 549 529)	1 753 794	(44 795 735)
Total change for the year	2 908 717	(75 005)	2 833 712
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**

b) 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**

c) Changes in unearned premium reserve and distribution by type of insurance for the year 2013:

	Gross amount	Reinsurers' share	Net amount
Personal accident	33 396	-	33 396
Health	680 319	-	680 319
Motor own damage	794 480	(15 868)	778 612
Marine	256	-	256
Cargo	225 104	(7)	225 097
Property	501 140	(13 264)	487 876
General TPL	80 882	(3 052)	77 830
Guarantees	35 054	(33 737)	1 317
Financial risks	(20 980)	(6 291)	(27 271)
Travel accident	4 206	-	4 206
Credit insurance	-	-	-
Obligatory Motor TPL	574 860	(2 786)	572 074
	2 908 717	**(75 005)**	**2 833 712**

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

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

	31.12.2014	31.12.2013
Personal accident	690 279	634 218
Health	4 371 188	3 010 462
Motor own damage	9 554 264	8 433 012
Marine	12 323	12 284
Cargo	252 326	350 458
Property	8 019 257	7 710 779
General TPL	1 154 201	916 030
Guarantees	152 851	113 070
Financial risks	120 320	112 640
Travel accident	29 185	20 754
Credit insurance	46 994	-
Obligatory Motor TPL	2 882 502	2 490 575
	27 285 690	**23 804 282**

6. OTHER TECHNICAL INCOME

	2014	2013
Reinsurance commission income (see Note 33)	93 358	70 167
Expertise income	26 806	38 684
Income from cancellation of policies	65 096	52 054
Commission income from fronting insurance	26 696	29 421
Income of agreement penalties	1 756	11 157
Other income	7 471	3 822
	221 183	**205 305**

7. CLAIMS PAID

	2014			2013		
	Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
Personal accident	(434 989)	-	(434 989)	(413 851)	-	(413 851)
Health	(5 751 853)	-	(5 751 853)	(4 931 715)	-	(4 931 715)
Motor own damage	(10 381 681)	172 959	(10 208 722)	(9 403 127)	119 138	(9 283 989)
Marine	(8 199)	-	(8 199)	(4 724)	-	(4 724)
Cargo	(1 462 420)	-	(1 462 420)	(245 508)	-	(245 508)
Property	(6 720 205)	315 001	(6 405 204)	(6 689 558)	119 743	(6 569 815)
General TPL	(434 420)	4 845	(429 575)	(458 392)	-	(458 392)
Guarantees	(38)	-	(38)	(350)	-	(350)
Financial risks	(10 398)	-	(10 398)	(3 029)	-	(3 029)
Travel accident	(209 766)	-	(209 766)	(147 828)	-	(147 828)
Credit insurance	(132)		(132)	-	-	-
Obligatory Motor TPL	(6 715 715)	2 309 519	(4 406 196)	(3 156 495)	61 993	(3 094 502)
	(32 129 816)	**2 802 324**	**(29 327 492)**	**(25 454 577)**	**300 874**	**(25 153 703)**

Statement of Cash Flows (All amounts in euros)

8. CLAIM RESERVES

a) Movement in outstanding claims reserve:

	2014			2013		
	Gross amount	Reinsurer's share	Net amount	Gross amount	Reinsurer's share	Net amount
Year ended 31 December						
Notified claims	17 580 719	(6 085 331)	11 495 388	16 561 911	(6 579 493)	9 982 418
Incurred, but not reported	2 871 352	-	2 871 352	3 874 524	-	3 874 524
Total at beginning of year	**20 452 071**	**(6 085 331)**	**14 366 740**	**20 436 435**	**(6 579 493)**	**13 856 942**
Cash paid for claims notified in prior years	(9 784 779)	2 620 888	(7 163 891)	(4 392 165)	159 098	(4 233 067)
Changes in liabilities arising from current and prior year claims	11 776 166	(4 026 720)	7 749 446	4 407 801	335 064	4 742 865
Total change in year	1 991 387	(1 405 832)	585 555	15 636	494 162	509 798
Total at end of year	**22 443 458**	**(7 491 163)**	**14 952 295**	**20 452 071**	**(6 085 331)**	**14 366 740**
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 end of year	**22 443 458**	**(7 491 163)**	**14 952 295**	**20 452 071**	**(6 085 331)**	**14 366 740**

b) 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**

c) Change in outstanding claims reserve and distribution by type of insurance for the year 2013:

	Gross amount	Reinsurers' share	Net amount
Personal accident	23 302	-	23 302
Health	(89 466)	-	(89 466)
Motor own damage	451 483	(4 491)	446 992
Marine	(2 444)	-	(2 444)
Cargo	1 053 236	-	1 053 236
Property	(358 850)	127 695	(231 155)
General TPL	177 779	34 426	212 205
Guarantees	(15 361)	-	(15 361)
Financial risks	(74 911)	-	(74 911)
Travel accident	(50 933)	-	(50 933)
Credit insurance	-	-	-
Obligatory Motor TPL	(1 098 199)	336 532	(761 667)
	15 636	**494 162**	**509 798**

Statement of Cash Flows (All amounts in euros)

