



“BTA Insurance Company” SE

Public Quarterly Report

3 Quarters of 2011

This Report is prepared in accordance with the 24 March 2006 Financial and Capital Market Commission Regulations No. 61 "Regulations on Preparation of Public Quarterly Reports of the Insurers".

The Report includes the summarized information on the Company's activity over **3 quarters of 2011**. This information is comparable with the previous reporting periods

Information on the Company

Name of the company	BTA Insurance Company SE		
Legal status	European Company		
Number, place and date of registration	40003159840, Riga, 1993		
Address	Kr.Valdemāra 63, Riga		
Members of the Board and their positions	Gints Dandzbergs – Chairman of the Board Janis Lucaus – Vice President Jelena Alfejeva – Vice President Agris Dambeniēks – Chief Accountant Andrejs Skroderis – Director of the Risk Underwriting Department		
Members of the Council and their positions	Pauls Dandzbergs – Chairman of the Council Andrejs Galanders – member of the Council Marts Dandzbergs – member of the Council		
Reporting period	01.01.2011 - 30.09.2011		
Information on shareholders		Number of shares	% of the share capital
	TIA AS	9 578	9.58%
	Individuals – residents of the Republic of Latvia	90 422	90.42%
		<u>100 000</u>	<u>100%</u>
Nominal value of one share	LVL 100.00		
Subscribed share capital	LVL 10 000 000		
Paid-up share capital	LVL 10 000 000		
Affiliated company	-		
Foreign branches	Lithuania, Estonia, Germany		

With a view to optimising operational expenses and expanding the range of services offered to the customers, reorganisation of the BTA subsidiary UAB BTA Draudimas was carried out in January of this year. As a result of the reorganisation UAB BTA Draudimas became the Lithuanian branch of BTA SE. During this process BTA SE taken over all liabilities and assets of the subsidiary. Wherewith, indicators of written premiums and claims include the effect of the acquisition of UAB BTA Draudimas. As a result of takeover of liabilities the amount of gross premiums written increased by LVL 9 141 997 and the increase in accepted claims was LVL 16 573 684. Together with the increase of premiums and claims the accumulated technical reserves of UAB BTA Draudimas amounting to LVL 16 624 815 were taken over, which compensated for the increase in expenses in relation to the changes in the amount of accepted claims.

Income Statement

Item	During the Reporting Period	In the Respective Period of the Previous Reporting Year
Earned premiums	55 115 940	32 360 879
Other technical income, net	17 341 298	20 515
Incurred claims, net	(50 466 028)	(18 904 721)
Changes in other technical reserves	-	-
Gratuities, net	-	-
Net operating expenses	(20 146 511)	(11 143 659)
Other technical expenses, net	(335 403)	(133 085)
Changes in equalization reserves	0	-
Investment management expenses/income and commission payments	(80 899)	(39 947)
Net interest income and dividend income	1 692 371	1 206 041
Net realized profit/loss from financial assets and financial liabilities, which are not recognized at fair value through profit and loss	-	-
Net profit/loss from financial assets and financial liabilities held for trading	-	-
Net profit/loss from the financial assets and financial liabilities classified at fair value through profit and loss	(173 521)	1 305 194
Revaluation result of foreign currencies	(794 477)	175 228
Profit/loss from derecognition of tangible assets, investments in buildings for ensuring own activities, investments in property and intangible assets	-	-
Depreciation	(617 158)	(302 987)
Impairment losses	(44 964)	(278 039)
Increase/decrease in value of investment in property	-	-
Other income/(expenses) that are not recognized in other items, net	(67 177)	(30 030)
Profit/loss of the reporting period before taxes	1 423 471	4 235 389

