



AAS "BTA Baltic Insurance Company"

**Public Report
for the period from 01.01.2015 until
30.09.2015**

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

AAS „BTA Baltic Insurance Company" has been incorporated on October 28th 2014 as a new insurance company (AAS). On June 10th the Company has received the insurance license from the Financial and Capital Market Commission for all lines of non-life insurance. On July 1st 2015 the Company's mother company „BTA Insurance Company" SE has transferred its insurance portfolio in the Baltic states to the Company through reorganization process.

The Report includes the summarised information on the Company's activity over the period from **January 1st until September 30th 2015**.

Company information

Name of the Company	„BTA Baltic Insurance Company" AAS
Legal status	Insurance Joint Stock Company
Number, place and date of registration	40103840140, Riga, October 28th 2014
Address	K. Valdemara 63, Riga
Members of the Board and their positions	Janis Lucaus - Chairman of the Board Oskars Hartmanis - Board member Evija Matveja - Board member
Members of the Council and their positions	Gints Dandzbergs - Chairman of the Council Pauls Dandzbergs - Deputy Chairman of the Council Marts Dandzbergs - Deputy Chairman of the Council Andrejs Galanders - Member of the Council Agris Dambenieks - Member of the Council
Reporting Period	01.01.2015 – 30.09.2015

Shareholders

Shareholder	Number of shares	% of the share capital
BTA Insurance Company SE	250 000	100 %

Face value of one share	EUR 100.00
Subscribed share capital	EUR 25 000 000
Paid-up share capital	EUR 25 000 000
Foreign branches	Lithuania, Estonia

Balance Sheet

Item	Reporting Period	Previous Reporting Year
Signed but not paid-up share capital	-	2 775 000
Tangible assets	967 240	-
Investments in land lots and buildings	555 414	-
Intangible assets	1 132 583	-
Investments in share capital of related companies	-	-
Investments in share capital of associated companies	-	-
Financial assets held for trading	-	-
Classified as financial assets at fair value through profit and loss	92 630 779	-
Financial assets available-for-sale	-	-
Held-to-maturity investments	3 754 367	-
Loans granted and debtor debts	17 128 768	-
Accrued income and deferred expenses	5 851 289	-
Tax assets	132 890	-
Reinsurance contracts	9 577 577	-
Cash on hand and claims on demand on credit institutions	12 710 966	925 000
Total assets	144 441 873	3 700 000
Capital and reserves	27 685 543	3 700 000
Insurance liabilities	105 520 194	-
Subordinated liabilities	-	-
Classified as financial liabilities at fair value through profit and loss	-	-
Financial liabilities at amortised cost	8 751 389	-
Provisions	913 453	-
Tax liabilities	983 407	-
Accrued expenses and deferred income	587 887	-
Total liabilities	116 756 330	-
Total capital and reserves, and liabilities	144 441 873	3 700 000

Income Statement

Item	For the Reporting Period	For the Respective Period of Previous Reporting Year
Earned premiums	27 835 972	-
Other technical income, net	38 044	-
Incurring claims, net	(17 360 375)	-
Changes in other technical reserves	-	-
Gratuities, net	-	-
Net operating expenses	(7 665 107)	-
Other technical expenses, net	(402 697)	-
Changes in equalization reserves	-	-
Investment management expenses/income and commission payments	(8 469)	-
Net interest income and dividend income	380 638	-
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	(227 185)	-
Revaluation result of foreign currencies	31 706	-
Profit/loss from derecognition of tangible assets, investments in buildings for ensuring own activities, investments in property and intangible assets	-	-
Depreciation	(244 291)	-
Impairment losses	-	-
Increase/decrease in value of investment in property	-	-
Other income/(expenses) that are not recognized in other items, net	(75 322)	-
Profit/loss for the reporting period before taxes	2 302 914	-