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

	31.12.2014	31.12.2013
Personal accident	125 810	108 081
Health	594 273	469 420
Motor own damage	2 139 114	1 992 018
Marine	2 248	1 709
Cargo	471 747	1 171 980
Property	7 710 368	3 990 515
General TPL	1 608 233	1 097 571
Guarantees	3 012	1 411
Financial risks	17 746	9 367
Travel accident	97 044	34 203
Credit insurance	4 469	-
Obligatory Motor TPL	9 669 394	11 575 796
	22 443 458	**20 452 071**

9. CLIENT ACQUISITION COSTS

	2014	2013
Commissions and other agent related expense	(3 272 770)	(3 096 989)
Commissions to brokers and other intermediaries	(3 861 410)	(3 373 825)
Compulsory state social security contributions related to agents' remuneration	(670 590)	(710 995)
Change in deferred client acquisition costs	271 450	242 412
Other acquisition expenses	(2 429)	(275)
	(7 535 749)	**(6 939 672)**

Sales costs included in the deferred acquisition costs (DAC) calculation amounting to EUR 4 346 149 (2013: 4 772 032) are represented under Administrative expenses. Refer to Note 10.

Deferred client acquisition costs

	EUR
As at 31 December 2012	**5 576 687**
Deferred client acquisition costs	11 954 116
Amortisation of deferred acquisition cost	(11 711 704)
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**

10. ADMINISTRATIVE EXPENSES

	2014	2013
Wages and salaries:		
- salaries to staff	(5 405 402)	(4 922 046)
- state compulsory social insurance contributions	(1 104 883)	(1 211 278)
Information technology and communication expense	(2 414 722)	(3 636 820)
Professional services	(559 390)	(671 685)
Depreciation and amortization costs	(1 266 744)	(1 194 864)
Premises utility, maintenance and repair expense	(475 252)	(642 381)
Advertisement and public relations	(548 834)	(450 554)
Transport	(212 186)	(298 911)
Rent of premises	(331 279)	(354 944)
Payments to Financial and Capital Market Commission	(150 785)	(172 072)
Office expenses	(101 963)	(103 599)
Payments to Foundation of Insured Interests Protection	(190 208)	(175 413)
Administration expenses related to Loss adjustment expenses *	506 268	636 015
Other administrative costs	(536 845)	(719 429)

Statement of Cash Flows (All amounts in euros)

	(12 792 225)	**(13 917 981)**

* – 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 0.292% 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 2014, the Company employed 266 employees (2013: 260) and 285 agents (2013: 346).

Administrative expenses include client acquisition costs amounting to EUR 4 346 149 (2013: 4 772 032) 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.

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

	2014	**2013**
Personal accident	(386 191)	(409 524)
Health	(2 095 681)	(1 863 222)
Motor own damage	(3 820 103)	(4 313 503)
Marine	(5 573)	(6 762)
Cargo	(208 999)	(207 532)
Property	(3 677 060)	(4 264 409)
General TPL	(506 333)	(523 743)
Guarantees	(23 441)	(22 900)
Financial risks	(33 053)	(47 696)
Travel accident	(269 363)	(289 886)
Credit insurance	(6 666)	-
Obligatory Motor TPL	(1 759 762)	(1 968 804)
	(12 792 225)	**(13 917 981)**

11. INTEREST INCOME

	2014	**2013**
From financial investments at fair value through profit or loss:		
Government bonds	554 385	684 123
Corporate bonds	62 943	189 186
From loans and receivables:		
Term deposits with credit institutions	46 387	47 171
	663 715	**920 480**

12. NET PROFIT / (LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2014	**2013**
Government bonds	311 127	(460 530)
Corporate bonds	(32 833)	(153 078)
	278 294	**(613 608)**

	2014	**2013**
Realised gains / (losses):		
Government bonds	(461 826)	(51 074)
Corporate bonds	(51 996)	(136 725)
Unrealised gains / (losses):		
Government bonds	772 953	(409 457)
Corporate bonds	19 163	(16 352)
	278 294	**(613 608)**

Statement of Cash Flows (All amounts in euros)

13. FINANCE INCOME

	2014	2013
Interest on cash and cash equivalents	1 004	750
Gain from foreign currency fluctuations, net	-	42 457
	1 004	**43 207**

14. FINANCE EXPENSES

	2014	2013
Losses from foreign currency fluctuations, net	(992)	-
	(992)	**-**

15. OTHER INCOME

	2014	2013
Net result from sale of property and equipment	110 251	63 978
Income from rent	20 857	11 707
Released liabilities from prior years	-	292 290
Revaluation gains on land and buildings (see Note 19), net	-	71 800
Income from recalculation of income tax and VAT	-	45 442
Other income	9 465	175
	140 573	**485 392**

16. OTHER EXPENSES

	2014	2013
Write-off of IT services received and penalties (see Note 24) *	(1 760 159)	(1 630 812)
Changes in provisions for overdue debts, net	(105 625)	(127 381)
Released receivables from prior years	(50 899)	-
Expenses from recalculation of VAT	(4 073)	-
Other expenses	(24 185)	(814)
	(1 944 941)	**(1 759 007)**

* 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.