Indicators by Type of Insurance

Type of Insurance	Gross Premiums Written	Net Premiums Written	Gross Insurance Claims Paid	Net Insurance Claims Paid	Net operating expenses
Accident insurance	1 391 814	1 356 740	324 513	298 182	372 095
Health insurance	4 481 854	4 481 854	2 615 979	2 615 979	975 255
Motor vehicle insurance (other than railway)	11 359 393	11 261 564	8 040 558	8 040 558	2 960 394
Railway transport insurance	120 687	107 969	2 480	2 480	25 957
Aircraft insurance	130 126	(20 525)	1 887	1 887	24 860
Vessel insurance	168 253	25 062	69 285	44 694	(972)
Cargo insurance	416 028	243 539	22 605	11 259	112 435
Property insurance against fire and natural disaster damages	6 551 732	5 761 956	3 760 688	3 465 197	1 879 262
Property insurance against other risks	2 217 008	2 071 499	47 186	(1 550 033)	695 625
Civil liability insurance of motor vehicle owners	(59 040)	2 493	0	0	(7 170)
Compulsory civil liability insurance of motor vehicle owners*	36 281 261	34 474 597	18 573 694	18 279 250	9 935 137
Civil liability insurance of aircraft owners	256 741	22 409	2 267	2 267	42 528
Civil liability insurance of vessel owners	67 758	21 648	355	355	2 654
General civil liability insurance	3 470 564	2 773 330	225 607	216 930	851 931
Loan insurance	270 794	126 696	91 540	72 527	19 462
Guarantee insurance	2 110 306	1 359 688	108 946	(96 814)	747 006
Insurance of various financial losses	869 469	429 454	(11 607)	5 486	287 578
Insurance of legal expenses	40	40	0	0	6
Assistance insurance	2 799 357	2 775 828	466 900	466 900	1 222 472
Total	72 904 145	67 275 843	34 342 883	31 877 104	20 146 511

* including OCTA compulsory deductions amounting to LVL 831 474

Type of Insurance	Loss Indicator (Accepted Compensation Claims, Net/Earned Premiums, Net)	Expense Indicator ((Net Operating Expenses + Other Technical Expenses, Net – Other Technical Income, Net)/ Earned Premiums, Net)	Combined Indicator (Loss Indicator + Expense Indicator)
Accident insurance	49.02%	37.78%	86.80%
Health insurance	61.62%	24.20%	85.82%
Motor vehicle insurance (other than railway)	78.94%	29.19%	108.14%
Railway transport insurance	22.52%	31.46%	53.98%
Aircraft insurance	(150.80%)	(382.76%)	(533.56%)
Vessel insurance	88.76%	(1.42%)	87.34%
Cargo insurance	28.27%	27.29%	55.56%
Property insurance against fire and natural disaster damages	92.91%	34.66%	127.57%
Property insurance against other risks	(121.29%)	55.85%	(65.44%)
Civil liability insurance of motor vehicle owners	(231.05%)	(5.42%)	(236.48%)
Compulsory civil liability insurance of motor vehicle owners	78.57%	24.34%	102.90%
Civil liability insurance of aircraft owners	(21.44%)	78.69%	57.25%
Civil liability insurance of vessel owners	(2.13%)	25.57%	23.44%
General civil liability insurance	57.58%	28.41%	85.99%
Loan insurance	71.44%	16.25%	87.70%
Guarantee insurance	40.62%	48.73%	89.35%
Insurance of various financial losses	(8.51%)	43.46%	34.96%
Insurance of legal expenses	0.00%	8.44%	8.44%
Assistance insurance	24.78%	49.70%	74.47%
Total	69.65%	28.27%	97.92%