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	597 934	597 930	350 856	350 856	158 950
Health Insurance	2 902 175	2 902 175	1 879 986	1 879 986	653 302
Motor vehicle insurance (other than railway)	6 964 942	6 964 942	4 965 435	4 965 435	1 787 016
Railway transport insurance	188 725	181 746	-	-	22 280
Aircraft insurance	195	(900)	43	43	(1 043)
Vessel insurance	287 448	24 924	32 657	37 543	16 559
Cargo insurance	136 863	129 633	15 474	15 474	36 433
Property insurance against fire and natural disaster damages	2 355 719	2 039 682	1 076 795	1 031 310	620 766
Property insurance against other risks	601 596	591 488	395 156	395 156	170 342
Civil liability insurance of motor vehicle owners	8 362 993	8 114 137	5 843 710	5 831 935	2 135 338
Compulsory civil liability insurance of motor vehicle owners*	2 629 933	2 509 896	1 238 552	1 238 552	739 845
Civil liability insurance of aircraft owners	141 229	28 778	-	-	13 791
Civil liability insurance of vessel owners	18 657	1 864	588	59	(736)
General civil liability insurance	1 417 599	1 252 636	191 677	191 677	374 608
Loan insurance	38 807	31 493	45 924	39 810	5 136
Guarantee insurance	1 213 699	939 646	144 141	88 972	291 578
Insurance of various financial losses	42 705	16 271	14 083	14 083	6 284
Insurance of legal expenses	7 243	7 181	-	-	1 395
Assistance insurance	1 452 915	1 452 787	348 137	348 137	633 264
Total	29 361 376	27 786 309	16 543 214	16 429 028	7 665 107

* including MTPLI compulsory deductions of EUR 96 792

Type of Insurance	Loss Indicator (Accepted Compensation Claims, Net/Earned Premiums, Net)	Expense Indicator ((Net Operating Expenses + Other Technical Expenses, Net / Earned Premiums, Net)	Combined Indicator (Loss Indicator + Expense Indicator)
Accident insurance	57.39%	23.86%	81.25%
Health Insurance	69.61%	25.56%	95.17%
Motor vehicle insurance (other than railway)	75.26%	29.00%	104.26%
Railway transport insurance	4.66%	27.06%	31.72%
Aircraft insurance	(66.06%)	(12.41%)	(78.46%)
Vessel insurance	109.07%	34.47%	143.54%
Cargo insurance	115.53%	27.02%	142.55%
Property insurance against fire and natural disaster damages	36.53%	24.94%	61.46%
Property insurance against other risks	136.63%	31.10%	167.74%
Civil liability insurance of motor vehicle owners	70.92%	30.55%	101.46%
Compulsory civil liability insurance of motor vehicle owners	71.26%	33.82%	105.08%
Civil liability insurance of aircraft owners	18.61%	58.30%	76.91%
Civil liability insurance of vessel owners	6.08%	(11.73%)	(5.65%)
General civil liability insurance	11.37%	27.11%	38.48%
Loan insurance	197.31%	27.75%	225.05%
Guarantee insurance	10.69%	32.25%	42.94%
Insurance of various financial losses	660.97%	32.09%	693.06%
Insurance of legal expenses	(37.23%)	21.20%	(16.03%)
Assistance insurance	21.74%	44.02%	65.76%
Total	62.37%	29.86%	92.23%

Reorganization through Income Statement

On July 1st 2015 the Company's mother company „BTA Insurance Company“ SE has transferred its insurance portfolio in the Baltic states to the Company through reorganization process.

Alongside with the movement of technical reserves and liabilities the Company has received investments and other assets as a coverage for the transferred reserves and liabilities. Therefore, the transfer of insurance portfolio to the Company had no effect on the financial result in the reporting period.