17. CORPORATE INCOME TAX EXPENSES

	2014	2013
Corporate income tax for the reporting year	-	-
Change in deferred income tax balances (see Note 23)	223 299	215 812
Total income tax expense	**223 299**	**215 812**

As at 31 December 2014, the Company's corporate income tax assets amount to EUR 0 (31.12.2013: EUR 29 802). 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:

	2014	2013
Loss before tax	**(1 261 222)**	**(2 443 650)**
Theoretically calculated tax at a tax rate of 15%	189 183	366 548
Effect of non-deductible expenses and non-taxable income, net	34 116	(150 736)
Total tax	**223 299**	**215 812**

Statement of Cash Flows (All amounts in euros)

Effective corporate income tax rate in 2014 is 17.70 % (2013: 8.83%).

18. INTANGIBLE ASSETS

	Software	Advance payments for software	Total
As at 31 December 2012			
Historical cost	9 196 704	598 049	9 794 753
Accumulated amortization	(6 705 244)	-	(6 705 244)
Net book amount	**2 491 460**	**598 049**	**3 089 509**
In 2013			
Additions arising from internal development	6 073	565 684	571 757
Additions arising from external development	163 622	-	163 622
Reclassified	815 421	(815 421)	-
Written-off	(422 984)	-	(422 984)
Depreciation for intangible assets written off	420 466	-	420 466
Amortisation charge	(804 231)	-	(804 231)
Closing net book amount	**2 669 827**	**348 312**	**3 018 139**
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**

Statement of Cash Flows (All amounts in euros)

19. PROPERTY AND EQUIPMENT

	Land and Building	Leasehold improve-ments	Transport vehicles	Computers	Office equipment	Total
As at 31 December 2012						
Cost or valuation	3 544 330	384 723	1 260 948	1 531 080	976 667	7 697 748
Accumulated depreciation	(987 372)	(312 918)	(1 090 220)	(1 379 762)	(827 172)	(4 597 444)
Net book amount	**2 556 958**	**71 805**	**170 728**	**151 318**	**149 495**	**3 100 304**
In 2013						
Additions	34 690	17 639	60 943	58 881	42 400	214 553
Disposals	-	(218 600)	(322 953)	(31 601)	(72 928)	(646 082)
Depreciation charge: to income statement	(96 954)	(36 064)	(115 906)	(77 637)	(64 071)	(390 632)
Depreciation on disposed assets	-	218 600	322 953	31 601	72 912	646 066
Reversal of previously recognised loss from revaluation to income statement	99 388	-	-	-	-	99 388
Impairment losses: to income statement	(27 588)	-	-	-	-	(27 588)
Closing net book amount	2 566 494	53 380	115 765	132 562	127 808	2 996 009
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: to income statement	(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)	(1 192 635)	(696 374)	(3 234 226)
Net book amount	**2 483 365**	**82 891**	**15 905**	**108 497**	**129 112**	**2 819 770**

All land and buildings 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 31.12.2013, revaluation surplus of EUR 99 388 and impairment losses of EUR 27 588 were recognised in the income statement. The revaluation had no impact on Revaluation reserve in Equity as the recognised revaluation increase does not exceed the previously recognised loss level of the respective properties.

As at 31 December 2014, additional external valuation was not performed as per the Company's management the carrying amount as at 31 December 2014 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 market in 2014.

Statement of Cash Flows (All amounts in euros)

As at 31 December 2013, the valuation was made by an external independent appraiser using discounted cash flows method and the effective date of the valuation was 31 December 2013. Fair value for buildings is categorised as Level 3.

Type	Valuation technique	Significant unobservable inputs	Inter-relation between significant unobservable inputs and value in use measurement
Land and buildings in the amount of EUR 2 566 494	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Annual rental income growth rate of 2.3% Annual maintenance costs and capital expenditures rate of 2.1-2.3% Annual decrease in vacancies 5-12% Occupancy rate of 90-100% Period of income estimation – 5 years	The estimated value in use would increase (decrease) if: - Rental income growth rate was higher (lower) - Maintenance costs and capital expenditures rate was lower (higher) - Decrease in occupancy was higher (lower) - Period of cash flow estimation was longer (shorter)

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

	31.12.2014	**31.12.2013**
Cost	5 991 592	5 968 412
Accumulated depreciation	(1 458 857)	(1 305 472)
Balance	**4 532 735**	**4 662 940**

20. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2014 Fair value of investment	**Cost**	**31.12.2013 Fair value of investment**	**Cost**
Latvian government debt securities *	16 382 143	15 355 833	9 492 227	8 946 509
German government debt securities	825 973	847 354	6 340 644	6 414 376
Swedish government bonds	-	-	2 060 095	2 105 923
Danish government debt securities	-	-	1 802 925	1 829 603
Corporate bonds	1 826 843	1 849 030	2 205 278	2 234 855
	19 034 959		**21 901 169**	

The split between current and non-current financial investments at fair value through profit or loss is included in Note 37. Financial investments at fair value through profit or loss in total EUR 19.03 million are in Level 1 fair value hierarchy in accordance with IFRS 7 definitions.

* In 2013, financial investments at fair value through profit or loss in total EUR 12.41 million were in Level 1 fair value hierarchy and EUR 9.49 million were in Level 2 fair value hierarchy in accordance with IFRS 7 definitions. At the end of 2nd quarter 2014, the Company reclassified fair value of Latvian government debt securities from Level 2 to Level 1.