Balance Sheet

Item	Reporting Period	Previous Reporting Year
Signed but not paid-up share capital	-	-
Tangible assets	1 708 326	531 676
Investments in land lots and buildings	5 574 441	5 469 968
Intangible assets	166 449	72 894
Investments in share capital of related companies	-	4 243 424
Investments in share capital of associated companies	132 525	-
Financial assets held for trading	-	-
Classified as financial assets at fair value through profit and loss	58 342 556	25 724 421
Financial assets available-for-sale	381 878	411 879
Held-to-maturity investments	13 282 585	15 507 503
Loans granted and debtor debts	19 379 658	13 218 335
Accrued income and deferred expenses	6 109 263	3 523 057
Tax assets	-	-
Reinsurance contracts	10 412 883	7 804 436
Cash on hand and claims on demand on credit institutions	3 391 525	1 108 948
Total assets	118 882 089	77 616 541
Capital and reserves	27 647 627	25 628 222
Insurance liabilities	81 341 430	47 984 156
Subordinated liabilities	-	-
Classified as financial liabilities at fair value through profit and loss	-	-
Financial liabilities at amortised cost	6 781 340	2 427 379
Provisions	1 292 431	1 075 810
Tax liabilities	381 242	296 295
Accrued expenses and deferred income	1 438 019	204 680
Total liabilities	91 234 462	51 988 320
Total capital and reserves, and liabilities	118 882 089	77 616 541

Risks and Risk Management

The business of insurance represents the transfer of risk from the insurance policy holder to the insurer and management of this risk. The largest insurance risks are formed by the insurer accepting the insured risk, assessing it, choosing the reinsurance coverage and fulfilling obligations as regards concluded insurance contracts. The Insurer is also exposed to the investment risk, when the Company has to cover technical reserves with assets invested in various financial instruments, which includes the market risk, credit risk, liquidity risk and operational risk.

The Management of the Company has identified the risks and developed the management of these risks. The risk management is carried out in accordance with decisions of the Company's Board.

The Management of the Company has divided all risks into the following major groups:

- Insurance risks
- Financial risks
- Operational risks

Each of these groups is divided into subgroups, which identify the risks that might affect any of the operating directions. Each risk has an action plan elaborated for it to be implemented to minimize and avoid the possibility of the risk occurring.

1. Insurance Risks and Risk Management

Insurance risk is the most significant risk faced by the Group in its daily activities.

(a) *Underwriting Strategy*

The Group's underwriting strategy seeks diversity to ensure a balanced risk portfolio and is based on a large portfolio of similar risks held over a number of years and that changes the total risk effect.

The underwriting strategy is included in the annual business plan, which describes the types of insurance, where the premiums are written, as well as branches and sectors in which the Group is prepared to undertake the risk. This strategy is adapted to individual risk underwriters using a detailed risk underwriting authority system that sets out the limits for individual risk underwriters by the type of insurance, business class and sector to develop a corresponding risk profile within the scope of the insurance portfolio. A non-life insurance contract may be concluded for a period of time up to five years; however, they are usually annual and the risk underwriters are entitled to refuse contract prolongation or renewal, or to change terms and conditions of the contract upon the prolongation (renewal).

The calculation of insurance product tariffs and prices reflects current market situation and includes potential income necessary for the adjustment of future results in order to significantly hedge the financial risk.

The Management monitors the compliance with the underwriting authorities on a regular basis. The Management of the Group examines transactions that require particular approval.

(b) *Basic Product Features*

Terms and conditions of the insurance contracts that have significant effect on the amount, term and transparency of the future cash flow amounts from insurance contracts are described below. The evaluation of basic products of the Group and the way the risks are being managed are also provided below.

CASCO

Product Description

This type of insurance indemnifies for the losses incurred due to damage or loss of a vehicle. Several individual types of insurance coverage are offered that are related to the insured vehicle. The major losses occur upon theft or destruction of vehicles.

Risk Management

The most significant risks related to this product are underwriting risk, competition risk and claim experience risk.

CASCO insurance rates are determined by applying the bonus-malus system, according to which the insurance premium is reduced if there were no losses and increased if losses have been incurred. The sum insured rarely exceeds LVL 50 000. The insurance premiums are determined in accordance with the effective insurance methodology. Land motor vehicles are grouped into four risk groups and individual insurance premium rates are determined for each of them. Vehicle insurance usually includes a deductible.