If the Company decided to report the transfer of insurance portfolio in the income statement through increase of written premium and incurred claims and corresponding increase in other technical income, the reorganization would have the following effect on the income statement:

Item	For the Reporting Period	For the Respective Period of Previous Reporting Year
Earned premiums	27 529 486	-
Other technical income, net	47 268 186	-
Incurred claims, net	(64 177 338)	-
Changes in other technical reserves	-	-
Gratuities, net	-	-
Net operating expenses	(7 665 107)	-
Other technical expenses, net	(402 697)	-
Changes in equalization reserves	(106 693)	-
Investment management expenses/income and commission payments	(8 469)	-
Net interest income and dividend income	380 638	-
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	(227 185)	-
Revaluation result of foreign currencies	31 706	-
Profit/loss from derecognition of tangible assets, investments in buildings for ensuring own activities, investments in property and intangible assets	-	-
Depreciation	(244 291)	-
Impairment losses	-	-
Increase/decrease in value of investment in property	-	-
Other income/(expenses) that are not recognized in other items, net	(75 322)	-
Profit/loss for the reporting period before taxes	2 302 914	-

In this case the reorganization would affect the following Income Statement positions:

Item	01.07.2015
Earned premiums	306 486
Gross written premiums	(50 176 727)
Change in unearned premium reserve, gross	50 176 727
Gross written premiums, reinsurance	2 345 943
Change in unearned premium reserve, gross, reinsurance	(2 345 943)
Change in unexpired risk premium provision	306 486
Other technical income, net	(47 230 142)
Incurred claims, net	46 816 963
Change in RBNS technical reserves	44 703 015
Change in RBNS technical reserves, reinsurance	(7 976 645)
Change in IBNR technical reserves	12 488 255
Change in regress reserves	(2 397 662)
Operational expenses, net	-
Client acquisition costs	4 694 520
Change in deferred client acquisition costs	(4 694 520)
Commissions, reinsurance	(546 962)
Change in unearned commissions, reinsurance	546 962
Other technical expense, net	-
Change in equalization reserve	106 693
Profit/loss for the reporting period before taxes	-

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 action plans 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 Company in its daily activities.

(a) Underwriting Strategy

The Company'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 Company 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. Much attention is paid to diversification of risks by underwriting the same risk in a number of Baltic countries.

Risk underwriting strategy is being analyzed by stress testing and critical scenario analysis.

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 Company examines transactions that require particular approval.

(b) Features of Key Products

Terms and conditions of the insurance contracts that have significant effect on the amount, term and predictability of the future cash flow amounts from insurance contracts are described below. The evaluation of basic products of the Company 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 EUR 70 000. 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 (MTPLI)

Product Description

This is a compulsory type of insurance, the terms and conditions and indemnification of which are governed by the law On the Compulsory Insurance against Civil Liability in Respect of Motor Vehicles and the Regulations on Compulsory Civil Liability Insurance of Owners of Motor Vehicles. MTPLI insurance covers injury and property damage claims in Latvia, as well as claims incurred abroad regarding vehicles insured in the Green Card system. MTPLI 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 MTPLI 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 Company monitors changes in the overall economic and business environment in which it operates, and takes actions in accordance with the changes. MTPLI 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 Company 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 premium, the type of property is estimated. Major part amount of property with a 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 Company 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 an event or a succession of events can significantly affect the amount of the Company'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 people suffers in an accident and all these people are insured by the Company. 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.

The Management also 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 situation and capacity of the customer, as well as to determine the amount of financial obligations that can arise, are already undertaken by the Company 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 Company uses reinsurance – reinsuring both proportionally, and non-proportionally. When administering reinsurance the Company'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 Company is approved by the Board of the Company.

The Company 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 Company acquires the reinsurance coverage in various types of liability and property insurance. The Company assesses costs and benefits related to the reinsurance program on a regular basis.

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

Concentration risk is tested and evaluated in various scenario tests. These tests help to identify the level of concentration risk the company can afford to be exposed to.

(d) Catastrophes

The Company's Management is aware of the probability of catastrophe risks. Under the Company's business geographical conditions, these risks are mostly related to meteorological phenomenon: 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 Company. Reinsurance is both proportional, and non-proportional. Facultative insurance is additionally acquired for large risks. The Company 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 Company are sufficient.

Catastrophe risk is also tested and evaluated in scenario tests.

(e) Insurance Risk Management

In order to minimize the insurance risk, the Company has developed different control and management mechanisms. In all types of insurance, terms and conditions binding on the Company and the customers are developed. When determining the total risk and the amount of the risk assumed by the Company, the set methodology developed for each type of insurance must be complied with. The Company 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 the position, the higher the risk, which may be underwritten.