21. RECEIVABLES FROM DIRECT INSURANCE OPERATIONS

	31.12.2014	**31.12.2013**
Gross receivables from direct insurance operations	10 599 635	8 821 045
Doubtful debt allowances for receivables from direct insurance operations	(69 075)	(106 631)
	10 530 560	**8 714 414**

Statement of Cash Flows (All amounts in euros)

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

	Gross 2014	Impairment 2014	Gross 2013	Impairment 2013
Not past due	10 256 952	-	8 538 283	-
Past due 0-30 days	254 051	-	160 900	-
Past due 31-60 days	19 557	-	15 231	-
More than 60 days	69 075	(69 075)	106 631	(106 631)
	10 599 635	**(69 075)**	**8 821 045**	**(106 631)**

The management believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historic payment behaviour and analysis of customer credit risk.

The movement in the allowance for impairment in respect of receivables from direct insurance operations during the year was as follows:

	EUR
As at 31 December 2012	**107 034**
Additional allowances	17 232
Recovered debts	(17 635)
As at 31 December 2013	**106 631**
Additional allowances	10 017
Recovered debts	(47 573)
As at 31 December 2014	**69 075**

22. REINSURANCE RECEIVABLES

	31.12.2014	31.12.2013
Gross receivables from reinsurance operations	109 670	318 656
Doubtful debt allowances for receivables from reinsurance operations	-	-
	109 670	**318 656**

23. DEFERRED TAX ASSETS

	2014	2013
Deferred income tax asset as at the beginning of the reporting year	(1 019 020)	(803 208)
Deferred income tax changes recognised to the income statement (see Note 17)	(223 299)	(215 812)
Deferred income tax changes recognised to equity	-	-
Deferred income tax asset as at the end of the reporting year	**(1 242 319)**	**(1 019 020)**

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:

	31.12.2014	31.12.2013
Temporary difference on depreciation of property and equipment	424 116	397 526
Temporary difference for accrued expenses	(232 485)	(316 411)
Tax loss carry-forwards	(1 397 364)	(1 058 468)
Temporary difference for impairment for overdue debtors	(36 586)	(41 667)
Deferred income tax asset as at the end of the reporting year	**(1 242 319)**	**(1 019 020)**

Tax losses in the amount of EUR 9 315 760 have unlimited carry forward period. Under the current legislation, tax losses may be carried forward and be set off against the taxable income for an unlimited period of time. Deductible temporary differences do not expire under current tax legislation.

Statement of Cash Flows (All amounts in euros)

Movement in deferred tax balances

	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)**	**-**

	Net balance 1 January 2013	Recognized in profit or loss	Recognized in OCI	Net balance 31 December 2013	31 December 2013 Deferred tax asset	31 December 2013 Deferred tax liability
Property and equipment	319 768	77 758	-	397 526	-	397 526
Trade and other receivables	(22 910)	(18 757)	-	(41 667)	(41 667)	-
Accrued expenses	(307 382)	(9 029)	-	(316 411)	(316 411)	-
Tax loss carry-forwards	(792 683)	(265 785)	-	(1 058 468)	(1 058 468)	-
Deferred tax (assets) / liabilities before set-off					**(1 416 546)**	**397 526**
Set off of tax					397 526	(397 526)
Net deferred tax (assets) / liabilities					**(1 019 020)**	**-**

24. OTHER ACCRUED INCOME AND DEFERRED EXPENSES

	31.12.2014	31.12.2013
Payment for IBM for Transition & Transformation services *	-	1 778 600
Repair works	-	43 277
Prepayments for software maintenance	81 773	94 291
Prepayments for rent	32 119	37 072
Insurance payments	1 478	74 166
Prepayments for reinsurance	-	7 601
Other deferred expenses	29 963	9 641
	145 333	**2 044 648**

* - Please refer to Note 16.

Statement of Cash Flows (All amounts in euros)

25. OTHER RECEIVABLES

	31.12.2014	31.12.2013
Financial other receivables		
Receivables for salvage transactions	853 150	963 263
Impairment of overdue salvage settlements	(208 161)	(210 256)
Receivables from related parties	-	274 657
Receivables from suitable scrap buyers	11 122	11 123
Receivables from other insurance companies	125 270	24 946
Receivables from agents	7 145	7 002
Receivables for claims regulation	12 114	12 114
Receivables from the Motor Insurers' Bureau of Latvia	5 378	7 871
Other receivables	194 766	137 131
Impairment of other overdue receivables	(168 956)	(25 775)
Total Financial other receivables	**831 828**	**1 202 076**
Non-financial other receivables		
Overpaid VAT (see Note 28)	-	589
Total non-financial other receivables	**-**	**589**
	831 828	**1 202 665**

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:

	EUR
As at 31 December 2012	**184 767**
Additional allowances	124 025
Written-off	(72 761)
Recovered debts	-
As at 31 December 2013	**236 031**
Additional allowances	143 253
Recovered debts	(2 167)
As at 31 December 2014	**377 117**

Statement of Cash Flows (All amounts in euros)

26. CASH AND CASH EQUIVALENTS

	31.12.2014	31.12.2013
Cash in current accounts	6 508 549	1 964 289
Bank deposits with original maturity of three months or less	1 300 020	-
	7 808 569	**1 964 289**

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.