Civil Liability Insurance of Motor Vehicle Owners (OCTA)

Product Description

This is a compulsory type of insurance, the terms and conditions and indemnification of which are governed by the Regulations on Compulsory Civil Liability Insurance of Owners of Motor Vehicles. OCTA insurance covers injury and property damage claims in Latvia, as well as claims incurred abroad regarding vehicles insured in the Green Card system. OCTA indemnifies for losses caused to the property and pays indemnities to people in the event of injuries, mostly for medical treatment costs and temporary disability. However, long-term indemnities are also possible, such as pensions and permanent disability benefits, which could also be paid out over the long term as annuities.

Although experience shows that the claims are being submitted immediately and they can be settled instantly, the situation may change and the OCTA may be classified as long-tail insurance, where determination of the final payment of the claim requires more time.

Risk Management

The most significant risks related to this product are underwriting risk, competition risk and claim experience risk. The Group monitors changes in the overall economic and business environment in which it operates, and takes actions in accordance with the changes. OCTA insurance rates are determined by applying the bonus-malus system, according to which the insurance premium is reduced if there were no losses and increased if losses have been incurred.

Health Insurance

Product Description

The health insurance product is offered to companies that purchase health insurance for their employees. Health insurance covers such expenses as doctor visits, hospital expenses and acquisition of medicinal products.

Risk Management

The Group monitors and takes into account changes in medical service prices, monitors the amount of claims for each employer and makes respective changes in prices when renewing policies.

Property Insurance

Product Description

According to the terms and conditions of the policy the property insurance covers losses of the insured or the damage caused to the insured property, as well as losses due to termination of business activities due to such damage. Property insurance covers property-related risks, such as fire, pipe leakage, explosion, burglary and robbery, as well as storm risk. In addition, civil liability insurance can be purchased for property insurance.

Business interruption insurance covers foregone income and fixed costs, if the loss is caused by the risk covered in accordance with the property insurance policy. When selling these insurance policies, the reliability of customers and transparency of financial statements play a major role.

The most frequent risks as regards private property are pipe leakage and fire. The greatest losses are most frequently caused by fire.

In general, property insurance claims are submitted immediately and they can be settled without any delay. Property insurance is classified as short-tail rather instead of long-tail, where determination of the final payment of the claim requires more time.

Risk Management

The most significant risks related to this product are underwriting risk, competition risk and claim experience risk.

In order to calculate the amount of the premium, the type of property is estimated. A large amount of property with the similar risk portfolio is anticipated in housing insurance. However, the situation may be different in commercial property insurance. Most of the commercial property insurance offers include both location and type of business, as well as overall security measures taken. The premium calculation based on the risk of these policies is going to be a prejudiced therefore risky procedure.

Property insurance is exposed to the risk that an insured person would submit fictitious or invalid claims or will indicate a larger amount of loss. This can be mainly explained by the effect of the economic situation on the profitability of the property insurance portfolio. The insurance risk management is mainly carried out by applying price determination mechanisms, independent property assessment in accordance with the international standards, product development, risk selection and reinsurance. The Group monitors changes in the overall economic and business environment in which it operates, and takes actions in accordance with the changes.

(c) Insurance Risk Concentration

In the insurance procedure, the risk concentration occurs if some event or a succession of events can significantly affect the amount of the Group's liabilities. Risk concentration may occur in regard to one insurance contract or several related contracts that may result in significant insurance liabilities.

Risk concentration may occur as a result of different coincidences and regularities. Most often, risk concentration is observed in the types in which individuals are insured, i.e., assistance or accident insurance, when a group of persons suffers in an accident and all these people are insured by the Group. In property insurance, risk concentration might occur if one small, densely populated area experiences any exposures (e.g. fire) that may easily spread from one object to another and which cannot be prevented.