Although the afore-mentioned measures are taken and risks are managed, the Company'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 Company has developed and uses a quality management system that describes all processes and procedures complied with by the Company 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 Company's interest and the planned procedures. The Quality Management Department is responsible for evaluating the process. This Department also regularly provides the Company's Management with information on management of the processes in the Company. 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 Core Business

Assumption Assessment Process

The expected result of the assumption determination process is neutral estimates of the most likely or expected outcome. The Company'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 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. 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 Company'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 other than expected levels of inflation);
- changes in the field of business;
- random fluctuations, including the impact of large losses.

The Company controls reserve adequacy regularly.

2. Financial Risks and Risk Management

The Company 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 Company in the management of these risks are provided below. These risks are caused by daily business activities of the Company.

Financial assets and financial liabilities of the Company, 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 means that changes in the market situation in the future may decrease or increase the value of the financial instrument. The Company 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 analyzing 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 Company.

Some of the insurance liabilities are denominated in foreign currencies. The Company'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 currency in the Company's operation markets in Latvia, Lithuania and Estonia is the euro, which decreases the probability of the currency risk. Profit or loss is mainly sensitive to changes in the USD exchange rate; however, the effect is minimal. The Company is not involved in any speculative transactions that could increase the currency risk.

(c) Price Risk

The price risk means that 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 Company 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 Company by assessing the impact of the interest rate risk on the Company's financial indicators. The Company 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 Company is not exposed to a significant interest rate risk or the effect of fluctuations in interest rates, which arise from different maturities of the Company'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 90 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 Company is exposed to credit risk, which means that a transaction party will be unable to pay the amounts of the obligations in full and in due time. The Company 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.

Credit risk mainly 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 Company reinsures part of the underwritten risks in order to control its loss risk and protect capital resources. The Company has acquired facultative and obligatory, pro-rata and Excess-of-Loss (XL) reinsurance in order to minimize net risks and avoid exceeding the actual

solvency margin. The Company has also acquired reinsurance contracts in main types of insurance, which protect the Company 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 Company 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 – (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 –.

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 Company has established that a customer should receive high quality insurance services. To attain this objective, the Company evaluates the key risks and selects measures most appropriate for limiting risks. Risk management efficiency is monitored by the Board of the Company. Quality and Operational Risks Department was established at the end of 2012, a mission of which is to introduce and maintain a continuous, systematic and timely responsive risk management system.

The Company keeps building a team of qualified, skilled and experienced employees by introducing competitive remuneration system and maintaining an incentive operational environment. The Company has established a training centre, which focuses on in-house training of its staff, as well as a knowledge base, accessible by the Company staff for their daily business purposes. Information systems (IS) are essential in operational efficiency. The Management of the Company is focused on keeping these systems functional and up to date. The Company analyses the risks of information systems to establish action plans to maintain constant operation of systems or resumption of it within a definite period of time.

The year 2012 has been a turning point towards automation of processes, a number of projects have been started and successfully running. Assessment of project risks and timely established proper response to them contribute to the successful progress of projects.

Key Cooperation Partners:

Reinsurers

Reinsurer	Reinsurer's Rating	Rating Agency	Place (Country) of Registration of the Insurer
SWISS RE EUROPE S.A. MUENCHENER RUECKVERSICHERUNGSGESELLSCHAFT AG (Munich Re)	AA-	Standard & Poor's	Germany
R+V Versicherung AG	AA-	Standard & Poor's	Germany
SCOR Global P&C SE	AA-	Standard & Poor's	France
AMLIN AG	A	Standard & Poor's	Switzerland
HANNOVER RÜCK SE	AA-	Standard & Poor's	Germany

Insurance and Reinsurance Brokerage Companies

Brokerage Company	Service	Place (Country) of Registration
AON Benfield	Reinsurance mediation	Germany
Guy Carpenter	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 client service centres 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.

Departments and Branches of the Company

Customer service locations that offer BTA insurance services.

<https://www.bta.lv/en/contacts/customer-service-centres>

Foreign branches:

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

Lithuania - <http://www.bta.lt/>