27. SHARE CAPITAL AND RESERVES

a) Issued and fully paid share capital

The total authorised number of ordinary shares is 4 652 067 (2013: 4 652 067). All issued shares are fully paid. The share capital of the Company as at 31 December 2014 is EUR 6 619 295, which has been obtained recalculating the registered share capital of LVL 4 652 067 (nominal value of LVL 1 per share) using the official currency exchange rate of LVL 0,702804 to EUR 1. The registration of share capital in euro in accordance with the Latvian legislation has to be completed by 30 June 2016.

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

The largest shareholder of the Company with 4 651 825 or 99.99% shares is POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A., a joint-stock company (until July 1st, 2014 – Royal & Sun Alliance Insurance PLC with 4 651 825 or 99.99% shares).

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 Latvian law and shareholders' decisions.

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

28. TAX AND SOCIAL INSURANCE

	31.12.2014	31.12.2013
Compulsory state social security contributions	203 016	256 642
Personal income tax	146 721	140 812
Value added tax	8 068	(589)
Business risk state duty	199	213
Liabilities	**358 004**	**397 667**
Overpaid (included in Note 25)	**-**	**(589)**

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

	2014	2013
Compulsory state social security contributions	3 004 063	3 237 354
Personal income tax	1 886 869	1 820 984
Value added tax	335 236	359 211
Corporate income tax	-	-
Property tax	28 254	26 952
Business risk state duty	2 428	2 638
	5 256 850	**5 447 139**

Statement of Cash Flows (All amounts in euros)

29. ACCRUED EXPENSES AND DEFERRED INCOME

	31.12.2014	31.12.2013
Financial accrued expenses		
Accruals for personnel bonuses	687 142	499 855
Accrued expenses on unused annual vacations	430 854	457 238
Accruals for IT services	73 429	49 906
Accruals for intermediary commissions	32 448	27 543
Accruals for consulting services	27 000	33 766
Accruals for rent and utilities services	24 053	47 616
Accruals for audit expenses	15 772	32 857
Accruals for transport expenses	9 000	18 497
Accruals for expenses to related parties	-	735 073
Accruals for other expenses	606 199	207 053
Total financial accrued expenses	**1 905 897**	**2 109 404**
Non-financial accrued expenses and deferred income		
Unearned reinsurance commission	52 653	43 278
Other deferred income	7 247	634
Total non-financial accrued expenses and deferred income	**59 900**	**43 912**
	1 965 797	**2 153 316**

	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**

	Accruals for personnel bonuses	Accrued expenses on unused annual vacations	Other accrued expenses	Total
As at 31 December 2012	**599 284**	**499 105**	**983 607**	**2 081 996**
Additions	499 855	499 106	1 196 222	2 195 183
Used	(488 246)	(540 973)	(819 399)	(1 848 618)
Reversed	(111 038)	-	(164 207)	(275 245)
As at 31 December 2013	**499 855**	**457 238**	**1 196 223**	**2 153 316**
Long-term part	-	-	-	-
Short-term part	**499 855**	**457 238**	**1 196 223**	**2 153 316**

Statement of Cash Flows (All amounts in euros)

30. OTHER CREDITORS

	31.12.2014	31.12.2013
Financial other creditors		
Commission payables	543 374	544 545
Due to personnel	441 347	410 651
Payables to Group entities	129 883	133 709
Straight payable	10 210	202 574
Other liabilities	85 826	50 020
Total financial other creditors	**1 210 640**	**1 341 499**
Non-financial other creditors		
Due to the Financial and Capital Market Commission	91 101	90 607
Due to the Motor Insurers' Bureau of Latvia	46 814	36 549
Total non-financial other creditors	**137 915**	**127 156**
	1 348 555	**1 468 655**

31. 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 2014 and 2013.

32. MANDATORY PAYMENTS

Types of mandatory payments made during the reporting year:

	2014	2013
Motor Insurers' Bureau of Latvia	194 239	186 593
Financial and Capital Market Commission	340 497	351 214
	534 736	**537 807**

33. RESULT OF CEDED REINSURANCE

	2014	2013
Reinsurers' share in written premiums (see Note 4)	(1 776 401)	(1 828 799)
Reinsurers' share in changes in unearned premiums (see Note 5)	(23 958)	75 005
Reinsurers' share in claims (see Note 7)	2 802 324	300 874
Reinsurers' share in changes in provisions for claims (see Note 8)	(1 405 832)	494 162
Reinsurance commission income (see Note 6)	93 358	70 167
Net result of ceded reinsurance activities:	**(310 509)**	**(888 591)**

34. TRANSACTIONS AND PAYMENTS TO RELATED PARTIES

A party is related to an entity if:
(a) directly, or indirectly through one or more intermediaries, the party:
- the party is directly or indirectly controlling, controlled by or under common control of the company (parent company, subsidiary and other group company);
- has an interest in the Company that gives it significant influence over the Company; or
- has joint control over the Company;

(b) the party is an associate (as defined in IAS 28 Investments in Associates) of the Company;
(c) the party is a joint venture where the Company is a member of the joint venture;
(d) the party is a member of key management of the Company or its parent company;
(e) the party is a close member of the family of any individual referred to in (a) or (d);
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

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

The parent company of the Company is POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A., a joint-stock company.