Additionally, the Management realizes that risk concentration is possible in one company, or an overall economic sector, for which several risks are insured. When insuring such risks, a mandatory precondition is to assess the financial standing and

capacity of the customer, as well as to determine the amount of financial obligations that can arise, are already undertaken by the Group and that can be afforded in the future. Economic development trends and risks that might affect a respective sector are studied when assessing the financial risks.

To minimize the losses that could arise in the event of risk concentration, the Group uses reinsurance – reinsuring both proportionally, and non-proportionally. When making reinsurance the Group's share in the risk is determined both for one object, and one event, in which losses may be caused simultaneously for several objects. Such risks are reinsured in almost all types of insurance. The reinsurance policy applied by the Group is approved by the Board of the Group.

The Group applies two most significant methods in the management of these risks. First, the risk is being underwritten by applying the corresponding underwriting policy. Risk underwriters are allowed to underwrite risks only when the expected profit is proportional to the amount of assumed risk. Secondly, reinsurance is used in risk management. The Group acquires the reinsuring coverage in various types of liability and property insurance. The Group assesses costs and benefits related to the reinsurance programme on a regular basis.

The Group determines the total risks it is ready to assume in regard to risk concentration. The Group monitors these risks both when underwriting risks, and monthly by verifying reports representing the main risk concentration the Group is exposed to. The Group uses several simulation instruments in order to monitor the risks and assess the efficiency of reinsurance programmes and net risks the Group is exposed to.

(d) Catastrophes

The Group's Management is aware of the probability of catastrophe risks. Under the Group's business geographical conditions, these risks are mostly related to meteorological phenomena: storms, floods, natural disasters (hail, snow, icing, etc.). Large fires and earthquakes are unlikely, but the possibility exists. The most characteristic catastrophes are floods and storms. Reinsurance is used in order to minimize the impact of catastrophe risk on the Group. Reinsurance is both proportional, and non-proportional. Facultative insurance is additionally acquired for large risks. The Group has developed a methodology to determine its risk share. It depends on many factors and historical statistical information in each group of products. According to the Management, the measures taken to minimize the impact of catastrophe risk on the Group are sufficient.

(e) Insurance Risk Management

In order to minimize the insurance risk, the Group has developed different control and management mechanisms. In all types of insurance, terms and conditions binding on the Group and the customers are developed. When determining the total risk and the amount of the risk assumed by the Group, the set methodology developed for each type of insurance must be complied with. The Group has established a Risk Underwriting Division, the staff of which is responsible for the development of particular types of insurance, insurance terms and conditions, as well as risk assessment methods. In addition, there are limits set up to which certain employees are entitled to take decisions regarding risk underwriting. When determining these limits, the hierarchy of employees is taken into consideration, i.e., the higher position, the higher the risk, which may be underwritten.

Although the afore-mentioned measures are taken and risks are managed, the Group's Management realizes that there is a risk that the insurance risk assessment may not be of high quality and incorrect decisions may be taken. In addition, there is

a risk that insurance indemnities will be set in a way that does not correspond to the losses caused, or the insurance claim will take a long time to administer.

In order to minimize these risks, the Group has developed and uses a quality management system that describes all processes and procedures complied with by the Group during the course of insurance administration and claim adjustment. The quality management system prescribes when and under what circumstances certain procedures are to be complied with. Quality assessment may be carried out in any process. It can also be determined whether this process is carried out in compliance with the Group's interest and the planned procedures. The Quality Management Department is responsible for evaluating the process. This Department also regularly provides the Group's Management with information on management of the processes in the Group. Based on this evaluation, the Management may take respective decisions in order to minimize the risk related to the insurance processes.

(f) Assumptions and Sensitivity Analysis in General Business

Assumption Assessment Process

The expected result of the assumption determination process is neutral estimates of the most likely or expected outcome. The Group's data is used in the assumptions and such data is obtained from annual detailed studies. The assumptions are verified to ensure that they are consistent with inflation rates of the market or other published information. There is more emphasis on current trends, and where in early years there is insufficient information to make a reliable best estimate of claims development, prudent assumptions are used.

The reserve amount of incurred but not reported claims can be influenced by inflation, the risk that significantly large claims will be reported with delay, seasonality of the reporting of claims and other risks.

The main assumption used in the estimation of technical reserves is that the insurance claims statistics are stable. The Management expects that the development of claims in the future will have the same pattern as in the past. Reserves are not discounted.

The nature of business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed separately with due regard to the claim circumstances, information available from loss adjusters and the historical evidence of the size of similar claims. Insurance case estimates are reviewed regularly and are updated as and when new information arises. The size of reserves is based on the information currently available. However, the final amount of liabilities may vary due to events or catastrophes that have occurred after the estimations. The impact of many circumstances that affect the final costs of the losses is difficult to estimate. The complexity of technical reserve estimates depends on the type of insurance due to differences in insurance contracts, complexity of insurance claims, the amount of claims and the claim severity, the claim occurrence date and the reporting lag.

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

The key methods, which are used and have remained unchanged from previous years, are as follows:

- *chain ladder* methods that use historical data to estimate the paid and incurred to date proportions of the ultimate claim costs;

- development factor methods to evaluate the number of insurable events at any given point of time;
- expected loss ratio methods that use the expected Group's loss ratios in a respective type of insurance.

The actual method or the set of methods used depends on the year the accident occurs, the type of insurance and historical development of claims.

Since these methods use the information on historical development of claims, it is assumed that the historical claims development model will repeat in the future. There are various reasons why this may not be the case, and they are taken into consideration when modifying the methods. Such reasons include:

- changes in processes affecting the development / registration of claims paid and incurred (e.g. changes in claim reserve formation procedures);
- economic, legal, political and social trends (facilitating different than expected levels of inflation);
- changes in the field of business;
- random fluctuations, including the impact of large losses.

2. Financial Risks and Risk Management

The Group is exposed to financial risks, as it makes transactions with financial instruments. Financial risks include the market risk, which, in turn, includes price, interest rate and currency risks, credit risk and liquidity risk. The description and summary of financial risks regarding the methods applied by the Group in the management of these risks are provided below. These risks are caused by daily business activities of the Group.

Financial assets and financial liabilities of the Group, including investments, bank deposits, insurance receivables and reinsurance assets, are exposed to the following financial risks:

- Market risk: negative changes in the market situation may affect the insurer's assets and/or liabilities, investments may depreciate and return of assets may decrease; The Market risk includes interest rate risk, capital price risk and currency risk;
- Credit risk: failure to fulfil contractual obligations may cause financial losses to the Company;
- Liquidity risk: under certain adverse conditions, the insurer may be forced to sell assets at a lower price than the fair value thereof to fulfil the obligations.

(a) Market Risk

Financial instruments and items are exposed to the market risk, which is the risk that changes in the market situation in the future may decrease or increase the value of the financial instrument. The Group is exposed to a potential investment risk by incurring losses from financial assets, financial liabilities, reinsurance and insurance contractual obligations caused by changes in interest rates, exchange rates and prices of capital instruments.

In order to hedge the investment risk, investments are made in different financial instruments. Requirements of the Law on Insurance Companies and Supervision Thereof are complied with when selecting financial instruments.

When performing investment activity, employees of the Financial Department comply with the improved investment procedures, which regulate many issues related to the control and hedging of the investment risk.

The investment risk hedging is carried out in two ways – first, by diversifying the investment portfolio and second, by analysing the asset before the purchase thereof and regularly obtaining available information on it later.

(b) Currency Risk

Currency risk: adverse changes in currency exchange rates may cause losses to the Group.