Until 30.06.2014, the parent company of the Company was Royal &Sun Alliance Insurance PLC (UK). Codan (Denmark), Lietuvos Draudimas (Lithuania), Al Ahlia Insurance Co (Oman), RSA Insurance Agency (USA) are the subsidiaries of Royal & Sun Alliance Insurance PLC. Codan Forsikring AS Eesti filiaal is a branch of Codan AS in Estonia.
During the reporting year, the following transactions were carried out with related parties:

a) Transactions with related parties

Transactions with related parties from 01.01.2014 until 30.06.2014:

Reinsurance and fronting insurance

	01.01.2014 – 30.06.2014	2013
Royal & Sun Alliance Insurance PLC (RSA):		
Fronting insurance premiums	(339 770)	(428 132)
Reinsurance premiums ceded	(313 925)	(586 730)
Commissions from insurance policies fronting	22 646	30 928
Fronting insurance claims	12 519	25 972
Change of fronting insurance unearned premium reserve	119 573	22 614
Change of fronting insurance deferred client acquisition costs	187	(65)
Change of fronting insurance claim reserve	(3 607)	8 429
	(502 377)	**(926 984)**

Other transactions

	01.01.2014 – 30.06.2014	2013
Royal & Sun Alliance Insurance PLC (RSA):		
Management consulting services	(278 398)	(586 448)
IT consultation	(39 137)	(68 511)
Compensation of expenses	26 066	206 933
	(291 469)	**(448 026)**
Lietuvos Draudimas:		
Management consulting services	(26 122)	(12 077)
Compensation of expenses	633	1 847
	(25 489)	**(10 230)**
Al Ahlia Insurance Co:		
Compensation of expenses	-	1 840
		1 840
Codan Forsikring AS Esti filiaal:		
Other services	-	(2 999)
	-	**(2 999)**
RSA Insurance Agency:		
Compensation of expenses	-	1 043
	-	**1 043**

Transactions with related parties from 01.07.2014 until 31.12.2014:

Reinsurance

POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A. (PZU):	**01.07.2014 – 31.12.2014**	**2013**
Reinsurance Premiums ceded	(152 331)	-
Change of reinsurance claim reserve	3 500 000	-
	3 347 669	-

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

Statement of Cash Flows (All amounts in euros)

Balances with related parties

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

	31.12.2014	31.12.2013
Fronting insurance claims reserves with RSA	-	9 096
Fronting insurance receivables from RSA	-	27 813
Fronting insurance payables to RSA	-	(132 033)
Fronting insurance unearned premium reserve	-	122 118
Fronting insurance deferred client acquisition costs	-	(260)
Reinsurance payables to Codan AS	-	(6 972)
Reinsurance receivables from RSA	-	232 413
Reinsurance payables to RSA	-	(77 555)
Receivables from Lietuvos Draudimas	-	1 847
Receivables from AL Ahlia insurance Co	-	1 840
Receivables from RSA Insurance Agency	-	1 043
Receivables from RSA	-	269 929
Payables to RSA	-	(122 145)
Payables to Lietuvos Draudimas	-	(8 563)
Payables to Codan Forsikring A/S Eesti	-	(3 001)
Payables to PZU	(129 883)	-
Reinsurance claims reserves with PZU	3 500 000	-
Reinsurance payables to PZU	(51 885)	-
	3 318 232	**315 570**

b) Management remuneration

In 2014, the Company paid remuneration to the Board of Directors in the amount of EUR 1 187 thousand (2013: EUR 693 thousand).

35. 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 all other insurers, is subject to litigation in the normal course of its business. As at 31 December 2014 there were 34 (31.12.2013: 38) pending cases of litigation versus the Company for a total of EUR 2 573 thousand (31.12.2013: EUR 4 225 thousand). The management is of the opinion that no material unprovided losses will be incurred.

c) Capital commitments

The Company does not have any capital commitments as at 31 December 2014.

The Company does not have any non-cancellable operating leases as at 31 December 2014, 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 2014 amounts to EUR 65 thousand (31.12.2013: EUR 80 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 financial position.

36. 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 indemnifies 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.

Statement of Cash Flows (All amounts in euros)

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

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

General liability insurance

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

Health

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

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

Concentration by industry

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

Reinsurance contract assets

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

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

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

Sensitivity to insurance risk

Based on the fact that the Company provides non-life insurance, the terms and conditions of insurance contracts have no material effect on the timing and uncertainty of the insurer's future cash flows, except to the accounting estimates and assumptions for providing provisions for incurred but not reported claims as disclosed in Note 3.

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 31.12.2014

	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	106 337	-106 337	13 932	-13 932
Property	15 351	-15 351	4 894	-4 894
Motor own damage	9 712	-9 712	4 917	-4 917
General TPL	24 940	-24 940	662	-662
Health	14 563	-14 563	2 087	-2 087

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.