Some of the insurance liabilities are denominated in foreign currencies. The Group's policy is to hedge the currency risk regarding known and expected transactions in foreign currencies. The currency risk is minimized by making investments in respective currencies. Local currencies on the Group's operation markets in Latvia, Lithuania and Estonia are pegged to EUR, which decreases the probability of the currency risk. Pegging may change upon changes in macroeconomic policy. Profit or loss is mainly only sensitive to changes in the USD exchange rate; however, the effect is minimal. The Group is not involved in any speculative transactions that could increase the currency risk.

(c) Price Risk

The price risk is the risk when changes in market prices may result in changes in the value of the financial instrument. Such changes may be caused by both the factors that only apply to a respective instrument and the factors that have effect all financial instruments on the market. The price risk occurs when the Group assumes a long or short position of the financial instruments.

(d) Interest Rate Risk

Implementation of the interest rate risk hedging measures is carried out in the Group by assessing the impact of the interest rate risk on the Group's financial indicators. The Group has no significant liabilities, for which interest is to be paid, and the significant part of interest bearing assets are with the fixed interest rate. The Group is not exposed to a significant interest rate risk or the effect of fluctuations in interest rates, which arise from different maturities of the Group's interest bearing assets and liabilities or interest term structure profile.

(e) Liquidity Risk

In accordance with the approved investment policy, employees of the BTA Financial Department must ensure that at least 30 per cent of the assets required to cover technical reserves are placed in high-liquidity investments.

The following assets are considered high-liquidity investments:

- 1) claims on the demand to credit institutions;
- 2) other claims to solvent credit institutions (term deposits, etc.), the remaining maturity of which does not exceed 30 days and deposits with another term, if the agreement provides for an early withdrawal of money (deducting the penalty for early withdrawal of the deposit, if such is provided for);
- 3) investments in securities with a constant, unrestricted market, i.e., they can be sold in a short time without considerable losses or they can be used as collateral to receive a loan.

(f) Credit Risk

The Group is exposed to credit risk, which is the risk that a transaction party will be unable to pay the amounts of the obligations in full and in due time. The Group structures the levels of the assumed credit risk by determining limits as regards the amount of the assumed risk to one issuer of securities, a debtor, a borrower or the groups of the above-mentioned. Such risks are monitored on a regular basis.

The Group has assessed the potential decrease in the value of collaterals for the granted loans, taking into consideration the current market situation, and has established provisions for the amount of loans that exceeds the value of collaterals.

Credit risks are managed through regular analysis of the ability of issuers, borrowers and potential borrowers to meet interest and principal amount obligations and by respectively changing loan limits.

If required, the current market value of collaterals is estimated by independent estimation companies or experts of the Group.

Credit risk occurs as regards direct insurance debtors and reinsurance debtors, and it is the risk that the business party will fail to fulfil its payment obligations.

Insurance Receivable

The Management monitors direct insurance receivables on a regular basis and cancels the policies if the insurance policy holder is notified in due manner, but the respective amount is not paid.

Reinsurance

The Group reinsures part of the underwritten risks in order to control its loss risk and protect capital resources. The Group has acquired a facultative Excess-of-Loss (XL) reinsurance in order to minimize net risks and not to exceed the actual solvency margin. The Company has also acquired reinsurance contracts in main types of insurance, which protect the Group from any common cumulative losses that may arise from several claims of the same event.

As of 2008 the Holding Company has made changes in its reinsurance policy making it even more conservative – now reinsurers are being attracted not only in the insurance of large risks, but an additional protection for the atypical accumulation of daily and comparatively insignificant risks is also being acquired. In particular types of insurance (CASCO, Railway, Cargo, Equipment) XL treaty is replaced with the Priority Aggregate XL treaty.

The assigned reinsurance includes the credit risks and such recoverable reinsurance amounts are recognized by deducting the known insolvency cases and unrecoverable amounts. The Group monitors the financial standing of reinsurance on a regular basis and periodically verifies reinsurance contracts.

Reinsurance is carried out with world-renowned reinsurance companies with excellent reputation.

When carrying out reinsurance, the Company complies with the condition that the rating of reinsurance companies may not be lower than the Standard & Poor's "BBB-" rating (or a similar assessment from another international rating agency). Almost all reinsurance is carried out with reinsurance companies whose rating is not lower than the Standard & Poor's "A" rating.

Reinsurance companies cover their liabilities within a period of 30 days. Reinsurance contracts also provide for the events when the reinsurance claim is to be paid immediately upon the insurance indemnity exceeding a certain amount.

3. Operational Risks and Risk Management

The Group has established that a customer should receive high quality services. The key risk in ensuring these services is the risk related to whether the Group will be represented by qualified and professional employees. In order to attract and keep medium and top level qualified employees, the Group has introduced a competitive remuneration and motivation system, thus achieving low employee turnover in top

and medium management. There is also a low employee turnover in the level of experts (88 %) and the lowest level of experts (73 %). The Group has established a training centre that concentrates on increasing employee qualifications. And knowledge base has also been established and is accessible for daily work.

According to the Management, the risk that any of the employees could intentionally or unintentionally influence the technical result of the type of insurance, by fixing unreasonably low prices or granting unreasonably high discounts, is limited to the minimum. When fixing the prices, the methodology must be strictly complied with; however, if deviations related to the market situation are required, such deviations must be mandatory approved by the top management. The discount policy is set by the Board of the Group. Deviations from this policy are not permitted.

Information systems (IS) play a significant role in ensuring efficiency of the activities. The Management of the Group pays great attention to ensure that these systems can work and comply with modern requirements. The Group has an IT Department, the task of which is to ensure and maintain a safe and stable information system environment in the Group. The activities of this Department are regulated by IS security regulations, which are elaborated in accordance with the requirements of regulatory enactments. IS systems must ensure constant performance and meet the requirements of employees and customers. No deviations from the performance standards are permitted and compliance with them must be ensured 24 hours a day. A wait time is determined if necessary and is then required to restore performance if there have been damages to equipment or information resources. This time may not exceed 12 hours.

Most Significant Cooperation Partners:

Reinsurers

Reinsurer	Reinsurer's Rating	Rating Agency	Place (Country) of Registration of the Insurer
SWISS RE EUROPE	A+	Standard & Poor's	Luxemburg
MUNICH RE	AA-	Standard & Poor's	Germany
ATRADIUS RE	A-	Standard & Poor's	Netherlands
HANNOVER RE	AA-	Standard & Poor's	Germany

Insurance and Reinsurance Brokerage Companies

Brokerage Company	Service	Place (Country) of Registration
MAI Reinsurance Brokeris SIA	Insurance/reinsurance mediation	Latvia
AON Re	Reinsurance mediation	Germany
United Insurance Brokers Ltd.	Reinsurance mediation	Great Britain

Operational Strategy and Objectives

The BTA operational strategy and objectives aim to make the Company the leading insurance company in the Baltic market – a dynamic and professional company that satisfies the desires of its customers to receive high quality insurance products in any manner and at any place convenient to the customer.

In order for BTA to become more available to current and potential customers, we continue to open branches abroad as well as in Latvia. The main tool BTA uses to achieve its set objectives is an individual approach toward each customer – in each particular situation BTA employees offer the best insurance solution to each customer. The entire Company has adopted high customer service standards that are applicable to each and every employee.

Structural Units and Branches of the Company

Customer service locations that offer BTA insurance services.

<http://www.bta.lv/lat/company/contacts/contacts/>

Regional centres, customer service centres and sales points in Latvia:

<http://www.bta.lv/lat/company/contacts/offices/policy/riga/>

Foreign branches:

Estonia – <http://www.bta-kindlustus.ee/>

Lithuania – <http://www.bta.lt/>

Germany – www.bta-versicherung.de