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

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

Year 2014	**Latvia**	**OECD countries**	**Other 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**

Year 2013	**Latvia**	**OECD countries**	**Other countries**	**Total**
Financial assets and reinsurers' share of claims reserves				
Financial investments at fair value through profit or loss	9 492	12 409	-	21 901
Term deposits with credit institutions	13 120	-	-	13 120
Insurance and reinsurance debtors	8 714	319	-	9 033
Reinsurers' share of outstanding claims reserves	-	6 085	-	6 085
Cash and cash equivalents	1 964	-	-	1 964
Other debtors	894	309	-	1 203
Total financial assets and reinsurers' share of claims reserves	**34 184**	**19 122**	**-**	**53 306**
Financial liabilities and claims reserves				
Outstanding claims reserves	(20 452)	-	-	(20 452)
Financial liabilities	(3 861)	(1 408)	-	(5 269)
Total financial liabilities and claims reserves	**(24 313)**	**(1 408)**	**-**	**(25 721)**
Net position as at 31 December 2013	**9 871**	**17 714**	**-**	**27 585**

Statement of Cash Flows (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:

	2014	**2013**
Personal accident & Travel medical expense	100 000	100 000
Motor own damage	no limit	no limit
Cargo insurance	1 507 312	1 507 312
Hull, CMR Property	1 507 312	1 507 312
Property insurance	1 000 000	1 000 000
General TPL insurance	1 000 000	1 000 000

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 and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

37. FINANCIAL RISK MANAGEMENT

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.

37.1 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

	31.12.2014	**31.12.2013**
Latvian government debt securities	16 382 143	9 492 227
German government debt securities	825 973	6 340 644
Swedish government bonds	-	2 060 095
Danish government debt securities	-	1 802 925
Corporate bonds	1 826 843	2 205 278
Deposits with credit institutions	13 888 367	13 120 221
Cash and cash equivalents	7 808 569	1 964 289
Credit risk	**40 731 895**	**36 985 679**

	31.12.2014	**31.12.2013**
Reinsurers' share in unearned premium reserves	384 265	360 307
Outstanding claims reserve, reinsurers' share	7 491 163	6 085 331
Reinsurance debtors	109 670	318 656
Receivables due from policyholders	10 084 744	8 385 871
Receivables due from intermediaries	445 816	328 543
Other receivables	831 828	1 202 665
	19 347 486	**16 681 373**
Maximum credit exposure, total	**60 079 381**	**53 667 052**

b) Reinsurance risk breakdown by key counterparties

Reinsurer	31.12.2014 Assets related to reinsurance	S&P Rating	31.12.2013 Assets related to reinsurance	S&P Rating
PZU	3 500 000	**A**	-	**A**
Swiss Re Group	1 232 707	**AA-**	1 795 640	**AA-**
Munich Re Group	915 134	**AA-**	1 571 203	**AA-**
Hannover Re	539 038	**AA-**	851 010	**AA-**
GeneralCologne Re	344 176	**AA+**	336 445	**AA+**
ALD Re	304 332	**A-**	264 572	**A-**
SCOR Global P&C	248 908	**A+**	349 578	**A+**
Caisse Centrale de Reassurances	231 150	**AA**	379 083	**AA**
ACE Tempest Re Europe	134 881	**AA-**	249 400	**AA-**
Liberty Syndicate, Cologne	134 881	**A-**	249 400	**A-**
Odyssey America Reinsurance Corporation	123 269	**A-**	179 564	**A-**
RSA	116 479	**A**	391 440	**A**
R + V	80 280	**AA-**	67 932	**AA-**
Sirius International Insurance Corporation	29 347	**A-**	40 331	**A-**
Novae Re	21 125	**AA-**	15 950	**AA-**
Transatlantic Reinsurance Company	15 614	**A+**	11 924	**A+**
Catlin Insurance Company	13 777	**A**	10 822	**A**
Reinsurance risk	**7 985 098**		**6 764 294**	

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

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**

Year 2013	**Rated AAA**	**AA**	**A**	**Rated BBB+**	**Without rating**	**Total**
Government bonds	7 108	3 096	-	9 492	-	19 696
Corporate bonds		1 279	625	301	-	2 205
Term deposits with banks *	-	3 631	9 489	-	-	13 120
Total investment assets	**7 108**	**8 006**	**10 114**	**9 793**	**-**	**35 021**

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

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

37.2 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 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**

Year 2013	**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	-	10 756	7 010	4 135	21 901
Term deposits with credit institutions	-	13 120	-	-	13 120
Insurance and reinsurance debtors	-	8 996	37	-	9 033
Reinsurers' share of outstanding claims reserves	-	2 070	3 530	485	6 085
Cash and cash equivalents	1 964	-	-	-	1 964
Other debtors	-	1 112	91	-	1 203
Total financial assets and reinsurers' share of claims reserves	**1 964**	**36 054**	**10 668**	**4 620**	**53 306**
Financial liabilities and claims reserves					
Outstanding claims reserves	-	(13 872)	(5 686)	(894)	(20 452)
Financial liabilities	-	(5 269)	-	-	(5 269)
Total financial liabilities and claims reserves	**-**	**(19 141)**	**(5 686)**	**(894)**	**(25 721)**
Net position as at 31 December 2013	**1 964**	**16 913**	**4 982**	**3 726**	**27 585**

37.3 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:

	2014	**2013**
German government debt securities	-	0.3%
Latvian government debt securities	0.8%	0.9%
Other corporate debt securities	0.1%	0.1%
Deposits with credit institutions	0.3%	0.4%

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:

		2014	**2013**
		EUR	**EUR**
Market interest rate and impact on fair value	+0.5 percent point	(268 404)	(223 580)
	-0.5 percent point	263 668	228 069

b) Fair value risk

Fair values of financial assets and financial liabilities not reflected at their fair value do not materially differ from their carrying amounts.

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 ultimate parent company RSA until 30 June 2014. From 1 July 2014 due to transactions with the new ultimate 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. The management of the Company seeks to limit currency risk through an investment portfolio created in respective currencies in the amount equal to respective claims reserve and liabilities. The EUR exchange rate was pegged to the LVL from 2005 until 1 January 2014, as of which the euro replaced the Latvian lat.

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

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

Year 2014	**USD**	**EUR**	**GBP**	**LTL**	**LVL**	**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**

Year 2013	**USD**	**EUR**	**GBP**	**LTL**	**LVL**	**Other**	**Total**
Financial assets and reinsurers' share of claims reserves							
Financial investments at fair value through profit or loss	-	12 409	-	-	9 492	-	21 901
Term deposits with credit institutions	-	13 120	-	-	-	-	13 120
Insurance and reinsurance debtors	18	2 970	232	-	5 813	-	9 033
Reinsurers' share of outstanding claims reserves	-	5 910	-	-	175	-	6 085
Cash and cash equivalents	92	414	10	-	1 448		1 964
Other debtors	-	91	-	-	1 112	-	1 203
Total financial assets and reinsurers' share of claims reserves	**110**	**34 914**	**242**	**-**	**18 040**		**53 306**
Financial liabilities and claims reserves							
Outstanding claims reserves	(18)	(8 752)	(137)	(53)	(11 381)	(111)	(20 452)
Financial liabilities	-	(689)	(981)	-	(3 592)	(7)	(5 269)
Total financial liabilities and claims reserves	**(18)**	**(9 441)**	**(1 118)**	**(53)**	**(14 973)**	**(118)**	**(25 721)**
Net position as at 31 December 2013	**92**	**25 473**	**(876)**	**(53)**	**3 067**	**(118)**	**27 585**

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. In 2013, the largest share of financial assets and liabilities was held in LVL and EUR to which the lat was pegged.

38. 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.

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):

	31.12.2014	**31.12.2013**
Minimum required capital	9 382	8 884
Regulatory capital of the Company calculated according to FCMC regulations	14 634	15 481
Solvency ratio (minimum required is 100%)	**156%**	**174%**

Company's risk policy is to maintain stable capital position with solvency ratio significantly above 100%. According to strategic plan for upcoming 3 years, company is planning to work with profits. Management believes that given overall solvency situation and future profitability plans company will continue as a going concern.

39. 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):

	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
Net claims provisions at end of accident year and cumulative incurred claims in subsequent years												
At end of accident year	6 468	5 260	10 578	14 346	12 260	10 106	7 349	5 951	6 411	7 787	8 457	
1 year later	5 992	4 040	8 205	12 783	9 757	8 181	5 771	4 683	4 913	6 679		
2 years later	7 155	5 562	7 863	14 149	8 970	7 977	5 511	4 386	4 999			
3 years later	5 602	5 444	8 621	13 412	8 529	7 999	5 263	4 757				
4 years later	5 856	5 513	9 028	12 892	8 775	7 971	5 418					
5 years later	5 739	5 387	8 690	12 694	8 142	8 019						
6 years later	5 702	5 326	7 904	12 771	8 025							
7 years later	5 433	5 229	7 628	12 538								
8 years later	5 200	5 149	7 700									
9 years later	5 140	5 177										
10 years later	5 129											
Net claims paid												
1 year later	4 034	4 706	6 455	10 595	6 414	5 945	3 933	3 546	3 772	4 880		
2 years later	530	179	468	500	342	359	77	279	390			
3 years later	229	128	284	157	269	426	67	411				
4 years later	129	6	76	30	361	53	962					
5 years later	163	11	67	77	63	112						
6 years later	31	17	18	38	20							
7 years later	4	30	(20)	315								
8 years later	(47)	(13)	42									
9 years later	(6)	35										
10 years later	(3)											
Cumulative net claims paid	**5 064**	**5 099**	**7 390**	**11 712**	**7 469**	**6 895**	**5 039**	**4 236**	**4 162**	**4 880**		
CY (deficiency) / redundancy	**11**	**(28)**	**(72)**	**233**	**117**	**(48)**	**(155)**	**(371)**	**(86)**	**1 108**		**709**

40. SUBSEQUENT EVENTS

Balta and PZU Lietuva are in the process of completing the business transfer of PZU Lietuva Latvian branch from PZU Lietuva to Balta. The Board of Directors and Supervisory Council of Balta have approved the decision of business transfer and business transfer agreement between Balta and PZU Lietuva has been signed. Still approval from Lithuania State Bank is required and it is expected that the deal will be completed in Q2 2015.

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 2014.

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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") as set out on pages 7 to 47. These financial statements comprise the statement of financial position as at 31 December 2014, 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.

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 the 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 the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by 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.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of AAS BALTA as at 31 December 2014, 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 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.

Ondrej Fikrle
Partner pp KPMG Baltics SIA
License No 55
Riga, Latvia
19 March 2015

Inga Lipšāne
Sworn Auditor
Certificate No 112